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POWER EFFICIENCY CORP
Form 10-Q
August 14, 2002

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

FORM 10-QSB

- (X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2002
- () 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 August 6, 2002 was 6,580,620. Transitional Small Business Disclosure Format (check one):
Yes ___No X

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Power Efficiency Corporation
Condensed Balance Sheets
June 30, 2002 and December 31, 2001

	(Unaudited) June 30, 2002	December
	-----	-----
Assets		
Current Assets		
Cash and Equivalents	\$ 1,433,525	\$
Accounts Receivable - Trade - Net of reserve of \$5,000	108,690	
Inventory	519,192	
Prepaid Expenses	8,682	
	-----	-----
Total Current Assets	2,070,089	
	-----	-----
Property and Equipment, Net	132,867	
	-----	-----
Other Assets		
Deposits	15,500	
Patent Application Costs (Net)	13,927	
Goodwill	1,929,963	1,
Customer Contacts, Manuals and Sales Literature	132,812	
Website and Customer List	54,283	
	-----	-----
Total Other Assets	2,146,485	2,
	-----	-----
	\$ 4,349,441	\$ 2,
	=====	=====
Liabilities and Stockholders' Equity		

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Current Liabilities		
Line of Credit Agreement	\$ 225,387	\$
Accrued Salaries and Payroll Taxes	226,239	
Accounts Payable and Accrued Expenses	417,280	
Stockholder and Officers' Loans Payable	28,313	
	-----	-----
Total Current Liabilities	897,219	1,
	-----	-----
Long - Term Liability:		
Stockholder Note Payable	375,000	
	-----	-----
Total Liabilities	1,272,219	1,
	-----	-----
Stockholders' Equity		
Preferred Stock, \$.001 par Value, 10,000,000 shares Authorized, 2,346,233 Series A-1 Convertible Preferred Stock issued and outstanding in 2002 and none issued and outstanding in 2001	2,346	
Common Stock, \$.001 par Value, 50,000,000 shares Authorized, 6,580,620 and 6,523,120 issued and outstanding in 2002 and 2001, respectively	6,580	
Additional paid-in capital	11,431,322	8
Accumulated Deficit	(8,363,026)	(7
	-----	-----
Total Stockholders' Equity	3,077,222	1
	-----	-----
	\$ 4,349,441	\$ 2
	=====	=====

See notes to condensed Financial Statements.

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Power Efficiency Corporation
Condensed Statements of Operations - Unaudited

	Three Months Ended June 30,	Three Months Ended June 30,	Six E Jun
	2002	2001	2
	-----	-----	-----
REVENUES	\$ 109,304	\$ 212,404	\$ 2
	-----	-----	-----
COSTS AND EXPENSES:			
Cost of Sales	\$ 53,783	\$ 122,905	\$ 1
Research and Development	84,554	61,600	1
Manufacturing	44,924	59,878	
Selling, general and administrative	436,508	290,182	6
Depreciation and Amortization	28,185	72,195	
	-----	-----	-----

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Total Costs and Expenses	\$ 647,954	\$ 606,760	\$ 1,1
LOSS BEFORE PROVISION FOR INCOME TAXES	\$ (538,650)	\$ (394,356)	\$ (8
PROVISION FOR INCOME TAXES	1,003	200	
NET LOSS	\$ (539,653)	\$ (394,556)	\$ (8
BASIC LOSS PER COMMON SHARE	\$ (.08)	\$ (.06)	\$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	6,548,120	6,440,000	6,5

See notes to condensed Financial Statements.

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Power Efficiency Corporation
Condensed Statements of Cash Flow - Unaudited
Six Months Ended June, 30, 2002 and 2001

	June 30, 2002	June
Cash Flow From Operating Activities		
Net Loss	\$ (873,721)	\$
Adjustments to reconcile net loss to net cash:		
Used for operation activities:		
Depreciation and Amortization	59,614	
Issuance of Stock for Services and Options	167,500	
Debt Restructuring	--	
Changes in Certain Assets and Liabilities (Increase) Decrease		
Accounts Receivable - Trade	(97,572)	
Inventory - Raw Materials/Finished Goods	90,353	
Prepaid Expenses	(8,682)	
Accounts Payable and Accrued Expenses	(95,520)	
Total Adjustments	115,693	
Net Cash used for Operating Activities	\$ (758,028)	\$
Investing Activities		
Equipment Purchases	(1,505)	
Deposit	--	

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Net cash from investing activities	-----	(1,505)	-----
Financing Activities			
Proceeds from issuance of equity securities		2,500,000	
Notes Payable - Bank		(220,000)	
Costs related to issuance of Equity Securities		(120,000)	
Officer' and Stockholder Notes Payable, net		(2,187)	
Net Cash From Financing Activities		-----	-----
		2,157,813	

Net Increase (Decrease) in Cash	\$	1,398,280	\$
		=====	=====
Summary:			
Cash Balance At End Of Period	\$	1,433,525	\$
Cash Balance At Beginning Of Period		35,245	
		-----	-----
Net Increase (Decrease) in Cash	\$	1,398,280	\$
		=====	=====
Noncash Investing and Financing Activities			
Common Stock issued in connection with the settlement of accounts payable/Conversion Stockholder loan payable	\$	7,500	\$
Common Stock issued for services rendered	\$	167,500	\$
		=====	=====

See notes to condensed Financial Statements.

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, 2001 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, 2002 balance sheet was derived from unaudited financial statements, and does not include all disclosures required by generally accepted accounting principles.

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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 six months ended June 30, 2002 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 has raised additional capital through issuance of Series A-1 Convertible Preferred Stock in the amount of \$2,500,000 to Summit Energy Ventures, LLC.

