POWER EFFICIENCY CORP
Form 424B3
May 18, 2007

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-129233

PROSPECTUS

POWER EFFICIENCY CORPORATION
24,441,033 SHARES OF COMMON STOCK

This prospectus, or this Registration Statement, relates to the resale of up to 24,441,033 shares of our Common Stock owned by or issuable to the selling stockholders as follows:

(1) 17,964,563 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) 4,107,492 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, or 327,404 shares issuable upon the exercise of certain stock options under the 2000 Plan granted to Nicholas Anderson, our Former Chief Technology Officer.

(4) 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 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 May 9, 2007, the closing bid price of our Common Stock as reported on the OTC Bulletin Board was $0.21.

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 May 14, 2007

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a post-effective amendment to a registration statement that we have filed with the SEC. Under this registration process, the selling shareholders referred to in this prospectus may offer and sell from time to time up to 11,500,000 currently outstanding shares of our common stock, 6,464,563 shares of our common stock issuable upon the exercise of warrants outstanding at an weighted average exercise price of $0.39 per share and held by the selling shareholders as of the date of this prospectus and 6,476,470 shares of our common stock issuable upon the exercise of options and warrants issued to employees, consultants, vendors and noteholders.

This prospectus does not cover the issuance of any shares of common stock by us, and we will not receive any of the proceeds from any sale of shares by the selling shareholders. We have agreed to pay all expenses incurred in connection with the registration of the shares of common stock covered by this prospectus.

Information about the selling shareholders may change over time. Any changed information given to us by the selling shareholders will be set forth in a prospectus supplement if and when necessary. Further, in some cases, the selling shareholders will also be required to provide a prospectus supplement containing specific information about the terms on which they are offering and selling our common stock. If a prospectus supplement is provided and the description of the offering in the prospectus supplement varies from the information in this prospectus, you should rely on the information in the prospectus supplement.

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 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 consisted of (a) a number of shares of Common Stock which is determined by dividing $50,000 by $0.20; 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, with an exercise price of $0.40. The Placement closed on August 31, 2005 and resulted in gross proceeds of $2,900,000. 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 7,902,876 shares of Common Stock reserved for issuance upon exercise of the Placement Warrants.

Table of Contents

THE COMPANY

Our Business

Power Efficiency produces products that reduce energy costs in specific commercial applications, utilizing patented improvements upon motor controller technologies developed by National Aeronautics Space Administration (NASA) as well as technologies based solely on the Company s inventions. Our products are solid-state AC motor controllers that reduce the amount of power consumed by alternating current induction motors operating at constant speeds and under variable loads. Our products were previously marketed as the Performance Controller and the Power Genius, but have recently been re-branded as the EcoPro . The EcoPro 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 up to 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. The efficiency of the EcoPro has been tested by Nevada Power Company, the Los Angeles Department of Water and Power and Medsker Electric, Inc., independent third parties, with positive results.

There are over one billion AC motors in operation in the U.S. alone. Customers for the EcoPro 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 a market which includes target sectors such as elevators, escalators, granulators, oil pump jacks, conveyors and other industrial applications.

We market our products directly under the brand name EcoPro , and through other companies under names such as Power Commander® and EcoStart . Customers include large elevator and escalator manufacturers, such as Otis Elevator Co. (a subsidiary of United Technologies, Inc.) and KONE Inc.

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

Highlights

Demonstrated Energy Savings Over 1,000 units have been installed at facilities throughout the U.S. The products have demonstrated the ability to reduce the energy consumption of AC induction motors, by up to 35% in appropriate applications.

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. We recently filed three provisional patents on additional technological advancements.

Extensive Engineering - Our products incorporate trade secret and engineering know-how, which we believe enables them to operate effectively over a broad range of conditions.

Large Potential Market - The United States consumes over $200 billion of electricity annually. A study for the United States Department of Energy estimates that motor driven systems consume 23% of all electricity in the U.S. and 64% of all the electricity used in the manufacturing sector. Based on our own in-house testing, 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, saw mills, stamping presses, and other manufacturing equipment.

New Products - We have developed and are in the process of certifying digital versions of our 30 and 80 amp products. We have also developed a prototype unit for small motors such as those found in residential and light commercial equipment and appliances.

Table of Contents

Limited Competition - We are not aware of any products on the market today that have been certified by CE and CSA, are UL compliant, and offer the same energy-saving and soft start characteristics as our products.
International Distribution - International markets, such as those in Europe and Asia, often have higher prices for electricity than in the U.S. Therefore, we believe international markets provide a significant opportunity in the future.
A detailed description of our business strategy is provided under the heading Business below.
Our address is 3960 Howard Hughes Parkway, Suite 460, Las Vegas, NV 89169, 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 24,441,033 shares issued or to be issued (the Securities) to the selling stockholders within 60 days of the date hereof. The full name, address and control persons of the selling stockholders are set forth beginning on page 38 of this prospectus.

RISK FACTORS

An investment in the Company s common stock 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 purchase the shares offered hereby. 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 $2,760,000 deficiency of cash from operations for the year ended December 31, 2006 and lack sufficient liquidity to continue our operations without external financing. For the years ended December 31, 2006 and December 31, 2005, we had net losses of $5,020,775 and $2,570,563, respectively. In our Auditor s Report dated March 31, 2007 on our December 31, 2006 financial statements included in this report, 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 $2,000,000 a first priority security interest in substantially all our assets, which may hinder our ability to raise additional funds.

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 to manufacture our products, 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 we will ever operate profitably. In addition, we have limited revenue. For the year ended December 31, 2006, our total revenues were $188,811, and for the year ended December 31, 2005, our total revenues were $276,405.

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

We had accrued payables, salaries and expenses totaling approximately $585,000 as of December 31, 2006. Approximately $210,000 of these accrued liabilities represents disputed claims, which we expect to partially pay, settle for equity, or dispute entirely. The remainder of the accrued payables, salaries and expenses are primarily current trade payables and accruals. However, these figures are only estimates and because we may not be able to negotiate successfully with creditors, creditor claims may cause a restriction in the amount of funds available for our operations.

Our Principal Obligations On Notes Payable Total $2,011,111 and This Indebtedness Is Subject To Acceleration.

In addition to the accrued payables, salaries and expenses described immediately above, as of December 31, 2006, we had $2,011,111 in aggregate principal amount of notes payable outstanding. The specific components of this indebtedness are as follows:

We owe $2,000,000 in senior secured notes, before discount. They mature in November 2008, bear interest at 15%, and are secured by a first lien on substantially all our assets. Interest payments are due and payable quarterly. The entire balance of these notes will become due and payable if we cannot pay any past due amount within 7 days of a written notice that payment is in default. As of the date of this report, we do not have any past due payments on these senior secured notes.

As of December 31, 2006, we owe our former landlord in Livonia, Michigan $11,111, before discount, in settlement of our lease dispute litigation. As of the date of this report, we do not have any past due payments on this settlement.

We Do Not Have A Bank Line Of Credit And Substantially All Our Assets Are Pledged.

At the present time, we do not have a bank line of credit, which further restricts our financial flexibility and it is unlikely we will be able to obtain a line of credit in the foreseeable future. As noted above, substantially all our assets are subject to existing liens.

