

POWER EFFICIENCY CORP
Form SB-2/A
December 08, 2005

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As filed with the Securities and Exchange Commission on December 7, 2005

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NUMBER 1 TO FORM SB-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

POWER EFFICIENCY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation of organization)

22-3337365

(I.R.S. Employer
Identification Number)

**POWER EFFICIENCY CORPORATION
3900 PARADISE ROAD
SUITE 283
LAS VEGAS, NV 89109
(702) 697-0377**

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

**STEVEN S. STRASSER
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
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3900 PARADISE ROAD
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LAS VEGAS, NV 89109
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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(2)
Common Stock, Par value \$0.001 per share	32,072,711	\$0.30	\$18,703,511	\$2,201

(1) We are registering 32,072,711 shares of Common Stock based on the maximum number of shares that may be sold as described in detail below.

(2) For the purpose of determining the registration fee pursuant to Rule 457(c) under the Securities Act and based upon the average of the high and low prices of the Common Stock reported on the National Association of Securities Dealers Over The Counter Bulletin Board (the "OTC Bulletin Board") on October 18, 2005. Pursuant to Rule 457(eg), in the case of shares to be offered after the exercise of warrants or options, the registration fee has been calculated based on the exercise price thereof if higher than such average.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 7, 2005

PROSPECTUS

**POWER EFFICIENCY CORPORATION
32,072,711 SHARES OF COMMON STOCK**

This prospectus, or this Registration Statement, relates to the resale of up to 32,072,711 shares of our Common Stock owned by or issuable to the selling stockholders as follows:

(1) 19,850,001 shares issued and issuable upon exercise of stock purchase warrants granted to "accredited investors" and Joseph Stevens & Co., Inc. (the "Placement Agent") in a private placement of our Common Stock in June through August of 2005 (the "Placement" or the "Offering"). This does not include 4,500,000 shares issued and issuable upon the exercise of certain stock purchase warrants granted to Summit Energy Ventures, LLC (Summit) an affiliate of the Company owned by our Chairman and Chief Executive Officer in the Placement.

(2) 1,618,278 shares issuable upon exercise of stock purchase warrants granted to the purchasers of Secured Senior Notes of the Company and Pali Capital, Inc. (the "Note Placement Agent") issued in October 2004 and February 2005 in a private offering under Rule 506 of Securities and Exchange Commission Regulation D (the "Secured Senior Notes"). This does not include 363,239 shares issuable upon the exercise of certain stock purchase warrants granted to Commerce Energy Group ("Commerce"), an affiliate of the Company.

(3) 66,232 shares issuable upon exercise of outstanding stock options granted under the Company's 1994 Stock Option Plan (the "1994 Plan").

(4) 9,787,500 shares issuable upon exercise of stock options under the Company's 2000 Stock Option and Restricted Stock Plan (the "2000 Plan"). This does not include 5,212,500 shares issuable upon the exercise of certain stock options under the 2000 Plan granted to Steven Strasser, our Chairman and Chief Executive Officer.

(5) 750,700 shares issuable upon exercise of stock purchase warrants granted to private investors and others in October 2004 through August 2005. This does not include 575,000 shares issuable upon the exercise of certain stock purchase warrants granted to Summit Energy Ventures, LLC ("Summit") and Commerce, affiliates of the Company.

Our Common Stock is traded on the National Association of Securities Dealers Over The Counter Bulletin Board (the "OTC Bulletin Board") under the symbol "PEFF." On October 18, 2005, the closing bid price of our Common Stock as reported on the OTC Bulletin Board was \$0.30.

THE SHARES OF COMMON STOCK OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. IT IS LIKELY THAT THE COMMON STOCK WILL BE SUBJECT TO "PENNY STOCK" RULES, WHICH GENERALLY REQUIRE THAT A BROKER OR DEALER APPROVE A PERSON'S ACCOUNT FOR TRANSACTIONS IN PENNY STOCK AND THE BROKER OR DEALER RECEIVE FROM THE INVESTOR A WRITTEN AGREEMENT TO THE TRANSACTIONS SETTING FORTH THE IDENTITY AND QUANTITY OF THE PENNY STOCKS TO BE PURCHASED BEFORE A TRADE INVOLVING A PENNY STOCK IS EXECUTED. SEE "RISK FACTORS" BEGINNING ON PAGE 3.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is December 7, 2005

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PROSPECTUS SUMMARY

This section highlights selected information only and may not contain all of the information that may be important to you. Please read this entire prospectus before making your investment decision. This summary, including the summary financial information, is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus. Throughout this prospectus, when we refer to "Power Efficiency" or when we speak of ourselves generally, we are referring to Power Efficiency Corporation unless the context indicates otherwise or as otherwise noted.