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 April 30, 2002 the company's line of credit with the bank expired. The bank agreed to forbear from taking any collection activity concerning the expired line of credit until June 17, 2002. During June, 2002, the company received the proceeds from the investment of Summit Energy Ventures, LLC and has paid the bank the amount of \$220,000 thus, reducing the line of credit to \$225,387. As of the present time, the bank has not taken any collection action and they can be repaid out of current available cash, however, the company is in the process of negotiating a new bank line and believes that it will shortly be successful in consummating a new line. The balance due the current bank would be repaid from the proceeds of the new line of credit. In the event that the current bank is not in agreement with the Company's plan, the bank would be paid from current available cash.

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NOTE 7, GOODWILL

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No.142, " Goodwill and Other Intangible Assets", for the year ended December 31, 2002. SFAS No. 142 was applied at the beginning of the fiscal year. SFAS No.142 requires that Goodwill shall

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no longer be amortized. Goodwill shall be tested for impairment on an annual basis and between annual tests in certain circumstances.

NOTE 8, RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2002, a stockholder lent the Company \$50,425 and officers lent the Company \$120,000. During the six months ended June 30, 2002, the Company repaid the stockholder \$40,000 and repaid the officers \$107,200.

NOTE 9, ISSUANCE OF SERIES A CONVERTIBLE PREFERRED STOCK

The Company received \$2,500,000 from the sale of 2,346,233 shares of Series A-1 Convertible Preferred Stock to Summit Energy Ventures, LLC, which resulted in Summit owning a 28% fully diluted stake in the Company. Summit also received a stock purchase warrant which is exercisable after December 14, 2003, to purchase such number of additional shares of Series A-2 Convertible Preferred Stock, \$.001 par value per share, of the Company enabling Summit to purchase up to 51% of the Company's fully diluted Common Stock. The sale and issuance of Series A-1 Convertible Preferred Stock to Summit is described in the Company's Form 8-K filing on June 20, 2002.

NOTE 10, ISSUANCE OF COMMON STOCK FOR SERVICES

On April 15, 2002, the Company issued 50,000 shares of common stock to a consultant of the Company for services rendered. Since the price per share was \$3.35, the Company recognized additional compensation expenses of \$167,500. This additional compensation expense is included in selling, general and administrative expenses.

NOTE 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 of Financial Condition and Results of Operations

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

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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. 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.

Results of Operations:

Revenues. Revenues for the three months ended June 30, 2002 was \$109,304 compared to \$212,404 of revenues for the prior comparable quarter, a decrease of \$103,100. The decrease in revenue was principally attributable to the stagnation of the economy which delayed purchase orders.

Cost of revenues. Cost of revenues for the three months ended June 30, 2002 was \$53,783, or 49.2% of revenues compared to \$122,905, or 57.9% of revenues for the three months ended June 30, 2001. The decrease in cost of revenues was due to purchases of inventory from new sources at lower prices.

Research and development. Research and development expenses were \$84,554, or 77.4% of revenues, for the three months ended June 30, 2002 as compared to \$61,600, or 29% of revenues, for the three months ended June 30, 2001 due to increased R&D activity including independent testing.

Selling, general, manufacturing and administrative. Selling, general, manufacturing and administrative expenses increased to \$481,432 or 193.8% of revenues, for the three months ended June 30, 2002 from \$350,060 or 164.8% of revenues, for the three months ended June 30, 2001. The increase in expenses was primarily due to increases in sales expense, administrative personnel and compensation expense.

As a result, the Company incurred a net loss of \$539,653 for the three months ended June 30, 2002 compared to a loss of \$394,556 during the three months ended June 30, 2001.

Financial Condition, 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 June 30, 2002, the Registrant has received a total of approximately \$4,757,261 from public and private offerings of its equity securities and received approximately \$245,387 under a bank line of credit. As of June, 30, 2002, the Registrant had cash and cash equivalents of \$1,433,525.

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Cash used in operating activities was for the six months ended June 30, 2002, was \$758,028 in 2002, and \$856,910 in 2001. Cash used in operating activities in the six months ended June 30, 2002 reflected a net loss of \$873,721. In 2001 for the same period, cash used in operating activities reflected a net loss of \$779,352.

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 sufficient to meet the Registrant's anticipated cash needs for the next 6 months. Even though capital resources are sufficient to satisfy the Registrant's liquidity requirements, management still intends to seek additional financing through a line of credit.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company settled 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 and the manufacturer entered into a settlement agreement under terms of which the Company paid the manufacturer \$5,000 and issued the manufacturer 7,500 shares of common stock, \$.001 par value per share, of the Company against delivery of certain products by the Manufacturer, as performed by the Company as of June 30, 2002.

ITEM 2. CHANGES IN SECURITIES

The Company received \$2,500,000 from the sale of 2,346,233 shares of Series A-1 Convertible Preferred Stock to Summit Energy Ventures, LLC, which resulted in Summit owning a 28% fully diluted stake in the Company. Summit also received a stock purchase warrant which is exercisable after December 14, 2003, to purchase such number of additional shares of Series A-2 Convertible Preferred Stock, \$.001 par value per share, of the Company enabling Summit to purchase up to 51% of the Company's fully diluted Common Stock.

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 August 12, 2002, the Board of Directors of the Company replaced Stephen Shulman as President and Chief Executive Officer of the Company and in his place, the Company appointed Raymond J. Skiptunis to serve as interim President and Chief Executive Officer.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A Form 8-K was filed by the Company on June 20, 2002 to describe the issuance of Series A-1 Convertible Preferred Stock to Summit Energy Ventures, LLC.

SIGNATURE

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: August 13, 2002

/s/ Raymond J. Skiptunis

Raymond J. Skiptunis
Interim President and
Chief Executive Officer