We Will Require Additional Funds To Meet Our Cash Operating Expenses And Achieve Our Current Business Strategy.

We continue to have limited working capital and will be dependent upon additional financing to meet capital needs and repay outstanding debt. We cannot guarantee additional financing will be available on

Table of Contents

acceptable terms, if at all. We also need additional financing to raise the capital required to fully implement our business plan. Our current fixed operating expense level is approximately $250,000 to $300,000 per month, not considering non-cash expenses and payments to certain creditors, including accrued salaries and expenses, and may increase in the near future. We will need to issue additional debt or equity to raise required funds, and as a result existing equity owners would be diluted.

When our operations require additional financing, if we are unable to obtain it on reasonable terms, we would be forced to restructure, file for bankruptcy or cease operations, any of which could cause you to lose all or part of your investment in us.

Our Management Group Owns Or Controls A Significant Number Of The Outstanding Shares Of Our Common Stock And Will Continue To Have Significant Ownership Of Our Voting Securities For The Foreseeable Future.

As of May 9, 2007, management owns approximately 21% of our issued and outstanding Common Stock and voting equivalents; and approximately 19% of our issued and outstanding Common Stock and voting equivalents, if all warrants issued in the offering were exercised. As a result, these persons will have the ability, acting as a group, to effectively control our affairs and business, including the election of directors and subject to certain limitations, approval or preclusion of fundamental corporate transactions. This concentration of ownership of our Common Stock may:

- delay or prevent a change in the control;
- impede a merger, consolidation, takeover, or other transaction involving the Company; or
- discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company.

Certain Of Our Management Team Have Relationships Which May Potentially Result In Conflicts Of Interests.

Summit Energy Ventures, LLC (Summit) owns nineteen percent (19%) of our common stock and voting equivalents, which is included in the above number. Summit is controlled by Steven Strasser, our Chairman and CEO, and he has the right to vote all shares owned by Summit. The remaining equity in Summit is owned by BJ Lackland, our CFO. Accordingly, our executive officers may have a conflict of interest in determining whether to pursue a particular course of action that would be in the best interests of the shareholders or the Company, but may not be in the best interests of the other. These relationships are discussed in more detail under Certain Relationships And Related Party Transactions herein.

Our License From NASA Has Expired.

The basic technology upon which our products are based is derived from a patent license agreement by and between us and NASA, which expired on December 16, 2002. The license expired upon expiration of NASA s underlying patents, at which time anyone, including us, became free to use the underlying NASA technology. However, we have also made certain improvements to the basic technology covered by the NASA license and we have obtained a patent on this improved technology that runs through 2017. However, we cannot guarantee that others will not seek to improve the basic technology in a similar manner.

Our Business Depends Upon The Maintenance Of Our Proprietary Technology, And We Rely, In Part, On Contractual Provisions To Protect Our Trade Secrets And Proprietary Knowledge.

We depend upon our proprietary technology, relying principally upon trade secret and patent law to protect this technology. We also regularly enter into confidentiality agreements with key employees, customers, potential customers, and vendors which limits access to and distribution of trade secrets and other proprietary information. However, these measures may not be adequate to prevent misappropriation of our technology. Additionally, our competitors may independently develop technologies substantially

Table of Contents

equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. We also are subject to the risk of adverse claims and litigation alleging infringement of intellectual property rights of others.

Confidentiality agreements to which we are party may be breached, and we may not have adequate remedies for any breach. Our trade secrets may also be known without breach of such agreements or may be independently developed by competitors. Our inability to maintain the proprietary nature of our technology and processes could allow our competitors to limit or eliminate any competitive advantages we may have.

We Are Potentially Dependent On Third-Party Suppliers.

Although we believe most of the key components required for the production of our products are currently available in sufficient production quantities from multiple sources, they may not remain so readily available. It is possible that other components required in the future may necessitate custom fabrication in accordance with specifications developed or to be developed by us. Also, in the event that we, or our contract manufacturer, as applicable, are unable to develop or acquire components in a timely fashion, our ability to achieve production yields, revenues and net income can be expected to be adversely affected. Additionally, we are solely dependent on Cole Industries, Inc. (Cole) as our exclusive manufacturer. While we believe we would be successful in finding alternative manufacturers should this manufacturer not be available to manufacture our product, it could take substantial time and effort to locate such alternatives and, depending on the timing of the loss of Cole, could result in disruption in delivery schedules and harm to our clients and our reputation and future prospects.

We Are Developing And Commercializing New Energy Saving Technologies And Products Which Will Involve Uncertainty And Risks Related To Product Development And Market Acceptance.

Our success is dependent, to a large degree, upon our ability to fully develop and commercialize our technology and gain industry acceptance of our products based upon our technology and its perceived competitive advantages. Accordingly, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered in connection with the establishment of a new business in a highly competitive industry, characterized by frequent new product introductions. We anticipate that we will incur substantial expense in connection with the development and testing of our proposed products and expect these expenses to result in continuing and significant losses until such time, if ever, that we are able to achieve adequate levels of sales or license revenues.

We Have Expanded Our Marketing Strategy.

Our products have been distributed primarily through original equipment manufactures (OEMs). We have recently begun pursuing an expanded distribution strategy designed to reduce our reliance on OEMs. Pursuant to this strategy, we are increasing our direct sales and sales through independent representatives into new markets. Our future growth and profitability will depend upon the successful development of business relationships with additional OEMs, manufacturing representatives and distributors and their ability to penetrate the market with our products.

We Currently Depend On A Small Number Of Customers And Expect To Continue To Do So.

We currently do business with approximately 20 customers. Of this number, four customers accounted for approximately 75% of our gross revenues in 2006. We are, and may continue to be, dependent upon a small number of customers. Accordingly, the loss of one or more of these customers is likely to have a material adverse effect on our business.

Table of Contents

Most Of Our Current And Potential Competitors Have Greater Name Recognition, Financial, Technical And Marketing Resources, And More Extensive Customer Bases And Industry Relationships Than We Do, All Of Which Could Be Leveraged To Gain Market Share To Our Detriment, Particularly In An Environment Of Rapid Technological Change.

Although we believe we have limited competition for our specific technology, we compete against a number of companies for dollars in the electric motor energy savings market, many of which have longer operating histories, established markets and far greater financial, advertising, research and development, manufacturing, marketing, personnel and other resources than we currently have or may reasonably expect to have in the foreseeable future. This competition may have an adverse effect on our ability to expand our operations or operate profitably. The motor control industry is also highly competitive and characterized by rapid technological change. Our future performance will depend in large part upon our ability to become and remain competitive and to develop, manufacture and market acceptable products in these markets. Competitive pressures may necessitate price reductions, which can adversely affect revenues and profits. If we are not competitive in our ongoing research and development efforts, our products may become obsolete, or be priced above competitive levels. We cannot guarantee that competitors will not introduce comparable or technologically superior products, which are priced more favorably than our products.

Changes In Retail Energy Prices Could Affect Our Business.

We have found that a customer s decision to purchase the EcoPro (or similar product) is primarily driven by the payback on the investment resulting from the increased energy savings. Although management believes that current retail energy prices support an attractive return on investment for our products, the future retail price of electrical energy may not remain at such levels, and price fluctuations reducing energy expense could adversely affect product demand.