THE COMPANY

Our Business

Power Efficiency's management believes companies that provide solutions to the energy shortage facing the world are well positioned to achieve returns substantially higher than the overall market. Issues driving the energy shortage include growth in worldwide electricity demand, high oil and gas prices, and reliance on an outdated power infrastructure, as demonstrated by the August 14, 2003, power blackout in the eastern U.S. The demand for products that reduce energy consumption is growing rapidly. Government mandates to reduce the greenhouse gas emissions caused by power plants are further driving energy conservation.

Our solution reduces energy costs in specific commercial applications, utilizing patented improvements upon National Aeronautics Space Administration ("NASA") developed motor controller technologies. Our products are solid-state AC motor controllers, called Performance Controllers, which reduce the amount of power consumed by alternating current induction motors operating at constant speeds and under variable loads. In more simple terms, the Performance Controller reduces energy consumption on electrical equipment by electronically sensing and controlling the amount of energy the motor consumes on certain applications. The energy savings can range from 15% to over 35%, while the life of the motor is extended because of both the reduced motor operating temperatures and the reduced mechanical stress provided by its "soft start" technology.

There are over a billion AC motors in operation in the U.S. alone. The world market is several times larger. The customer for the Performance Controller will typically be in a high electricity cost environment, may have local utility or governmental incentives to save energy, has energy usage as a significant operating cost, uses constant speed induction motors that are lightly or cyclically loaded, and has motors that run continuously or have frequent on/off cycles. This customer base represents an extremely large market, including target sectors such as elevators, escalators, granulators, oil pump jacks, conveyors and other industrial applications.

Our management believes that no other company produces a product that has the efficiency of the Performance Controller. The efficiency of the Performance Controller has been tested by Oak Ridge National Laboratory, and Medsker Electric, Inc., independent third parties, with positive results.

We market our products directly under brand names such as Power Commander® and Performance Controller, and through other companies under distribution agreements utilizing names such as EcoStart. These companies include the leading elevator and escalator manufactures in the world, such as Otis Elevator Co. (a subsidiary of United Technologies, Inc.) and KONE Inc. The product has achieved technical acceptance in the elevator and escalator industries, which demonstrates its ability to meet demanding reliability standards.

We are now focused on creating distribution channels to take advantage of applicable opportunities given the current conditions in the energy market and how our product meets these needs. Our management believes this multi-channel distribution strategy will allow Power Efficiency to achieve substantial and sustainable revenue growth.

Highlights

Demonstrated Energy Savings More than 3,500 units of our products have been installed at facilities throughout the U.S. These installed units have demonstrated the ability to reduce the energy consumption of AC induction motors, in most cases by 15% to 35%.

Patented Technology Our products incorporate technology developed and patented by NASA. Our own patent encompasses a number of improvements on the NASA technology made by our engineers.

Extensive Engineering Over the last eight years, we have developed a deep understanding of the real-world environment for our products. Our products incorporate substantial trade secret and engineering know-how, which enable them to operate effectively over a broad range of conditions.

Large Potential Market The United States consumes over \$200 billion of electricity annually. The Consortium for Energy Efficiency estimates that motor driven systems consume 23% of all electricity in the U.S. More specifically, Kema, a well known international energy consulting firm, estimates that motors account for 59% of all the electricity used in manufacturing. Based on our experience, our product can save up to 35% of the energy consumed by electric AC induction motors in appropriate applications. These applications include most motors that work at constant speed but are variably loaded, such as the AC motors found on many elevators, escalators, granulators, oil pump jacks, crushing machines, saw mills, stamping presses, and other manufacturing equipment.

New Products We have developed and tested several platforms of the present technology that support large potential applications.

Limited Competition We are not aware of any products on the market today that have been certified by CE, CSA and UL and offer the same energy-saving and soft start characteristics as our products.

International Distribution International distribution is important to our success because energy costs are much higher abroad than domestically.

A detailed description of our business strategy is provided under the heading "Business" below.

Our address is 3900 Paradise Road, Suite 283, Las Vegas, Nevada 89109, and our telephone number is 702-697-0377.

Selling Stockholders

The shares of Common Stock covered by this prospectus that are being offered by the selling stockholders consist of up to 24,711,895 shares issued or to be issued (the "Securities") to the selling stockholders within 60 days of September 30, 2005. The full name, address and control persons of the selling stockholders are set forth beginning on page 41 of this prospectus.