Loss Of Key Personnel Could Have Significant Adverse Consequences.

We currently depend on the services of Steve Strasser, and BJ Lackland, Chief Executive Officer, and Chief Financial Officer, respectively. The loss of the services of either of these persons could have an adverse effect on our business. As discussed under Management , we have entered into long-term employment contracts with Messrs. Strasser and Lackland, but such contracts do not guarantee they will remain with us.

We Do Not Have Key Man Life Insurance.

We presently do not have any key man life insurance policies. As soon as practicable following the commencement of profitable operations (which may never occur), we intend to purchase key man life insurance on the life of our principal executive officer, Steven Strasser. Upon purchase of such insurance, we intend to pay the premiums and be the sole beneficiary. The lack of such insurance may have a material adverse effect upon our business.

Delaware Law Limits The Liability Of Our Directors.

Pursuant to our Certificate of Incorporation, the Company s directors are not liable to us or our stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of the duty of loyalty, for acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of law for dividend payments or stock repurchases illegal under Delaware law or any transaction in which a director has derived an improper personal benefit.

We Have Elected Not To Adopt Various Voluntary Corporate Governance Measures, And As A Result Stockholders May Have Limited Protections Against Interested Director Transactions, Conflicts Of Interest And Similar Matters.

Recent Federal legislation, including the Sarbanes-Oxley Act of 2002, has resulted in the adoption of various corporate governance measures designed to promote the integrity of corporate management and the securities markets. Because our securities are not yet listed on a national securities exchange or

Table of Contents

NASDAQ, we are not required to adopt these corporate governance measures and have not done so voluntarily in order to avoid incurring the additional costs associated with such measures. However, to the extent we seek to have our common stock listed on a national securities exchange or NASDAQ, such legislation will require us to make changes to our current corporate governance practices. Those changes may be costly and time-consuming. Furthermore, the absence of the governance measures referred to above with respect to our Company may leave our stockholders with more limited protection in connection with interested director transactions, conflicts of interest and similar matters.

Potential Product Liability Claims May Not Be Fully Covered By Insurance.

We may be subject to potential product liability claims that could, in the absence of sufficient insurance coverage, have a material adverse impact on us. Presently, we have general liability coverage that includes product liability up to $2,000,000. Any large product liability suits occurring early in our growth may significantly and adversely affect our ability to expand the market for our products.

RISKS RELATED TO OUR COMMON STOCK AND CAPITAL STRUCTURE

Trading In Our Common Stock Over The Last 12 Months Has Been Limited, So Investors May Not Be Able To Sell As Many Of Their Shares As They Want At Prevailing Prices.

Shares of our common stock are traded on the OTC Bulletin Board. Approximately 58,000 shares were traded on an average daily trading basis for the 12 months ended December 31, 2006. If limited trading in our common stock continues, it may be difficult for shareholders, to sell their shares. Also, the sale of a large block of our common stock could depress the market price to a greater degree than a company that typically has a higher volume of trading of its securities.

The Limited Public Trading Market May Cause Volatility In The Company s Stock Price.

Our common stock is currently traded on a limited basis on the OTC Bulletin Board under the symbol PEFF . The quotation of our common stock on the OTC Bulletin Board does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Our common stock is thus subject to this volatility. Sales of substantial amounts of our common stock, or the perception that such sales might occur, could adversely affect prevailing market prices of our common stock.

An Active And Visible Trading Market For Our Common Stock May Not Develop.

We cannot predict whether an active market for our common stock will develop in the future. In the absence of an active trading market:

- Investors may have difficulty buying and selling or obtaining market quotations;
- Market visibility for our common stock may be limited; and
- A lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

The OTC Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity than NASDAQ, and quotes for stocks included on the OTC Bulletin Board are not listed in the financial sections of newspapers, as are those for the NASDAQ Stock Market. The trading price of the common stock is expected to be subject to significant fluctuations in response to variations in quarterly operating results, changes in analysts earnings estimates, announcements of innovations by the Company or its competitors, general conditions in the industry in which we operate and other factors. These fluctuations, as well as general economic and market conditions, may have a material or adverse effect on the market price of our common stock.

Table of Contents

Penny Stock Regulations May Impose Certain Restrictions On Marketability On The Company s Securities.
The SEC has adopted regulations which generally define a penny stock to be any equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. As a result, our common stock is subject to rules that impose additional requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with net worth in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser s written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer s presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the penny stock rules may restrict the ability of broker-dealers to sell the Company s securities and may affect the ability of investors to sell the Company s securities in the secondary market and the price at which such purchasers can sell any such securities. Stockholders should be aware that, according to the Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- Boiler room practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

The Company s management is aware of the abuses that have occurred historically in the penny stock market.

We May Never Pay Cash Dividends On Our Common Stock.
We have not paid or declared any dividends on our Common Stock and do not anticipate paying or declaring any cash dividends on our Common Stock in the foreseeable future.

Sales Of Common Stock Under Rule 144 May Adversely Affect The Market Price Of Our Common Stock.
Possible Resales under Rule 144. Of the 38,516,676 shares of the Company s common stock outstanding on the date of this report, 14,292,962 shares are freely trading in the market place (the Free Trading Shares). The Free Trading Shares are comprised mostly of shares (1) originally issued in private offerings of common stock from June through August 2005, that were later registered in the Company s Registration Statement (the Registration Statement) effective December 19, 2005, and (2) shares originally issued in transactions exempt from registration under the Securities Act.

Table of Contents

The remaining 24,223,714 shares of our common stock outstanding are restricted securities as defined in Rule 144 and under certain circumstances may be resold without registration pursuant to Rule 144. These shares include the 7,970,569 shares held by Summit and Steven Strasser in the aggregate, 3,333,334 shares held by a private investor, and the 3,249,049 shares of common stock held by Commerce Energy Group (Commerce).

In addition, the Company had approximately 23,996,693 common stock purchase warrants outstanding and approximately 13,284,896 common stock options outstanding as of the date of this report, including the warrants issued in connection with the March 2007 offering and sale of the senior secured notes. The shares issuable on exercise of the options and warrants may, under certain circumstances, be available for public sale in the open market under the Registration Statement or pursuant to Rule 144, subject to certain limitations.

In general, under Rule 144, a person (or persons whose shares are aggregated) who has satisfied a one-year holding period may, under certain circumstances, sell within any three-month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitation, by a person who is not an Affiliate, as such term is defined in Rule 144(a)(1), of the Company and who has satisfied a two-year holding period. Any substantial sale of the common stock pursuant to Rule 144 may have an adverse effect on the market price of the Company s shares.

Exercise Of Outstanding Options And Warrants Will Dilute Ownership Of Outstanding Shares.

We have reserved 20,000,000 shares of our common stock for issuance upon exercise of stock options or similar awards which may be granted pursuant to the 2000 Plan, of which options to purchase an aggregate of 13,284,896 shares are outstanding. The outstanding options under the 2000 Plan have a weighted average exercise price of $0.35. As of the date of this report, we have issued warrants exercisable for 23,996,693 shares of common stock to financial consultants, investors, former employees and other business partners, having a weighted average exercise price of $0.41 and expiring on various dates from June 2007 to November 2011. Exercise of these options and warrants in the future will reduce the percentage of common stock held by the public stockholders. Furthermore, the terms on which we could obtain additional capital during the life of the options and warrants may be adversely affected, and it should be expected that the holders of the options and warrants would exercise them at a time when we would be able to obtain equity capital on terms more favorable than those provided for by such options and warrants.

Our Issuance Of Blank Check Preferred Stock Could Adversely Affect Our Common Stockholders.

The Company s Certificate of Incorporation authorizes the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by the board of directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the relative voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be used as a method of discouraging, delaying or preventing a change in control of the Company, which could have the effect of discouraging bids for the Company and thereby prevent stockholders from receiving the maximum value for their shares. Although we have no present intention to issue any shares of our preferred stock, there can be no assurance that we will not do so in the future.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements. These statements relate to future events, our future financial performance, growth of our target market and related worldwide markets, future demand for our products, retail electrical energy demand and prices and similar expectations. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. You can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, continues or the negative of these terms or other comparable terminology. These risks and other factors include those listed under Risk Factors and elsewhere in this prospectus. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on any forward-looking statements as they reflect our management s view only as of the date of this prospectus. We will not update any forward-looking statements to reflect events or circumstances that occur after the date on which such statement is made.

This prospectus contains statistical data that we obtained from industry sources. These sources generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy or completeness of the information. Although we believe that the industry sources are reliable, we have not independently verified their data.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of our Common Stock by the selling stockholders. However, we have received $1,122,288 in net proceeds from the private offer and sale of the Senior Secured Notes, and $2,232,750 in net proceeds from the Placement, and if all outstanding options and warrants in respect of which the offer and sale of shares of Common Stock are being registered hereunder were exercised, we would receive approximately $5,730,000 in proceeds.

We have used the net proceeds from the Placement for working capital and general corporate purposes. We currently plan to use any proceeds received from the exercise of options and warrants for the same purposes.

We anticipate we will need at least $250,000 to $300,000 per month to continue our current operations, not including non-cash expenses and payments to certain creditors, including accrued salaries and expenses. As discussed in Risk Factors above, we will need to make payments toward accrued liabilities out of our cash flow for the foreseeable future. Overall, our satisfaction of our cash requirements depends on our ability to raise money from external financing sources and to generate future sales.

Table of Contents

PRICE RANGE OF COMMON STOCK

As quoted on the OTC Bulletin Board from January 1, 2004 though December 31, 2006, the following table sets forth the high and low bid prices for our Common Stock for the periods indicated.

	Common Stock Price	
	High	Low
Year Ended December 31, 2004		
First Quarter	$5.04	$0.90
Second Quarter	$1.50	$0.61
Third Quarter	$0.67	$0.28
Fourth Quarter	$1.00	$0.21
Year Ended December 31, 2005		
First Quarter	$0.56	$0.20
Second Quarter	$0.25	$0.19
Third Quarter	$0.50	$0.22
Fourth Quarter	$1.10	$0.25
Year Ended December 31, 2006		
First Quarter	$0.40	$0.20
Second Quarter	$0.43	$0.20
Third Quarter	$0.30	$0.18
Fourth Quarter	$0.40	$0.21

On May 9, 2007, the last day prior to the date of this prospectus for which information was practicably available, the closing price for our Common Stock was $0.21 per share. The prices reported for the periods set forth above reflect inter-dealer prices without retail markup, mark down or commission, and may not represent actual prices. As of May 9, 2007, our Common Stock was held by 175 stockholders of record.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock and have no present intention of paying cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and such other factors as the board of directors deems relevant. It is the intention and present policy of our board to retain all earnings to provide for our future growth.

Table of Contents

CAPITALIZATION

The following table illustrates our capitalization as of December 31, 2006.

		December 31, 2006 (Audited) Actual
Stockholders Equity		
Common Stock, $.001 par value; 100,000,000 shares authorized; 35,042,009 shares issued and outstanding;	$	35,042
Preferred Stock, $.001 par value; 10,000,000 shares authorized; none issued or outstanding		
Additional Paid in Capital		24,927,839
Accumulated Deficit		(22,917,968)
Total Stockholders Equity	$	2,044,913

13

Table of Contents

SELECTED FINANCIAL INFORMATION

The selected statements of operations and balance sheet data for the years ended December 31, 2005 and 2006 are derived from our audited financial statements, which are included elsewhere herein. The financial data presented below is only a summary and should be read in conjunction with the other financial information appearing elsewhere in this prospectus.

	Years ended December 31, 2005	2006
Statements of Operations:		
Revenues	$ 276,405	$ 188,811
Cost of Sales	245,789	136,240
Gross Profit	30,616	52,571
Costs and Expenses:		
Research and development	418,016	567,591
Selling, general and administrative	1,641,307	3,118,233
Depreciation and amortization	22,470	34,028
Total Costs and Expenses	2,081,793	3,719,852
Loss from Operations	(2,051,177)	(3,667,281)
Other income(expense):		
Interest income	13,847	9,243
Interest expense	(529,387)	(1,354,195)
Total Other Expense, Net	(515,540)	(1,344,952)
Loss before provision for taxes	(2,566,717)	(5,012,233)
Provision for taxes	(3,846)	(8,542)
Net loss	$ (2,570,563)	$ (5,020,775)
Basic loss per common share	$ (0.18)	$ (0.20)
Weighted average common shares outstanding	14,254,029	25,150,386

Balance Sheet Data:		
Cash	$ 1,009,120	$ 1,693,584
Working capital (deficit)	(610,689)	1,318,694
Total assets	3,378,629	4,038,030
Long-term liabilities	116,526	1,397,927
Total stockholders equity	1,315,423	2,044,913

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus. In addition to historical information, this discussion includes forward-looking information that involves risks and assumptions which could cause actual results to differ materially from management s expectations. See Special Note Regarding Forward-Looking Statements on page 11 of this prospectus.

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 *EcoPro* line of motor controllers in late 1995. As of December 31, 2006, the Company had total stockholders equity of $2,044,913. The Company raised money through the sale of 10,700,008 shares of common stock in a private stock offering that closed on November 30, 2006, 14,500,000 shares of common stock in a private stock offering in July and August of 2005, 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 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. In addition, in August 2000, the Company purchased the assets of Percon, formerly the largest distributor of the Company s products. The transaction was accounted for as a purchase and the Company s Statements of Operations includes Percon s results of operations since the date of acquisition. The consolidation of the operations of both entities allowed the Company to integrate the administrative, sales, marketing and manufacturing operations of Percon. Percon had developed sales contacts with major OEM s in the elevator/escalator industry and transferred those agreements to the Company as part of the sale.

RESULTS OF OPERATIONS: FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005

REVENUES

Revenues for the year ended December 31, 2006 were $188,811 compared to $276,405 for the year ended December 31, 2005, a decrease of $87,594, or 32%. This decrease is mainly attributable to changes in sales personnel and the resulting disruptions to sales efforts in 2006.