THE OFFERING

In June, July and August of 2005, we conducted a private offering of our Common Stock and Placement Warrants, defined below, for the issuance of our Common Stock (the "Placement Securities"). We offered up to 50 Units, at \$50,000 each, to individuals or entities who qualified as "accredited investors" as defined in Rule 501 of Regulation D promulgated under the Securities Act. Each Unit consists of (a) a number of shares of Common Stock which is determined by dividing \$50,000 by a price equal to 50% of the 5-day average of the closing bid price of the shares of Common Stock on the OTC Bulletin Board on the last trading day immediately prior to the closing of the Placement, with a floor on the purchase price of \$0.20 and a ceiling on the purchase price of \$0.325; and (b) a warrant (each a "Placement Warrant" and, collectively, the "Placement Warrants") to purchase prior to the fifth (5th) anniversary following the closing a number of shares of Common Stock equal to 50% of the number of shares of Common Stock included within each Unit, at a price which is equal to 200% of the 5-day average of the closing sales price of the shares of Common Stock on the OTC Bulletin Board prior to the closing, per share of Common Stock. The Placement closed on August 31, 2005 and resulted in gross proceeds of \$2,900,000. The Placement requires us (a) to file this Registration Statement with the Securities and Exchange Commission (the "SEC" or the "Commission") within 60 days following the final closing of the offering and (b) to use our reasonable best efforts to have such declared effective within 120 days from the final closing of the offering. As part of this Registration Statement, and Placement Securities stemming from the Placement, we are registering 11,500,000 of shares of our Common Stock and 8,350,001 shares of Common Stock reserved for issuance upon exercise of the Placement Warrants.

STOCK OPTIONS

As of September 30, 2005, a total of 66,232 shares of Common Stock option grants have been issued under the 1994 Plan. The 1994 Plan was adopted by our board of directors and our stockholders in 1994, however, at that time no Form S-8 was filed. As part of this Registration Statement we are registering 66,232 shares of Common Stock stemming directly from the 1994 Plan.

As of September 30, 2005, a total of 8,267,489 shares of Common Stock option grants have been issued under the 2000 Plan. The 2000 Plan was adopted by our board of directors and our stockholders in 2000, however, at that time no Form S-8 was filed. As part of this Registration Statement we are registering 9,787,500 shares of Common Stock stemming directly from the 2000 Plan.

RISK FACTORS

An investment in our company involves a high degree of risk. You should carefully consider the risks below, together with the other information contained in this prospectus, before you decide to invest in our company. If any of the following risks occur, our business, results of operations and financial condition could be harmed, the trading price of our common stock could decline, and you could lose all or part of your investment. The risks and uncertainties described below are intended to be the material risks that are specific to us and to our industry. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause future actual results to differ materially from those contained in any historical or forward-looking statements.

RISKS RELATED TO OUR BUSINESS

Unless We Achieve Profitability and Related Positive Cash Flow, We May Not Be Able To Continue Operations, And Our Auditors Have Questioned Our Ability To Continue As A "Going Concern".

We have suffered recurring losses from operations, experienced approximately a \$1,400,000 deficiency of cash from operations in 2004 and lack sufficient liquidity to continue our operations without external financing. For the year ended December 31, 2003, we had a net loss of \$3,016,717. For the year ended December 31, 2004, we had a net loss of \$2,465,631. For the three months ended March 31, 2005, we had a net loss of \$381,616, for the six months ended June 30, 2005, we had a net loss of \$993,123 and for the nine months ended September 30, 2005, we had a net loss of \$1,760,850.

In Note 3 to our December 31, 2004 financial statements included in this prospectus, our auditors have stated that these factors raise substantial doubt about our ability to continue as a "going concern". Our 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 we be unable to continue in existence.

Our continuation as a "going concern" is dependent upon achieving profitable operations and related positive cash flow and satisfying our immediate cash needs by external financing until we are profitable. Our plans to achieve profitability include developing new products, obtaining new customers and increasing sales to existing customers. We are seeking to raise additional capital through equity issuance, debt financing and other types of financing, but we cannot guarantee that sufficient capital will be raised. In that regard, we have granted the holders of our Senior Secured Notes in the aggregate principal amount of \$1,589,806 a first priority security interest in substantially all our assets, except that we may grant a first priority security interest senior to the Senior Secured Noteholders in our accounts receivable and inventory in order to obtain a line of credit in the ordinary course of business.

We Have A Limited Operating History, Have Experienced Recurring Losses And Have Limited Revenue.

To date, and due principally to a lack of working capital, our operations have been limited in scale. Although we have an arrangement with an outsourced production facility, have established relationships with suppliers, and have received contracts for our products, we may experience difficulties in production scale-up, product distribution, and obtaining and maintaining working capital until such time as our operations have been scaled-up to normal commercial levels. We have not had a profitable quarter in the past three years and we cannot guarantee that we will ever operate profitably. We have limited revenue. For the year ended December 31, 2003, our total revenues were \$397,673. For the year ended December 31, 2004, our total revenues were \$284,373. For the first, second and third quarter ended September 30, 2005, our total revenues were \$221,737.

Our Present Cash Flow Is Not Adequate To Pay Accrued Liabilities.

We had accrued payables, salaries and expenses totaling approximately \$525,000 as of September 30, 2005. Approximately \$130,000 of these accrued liabilities represents disputed claims, which we expect to partially pay, settle for equity, or dispute entirely. We expect to resolve an additional \$110,000 of these accrued liabilities by exchanging them for equity or deferring all payments until we are cash flow positive. We estimate we will need to pay approximately \$165,000 toward accrued liabilities, including