COST OF REVENUES

Cost of revenues for the year ended December 31, 2006 were $136,240 compared to $245,789 for the year ended December 31, 2005, a decrease of $109,549 or 45%. As a percentage of product revenues, total costs of product revenues decreased to approximately 72% for the year ended December 31, 2006 compared to approximately 89% for the year ended December 31, 2005. The decrease in the costs as a percentage of product revenues was primarily due to raising some unit prices mid-year in 2006 and the sale of higher margin units in 2006.

GROSS MARGIN

Gross margin for the year ended December 31, 2006 was $52,571 compared to $30,616 for the year ended December 31, 2005, an increase of $21,955 or 72%. This increase was primarily due to raising some unit prices mid-year in 2006 and the sale of higher margin units in 2006, as well as the Company utilizing a new turn-key manufacturer for production that required less oversight by Company personnel in 2006.

Table of Contents

OPERATING EXPENSES

Research and Development Expenses

Research and development expenses were $567,591 for the year ended December 31, 2006 compared to $418,016 for the year ended December 31, 2005, an increase of $149,575 or 36%. This increase is mainly attributable to the Company s research and development efforts on its digital controller for both its single-phase and three-phase products and payment of higher salaries to personnel, particularly for the first half of 2006, due to significantly reduced salaries in the first six months of 2005. Research and development salaries decreased in the second half of 2006. Additionally, the Company recognized a non-cash charge of approximately $56,000 related to the adoption of SFAS 123R (See Note 2 to the financial statements) in 2006.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $3,118,233 for the year ended December 31, 2006, compared to $1,641,307 for the year ended December 31, 2005, an increase of $1,476,926 or 90%. The increase in selling, general and administrative expenses over the prior year was due primarily to an increase in payroll and payroll related costs, comprised of: non-cash expenses associated with the Company s adoption of SFAS 123R (See Note 2 to the financial statements) which resulted in a non-cash charge of approximately $1,019,000, the increase in the Company s workforce in connection with the Company s new sales and marketing plan, and higher salaries paid to personnel due to significantly reduced salaries in the first and second quarters of 2005, as well as increases in the Company s investor relations expenses and professional fees.

Interest expense was approximately $1,354,195 for the year ended December 31, 2006, as compared to $529,387 for the year ended December 31, 2005, an increase of $824,808 or 156%. The increase 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 earlier in 2006. Total non-cash interest expense for the year ended December 31, 2006 was $1,039,451.

Prior to 2006, the Company accounted for employee stock options under the intrinsic method of APB No. 25, and presented fair value disclosure as pro forma as provided by SFAS No. 123, as permitted under accounting principles generally accepted in the United States of America. 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 for periods beginning after December 15, 2005, and applies to all outstanding and vested stock-based awards at a company s adoption date. Results from prior periods have not been restated in the Company s historical financial statements.

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the 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. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company s forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company s actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. The impact of applying SFAS No. 123R approximated $1,075,000 in additional compensation expense during the year ended December 31, 2006. Such amount is included in research and development expenses, and selling, general and administrative expenses on the statement of operations.

Table of Contents

The following table represents the Company s Condensed Statement of Operations for the years ended December 31, 2006 and December 31, 2005 on a pro forma basis, with non-cash compensation and non-cash interest expense stated separately:

	For the year ended December 31 (Unaudited)	
	2006	2005
Total Revenues	$ 188,811	$ 276,405
Total Cost of Product Revenues	136,240	245,789
Gross Margin	52,571	30,616
Costs and Expenses:		
Research and development	513,449	418,016
Selling, general and administration	2,016,069	1,613,758
SFAS 123 stock option expense*	999,320	683,533
Other non-cash consideration*	165,528	27,549
Depreciation and amortization	34,028	22,470
Total Costs and Expenses	3,728,394	2,765,329
Loss From Operations	(3,675,823)	(2,734,710)
Other (Expense) Income:		
Cash interest (expense) income, net	(305,501)	(263,525)
Non-cash interest (expense) income, net*	(1,039,451)	(252,015)
Total Other (Expense) Income	(1,344,952)	(515,540)
Net Loss	$ (5,020,775)	$ (3,250,250)
*Sum of non-cash compensation and non-cash interest expense	2,204,299	963,097
Net Loss excluding non-cash compensation and non-cash interest	$ (2,816,476)	$ (2,287,153)

Financial Condition, Liquidity, and Capital Resources: For the Year Ended December 31, 2006

Since inception, the Company has financed its operations primarily through the sale of its securities. In 2006, the Company received approximately $3,210,000 in gross proceeds from a private placement of its common stock and warrants to purchase common stock, as to which the Company is required to file a registration statement on Form SB-2. In April 2006, the Company received $1,000,000 in debt financing from EMTUCK , LLC, in which the managing member is a management company wholly owned and controlled by Steven Strasser, the Company s CEO.

In May 2006, the Company received an additional $500,000 in debt financing from EMTUCK. In November 2006, the Company received $2,000,000 in debt financing. Of this amount, $1,450,000 was converted from borrowings from prior investors. As of December 31, 2006 the Company had cash of $1,693,584.

Net cash used for operating activities for the twelve months ended December 31, 2006 was $2,756,724 which primarily consisted of: a net loss of $5,020,775; less bad debt expense of $11,470, depreciation and amortization of $34,028, loss on disposal of fixed assets of $585, amortization of debt discounts of $1,039,451, amortization of deferred financing costs of $70,364, warrants and options issued in connection with settlements, services from consultants, vendors, the forgiveness of indebtedness, the issuance of debt to employees and consultants of $1,074,848, common stock issued for consulting services of $90,000, decreases in accounts receivable of $26,464, and inventory of $14,487, increases in prepaid expenses of $3,206, deposits of $33,875, and restricted cash related to a note payable of $4,688. In addition, these amounts were partially offset by decreases in accounts payable and accrued expenses of $55,454, customer deposits of $5,105 and an increase in accrued salaries and payroll taxes of $4,682.

Net cash used for operating activities for the twelve months ended December 31, 2005 was $2,080,509 which primarily consisted of: a net loss of $2,570,563; less bad debt expense of $14,963, depreciation and amortization of $22,470, amortization of debt discounts of $252,015, amortization of deferred financing costs of $80,584, warrants and options issued in connection with settlements, services from consultants, vendors, the forgiveness of indebtedness and the issuance of debt of $140,502, increases in accounts receivable of $53,556, prepaid expenses of $65,337 and other assets of $6,339, decreases in inventory of $16,478 and restricted cash related to a note payable of $215,033. In addition, these amounts were partially offset by an increase in customer deposits of $5,105 and decreases in accounts payable and accrued expenses of $46,685 and accrued salaries and payroll taxes of $85,179.

Net cash used in investing activities for fiscal year 2006 was $90,567, compared to $4,613 in fiscal year 2005. The amounts for both fiscal years 2006 and 2005 consisted of the purchase of fixed assets.

Net cash provided by financing activities for fiscal year 2006 was $3,531,755 which primarily consisted of proceeds from the issuance of equity securities, net of costs, of $3,180,000, proceeds from the issuance of debt securities of $2,000,000 and proceeds from a line of credit of $1,500,000. These amounts were offset by payments on notes payable of $1,648,245 and payments on a line of credit of $1,500,000.

Net cash provided by financing activities for fiscal year 2005 was $2,701,771 which primarily consisted of proceeds from the issuance of equity securities of $2,677,153, proceeds from the issuance of debt securities of $125,000 and a note payable from a legal settlement of $38,297. These amounts were offset by an increase in deferred financing costs of $63,457 and payments on loans from stockholders officers and former officers of $75,222.

The Company expects to increase 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.

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, marketing, sales, research and operations during the next twelve months. If the Company is unable to obtain funding on reasonable terms or finance its need through current operations, the Company will be forced to restructure, file for bankruptcy or cease operations.

Notable changes to expenses are expected to include an increase in the Company s sales personnel and efforts, and developing more advanced versions of the Company s technology and products.

Recent Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies to the Financial Statements for an explanation of recent accounting pronouncements impacting the Company.

Table of Contents

BUSINESS

General Background

We design, develop and market energy efficiency technologies and products for electric motors. Until recently these products were called the Power Genius . We recently re-branded the product as the EcoPro . Our new digital technology is called E-Save . Our products reduce the amount of power consumed by lightly loaded alternating current induction motors that operate at a constant speed. Utilizing patented improvements upon NASA-developed motor diagnostic technologies, our products provide to the user energy cost savings of as much as 35%. We market our products directly under the brand name EcoPro , and through other companies under names such as Power Commander® and EcoStart . These companies include the leading elevator/escalator manufacturers in the world, such as Otis Elevator Co (a division of United Technologies) and KONE, Inc.

Description of Business

Formation

We were incorporated in Delaware in October 1994. In our early years, we focused on research and development of technologies and products and validating the energy savings generated by our products.

In the late 1990s, we commenced sales of products based on our technology. In addition to energy savings benefits, the EcoPro extends motor life, minimizes maintenance, results in cooler running, reduces stress and strain on the motor, and reduces stress and strain on accompanying electrical and mechanical systems. Technology and circuitry included in the EcoPro is the subject of a United States Patent granted in 1998. We offer the EcoPro principally as a three phase product, which is used in industrial and commercial applications. We also have a single phase version of the product, which is intended for consumer applications such as home appliances and the like, but this is not yet a commercialized product.

Our product is designed to soft start a motor, save energy, and protect and conserve the motor. Field validation of the technology has resulted in an installed base of over a thousand units in North America, Europe and Asia. High-profile product installations include the Smithsonian Museums, Honolulu International Airport, Seattle-Tacoma International Airport, Toronto Airport and Federated Department Stores. Our average revenue per three-phase unit sold is approximately $975; our gross margin on a going forward basis is expected to be 30-60% once our revenue has increased to more sustainable levels.

Our management team is led by Steven Strasser, an experienced energy executive and venture capitalist. The management team is composed of individuals with financial, operational, and engineering experience. We believe our diverse team gives us the ability to both grow and manage our business.

Government mandates to reduce energy, such as the Energy Policy Act of 2005, as well as increasing worldwide concern about global warming and greenhouse gas emissions, have led to an increased focus by both the public and private sectors on energy saving technology. This focus, combined with the large installed base of electric motors that can benefit from our products, represents what we believe to be an extremely large market opportunity. We have formulated a proactive sales and marketing plan to capitalize on this dynamic market.

Products

We offer the EcoPro in various configurations to meet a wide range of motor sizes. The EcoPro reduces energy consumption on electrical equipment by electronically sensing and controlling the amount of energy the motor consumes. The motor only uses the energy it needs to perform its tasks, thereby increasing its efficiency. The end result is a reduction of energy consumption of up to 35 percent, in certain applications, as well as less wear and tear on the motor.

We believe the EcoPro line offers a technologically superior energy reduction solution compared to competing products. In addition to the original technology that was licensed from NASA, the EcoPro incorporates substantial proprietary design elements that are the result of our extensive laboratory and field testing. A United States patent has been issued for some of these enhancements that will not expire until 2017. These refinements enable the EcoPro to offer a superior control system which measures and monitors key motor operating conditions and adapts motor operating parameters during rapid changes in motor load, all without excessive vibration, synchronization problems or other material adverse effects to the motor or surrounding electrical and mechanical systems.

In addition to energy savings, another feature of the EcoPro is that it enables motors to soft start. Soft start is achieved by the use of a timed ramp circuit. The circuit gradually releases power to the motor in a timed manner. As voltage is slowly increased, current is increased as needed by the motor, until full voltage and current bring the motor to its full RPM. At that point, the soft-start circuit automatically turns off and the energy saving circuits take control of the motor. The timing for the circuit can be adjusted from instant start to 30 seconds before full RPM and full voltage is reached. The result of the soft start is that inrush current and start-up torque is greatly reduced, reducing wear and tear on the motor, extending motor life and reducing maintenance costs.

The EcoPro currently works for three phase motors used primarily in commercial and industrial applications. The product soft-starts the motor and then supplies only the necessary voltage and current to maintain the workload on the motor at a particular time. The EcoPro allows full motor speed (RPM) to be maintained at all times, and provides the following major benefits to the customer:

1. Energy savings up to 35%, in appropriate applications; and

2. Increased motor life resulting from lower operating temperature and reduced stress and strain.

The selling price of the three phase EcoPro ranges from approximately $500 to more than $6,000, depending on the size of the motor it is intended to control.

The Industry

The Company believes that finite oil and gas supplies, as well as increased awareness of the problems of global warming, have heightened interest in energy saving technologies. The recent increase in natural gas prices combined with the reliance on this fuel to power most of the new power generation plants, and the need to upgrade the US power grid that delivers electricity, make further increases in electrical costs likely. Electricity costs have increased to more than $0.15 per kWh in some areas of the country. Higher electricity costs result in increased return on investment (ROI) to purchasers of our products. Since many companies set ROI requirements as a prerequisite for capital expenditures, management believes that the increased ROI resulting from higher energy costs expands our potential base of customers for our products.

Economic and environmental factors are expected to lead to increased governmental involvement in the form of incentives, rebates, low interest loans, and in some cases mandates to utilize energy-saving technology. The emphasis on building natural gas power plants was influenced by the safety and environmental concerns with nuclear and coal fired plants. The increasing demand for natural gas has resulted in strong price increases that we believe are unlikely to return to previous levels in the short term. The resulting increases in power costs impact the entire economy. We believe that the need to reduce power costs, coupled with strong pressures to maintain and increase environmental standards, will help push more widespread acceptance of our technology.

Environmental Impact

The EcoPro benefits the purchaser and society by reducing the consumption of electricity. This reduction in electricity results in decreased pollutants, including the greenhouse gas emissions associated with the production of electricity.

Table of Contents

The Market

The United States consumes over $200 billion of electricity annually. A study for the Department of Energy estimates that industrial motor driven systems consume 23% of all electricity in the U.S. and 64% of all the electricity used in the manufacturing sector. 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.

Key Characteristics of Target Customer

1. Demographic Factors:
   a. High retail electricity cost (generally > $0.08/kWh).

   b. Local utility or government offers incentive financing for the purchase of energy saving products.

   c. Increasing environmental concerns, such as a desire to reduce greenhouse gas emissions from the generation of electricity.
2. Customer Factors:
   a. Energy usage is a significant operating cost.

   b. Saving energy is a top-down management priority.

   c. Uses many constant-speed induction motors that are on average lightly loaded and operate for long periods of time.

   d. Strives to be a green company (environmentally friendly).

Sustainable Competitive Advantage and Barriers to Entry

1. *Performance* - Third-party testing has shown the EcoPro to perform better than other energy-saving motor controllers. To our knowledge, no competitive product matches our performance.

2. *Patent Protection* - US patent to 2017. United States Patent Number 5,821,726 -Balanced and synchronized phase detector for an AC induction motor controller. Also, we recently filed three provisional patents on new software and algorithms for measuring and reducing energy usage by electric motors.

3. *Continuous Improvement* - We continuously look for ways to reduce the manufacturing cost of our product family while introducing value-added features. By reducing the manufacturing cost and increasing the energy-saving performance we improve the payback value proposition.

4. *New Product Development* Planned new products include software-based versions of our current three phase product, which will incorporate many new value-added features. We are presently finalizing CSA and UL certification for this product. We have also developed a software based prototype version of our single phase controller. We are presently producing 25 of these controllers for testing on various applications on our own and with potential customers.

5. *Large, Technically Qualified Distribution Partners* - Customer satisfaction requires a level of technical skill on the part of the salesperson to correctly identify motor applications and specify the proper product. Furthermore, customer acceptance depends upon the confidence the customers have in the Company s distribution partners. We believe our relationships with OEMs, such as Otis Elevator Company and KONE Inc., increases our customers confidence in our products and promotes market acceptance of the technology.

Table of Contents

Sales and Marketing

We have recently reorganized our sales and marketing efforts to focus on rebate programs and certain industries in which we believe there are the most promising revenue and profit possibilities for the sale of EcoPro .

Our marketing plan is now focused on the following:

1. **Rebates/Incentives:** This focus involves getting our product approved for energy efficiency rebate and financing programs available from many state agencies and utilities. These energy efficiency incentive programs involve outright payment of a rebate to end purchasers of our equipment and/or low interest rate financing possibilities. For example, we have been through extensive testing with Nevada Power Company, the electric utility for southern Nevada, and the New York Power Authority (NYPA). Our product qualified for NYPA s incentive funding program, an incentive program through Southern California Edison, and a prescriptive rebate from the Nevada SureBet Program, which is the rebate program for the major Nevada utilities, Nevada Power Company and Sierra Pacific Power Company. NYPA provides financing for 100% of the installed cost of our units through low interest, long term loans to end users. Southern California Edison will pay for the entire cost of our units for end users willing to install the technology on escalators in the Southern California Edison service territory. The Nevada SureBet Program pays the customer $20 per installed horsepower for escalator applications, so installing our product on a 20 horsepower motor in an escalator would result in a $400 rebate.

We believe these incentive programs will improve our revenues and profits by making it effectively less expensive for end users to purchase our products. We are specifically targeting incentive programs in New York, Nevada, California and other states that have high electricity prices and sizable energy efficiency incentive programs.

2. **The Elevator and Escalator Industry:** This focus involves strengthening our relationships with companies such as Otis Elevators Co. and KONE, Inc., as well as other original equipment manufacturers and service providers in the elevator and escalator industry. Some of these companies have historically been strong partners and sellers of our products, but the previous marketing programs to sell to and through these companies were not effectively designed and executed by prior management. We believe that these relationships can provide us with significant sales opportunities in the future. Specifically, our goal is to have these companies adopt our new digital product as a standard component in their new escalators.

3. **Industrial OEMs, Reps and Distributors:** This focus involves establishing relationships with OEMs, distributors and sales representatives that focus on the sale of electrical equipment to general industry. Many industrial companies are attractive customers for us because they often understand the operation and energy use of the electric motors in their facilities, and they often service their motors and motor-related equipment themselves. This is important because it reduces or eliminates the installation costs often associated with the purchase of our products. In general industrial facilities we expect to be able to sell to customers with plastic granulators, crushers, grinders, conveyor systems, and other applications that require constant motor speed with variable load on the motor.

International sales may eventually equal or exceed domestic sales due to higher electricity prices in many countries outside the United States. We have obtained the CE Mark, a symbol that indicates the product complies with the essential requirements of the European laws or Directives, in order to introduce the controller in Europe; we have also obtained CSA certification, which indicates the product complies with the essential requirements of the Canadian laws or Directives, and is recognized, and required in some states, in the United States.

Table of Contents

Competition

The principal competitive factors in our markets include innovative product design, return on investment from energy savings, product quality, product performance, utility rebate acceptance, established customer relationships, name recognition, distribution and price.

The Company competes against a number of companies, many of which have longer operating histories, established markets and far greater financial, advertising, research and development, manufacturing, marketing, personnel and other resources than Power Efficiency Corporation currently has or may reasonably be expected to have in the foreseeable future. This competition may have an adverse effect on our ability to commence and expand its operations or operate in a profitable manner.

We believe the three phase EcoPro has no direct competition that combines energy savings with a soft start feature as effectively as our product. There are many devices on the market that provide a soft-start feature without any other energy savings. Competition for the energy savings feature provided by the EcoPro includes several direct competitors and the following:

- Controllers which utilize a different electronic technology than the technology used by the Company;
- Variable frequency drives (VFDs); and
- High-energy efficient motors.

Three-Phase Competition. Although we have not completed any formal market study, we believe our Three-Phase EcoPro has the following competitive advantages:

- It is the only device management is aware of that combines soft start features with energy savings features in a single integrated unit that is CSA and CE certified and achieves energy savings levels up 35%; and
- Its circuitry is proprietary and protected by a patent.

Single-Phase Competition. Several companies have attempted to exploit this market with different technologies due to the enormous opportunity in single-phase motor applications. These products include Green Plug (voltage clamping) and Power Planner (digital microchip).

High Efficiency Motors. Insofar as high efficiency motor replacement is concerned, management believes that the energy savings gain attributable to high efficiency motors is materially lower than that of the EcoPro on lightly loaded motor applications, which is the prime target for the Company s products. Furthermore, the Company s products are able to save energy on lightly loaded high efficiency motors, so that such motors and the Company s technology are not mutually exclusive.

Our products compete with other products which have energy savings capabilities similar to those of our products. Somar Environmental Systems Ltd., based in the United Kingdom, and Precision Power Labs of Phoenix, Arizona, offer such products. According to an independent test performed by Medsker Electric, Inc. of Farmington Hills, Michigan, our three-phase motor control product outperformed the Somar product by a significant margin. The Precision Power Labs product was not available at the time of the test. To our knowledge, none of these companies has a patented product that is CSA and CE approved.

Management believes the EcoPro line offers certain advantages over competing products for the following reasons:

- The EcoPro is the result of field and laboratory engineering refinements undertaken since 1994. These refinements enable the EcoPro to offer a control system which measures and monitors key motor operating conditions and adapts motor operating parameters during rapid changes in motor load, all without excessive vibration, synchronization problems or other material adverse effects to the motor or surrounding electrical and mechanical systems.

Table of Contents

Energy savings and motor efficiencies were verified through tests of the EcoPro performed by independent laboratories and utilities, such as Nevada Power Company and the Los Angeles Department of Water and Power.

Medsker Electric, Inc., an independent electric motor repair and test laboratory, performed a series of inrush current and energy savings tests on the EcoPro , then known as the Performance Controller. The tests compared the Company s product to the products of three competitors. In its conclusions, Medsker stated that the Company s EcoPro exhibited twice the energy savings of the next nearest competitor. In addition, Medsker concluded that the EcoPro exhibited the best soft-start performance, reducing the motor inrush current by 71%. Finally, Medsker concluded that the EcoPro was the simplest to install and test, and was the best performer in terms of energy savings and inrush current reduction.

Our products may also compete indirectly with soft starts produced by well-recognized firms such as Allen Bradley, ABB and Siemens. These devices typically range in price between $400 and $5,000 per unit.

In addition, our products may compete with variable frequency drives, which can be set to operate a constant load motor application at an optimum rate. Such units are sold by well-recognized firms such as Yaskawa, General Electric, ABB and Allen-Bradley, and are priced typically at $600 to $5,000 per unit. While our products address a market segment different than that addressed by variable frequency drives, they may generally compete with variable frequency drives for capital expenditure dollars earmarked toward improving energy efficiency.

Lastly, our products may compete with high efficiency motors, which operate constant load motor applications at energy levels materially more efficient than those of standard efficiency motors. Such units are sold by well-recognized firms such as AO Smith, Baldor, Lincoln Motors and General Electric, and are priced typically at $200 to $4,000 per unit. While our products address a market segment different from that addressed by high efficiency motors, our products may generally compete with high efficiency motors for capital expenditure dollars earmarked for improving energy efficiency.

Research and Development

We intend to continue our research and development effort to introduce new products based on the EcoPro technology. Currently, we are in the testing and certification stage on a software-based version of the three phase motor controller and have completed a prototype of the single phase controller. We have also recently filed three provisional patents on the advancements necessary for this software-based line of products. We may not be able to complete development and commercialization of these products in the near term, or ever, or may have opportunities to develop other products before these are completed.

Management anticipates that the software-based products will have several distinct advantages over the current line of products, including:

Increased ease of installation and reduced technical support requirements. Instead of approximated and manual adjustments during installation, which can require technical support from the Company, the digitized unit should allow more simplified and precise adjustments by customers and third party installers.

Table of Contents

Increased functionality. With a microchip and software driving our products, we expect to be able to ultimately add new functionality to the products. These new functions may include such things as recording and reporting of actual energy savings, prediction of maintenance problems by reading and reporting on changes in the motor s operating characteristics and more secure intellectual property protection through the use of secured chips and software.

Proposed Products

1. *Three Phase Digital Controller*. The first models of this product are currently being tested and certified by CSA and UL. The first models are 30 amp and 80 amp units. We are also producing our first 50 units of the 30 amp product for further testing in the field and customer laboratories, and for possible sale.

2. *Single-Phase Controller.* We have developed a prototype digital single-phase controller that works on some types of single phase motors. The goal is to develop a product that can be installed on single-phase motors as an OEM product on such appliances as clothes dryers, washing machines and home refrigerators. We are now producing 25 of these prototypes with the goal of testing the units on various applications and with a number of companies that manufacture single phase motors or equipment that is powered by a single phase motor.

Manufacturing and Facilities

We have an arrangement with Cole, a contract manufacturing firm based in Las Vegas, Nevada. This manufacturer produces units for us on an as-needed basis. Under the arrangement, the Company issues a purchase order to Cole that outlines, among other things, the number of units to be manufactured and the desired delivery date. Cole is under no obligation to accept the order and the Company is under no obligation to use Cole for its manufacturing needs. Management believes the arrangement between the Company and Cole has been mutually beneficial. Management also believes Cole has the ability to meet the Company s production needs and the Company would be successful in finding alternative manufacturers should that be necessary.

Product cost-reduction and quality improvement efforts are, and will remain, an objective of the Company. Improving unit costs was one key element pushing development of the three phase digital controller, as well as the overall reengineering of the product to reduce the size and cost of the units. A second element of this manufacturing and engineering effort is to reduce inventory levels by simplifying the product offering with the ultimate goal of holding little or no inventory. A third element of the program has been to outsource manufacturing, so that less resources are spent managing manufacturing and inventory.

Employees

At March 31, 2007, we had 9 full time employees. Of this number, one is engaged in accounting and finance, one in administration, two in general management, four in sales and marketing, and one in manufacturing, research, and development. The Company plans to hire additional personnel for, among other things, increased marketing and sales. The Company has no collective bargaining agreements and considers its relationship with its employees to be good. The Company utilizes consultants in the areas of marketing, product management, research and development, and financing on an ongoing basis.

Source of Supply and Availability of Raw Materials

The EcoPro has been designed to use a majority of standard, off-the-shelf, easily acquired components. Such components are readily available worldwide to our manufacturing partners at competitive prices. They also come in standard and miniature versions and offer us large latitude in product design. Although we believe that most of the key components required for the production of its products are currently available in sufficient production quantities from multiple sources, there can be no assurance that they will remain so readily available.

Customers

We currently do business with approximately 20 customers. Of this number, four, including KONE, Inc., Caesar s Palace, Rinker Materials, and Rapid Granulator presently account for approximately 75% of the Company s gross revenues in 2006. These customers and their respective gross revenue percentages are KONE, Ine. 53%; Rapid Granulator 13%; Caesar s Palace 5%; and Rinker Materials 4%. In light of our intentions to focus its business on a limited number of markets, we are, and may continue to be, dependent upon a limited number of customers. Accordingly, the loss of one or more of these customers may have a material adverse effect upon our business.

Intellectual Property

We currently rely on a combination of trade secrets, non-disclosure agreements, a patent and three provisional patents to establish and protect the proprietary rights in our products. These mechanisms do not necessarily provide us with any competitive advantages. Furthermore, others may independently develop similar technologies, or duplicate or reverse engineer the proprietary aspects of our technology.

We have one U.S. patent issued with respect to our products. The Balanced and Synchronized Phase Detector for an AC Induction Motor Controller, No. 5,821,726, was issued on October 13, 1998 and expires in 2017. This patent covers improvements to the technology formerly under the NASA License Agreement (described below), which were developed by us.

We do not have patent protection outside of the United States and South Africa. In fact, a Chinese company may have copied our technology, as well as our old logo and general Website appearance, and may be selling a competing product.

We believe that our products and other proprietary rights do not infringe on any proprietary rights possessed by third parties. However, third parties may assert infringement claims in the future, the defense costs of which could be substantial.

We also recently filed three provisional patents on new developments for the software-based, digital products that we are developing. These provisional patents include new algorithms for sensing and controlling the power delivered to a motor. These provisional patents, by themselves, do not provide us additional patent protection. The provisional patents establish a date for our claim to this intellectual property and allow us one year to file a standard patent on the new developments.

We have obtained U.S. Trademark registration of the Power Commander® mark and anticipate filing a trademark registration on EcoPro .

NASA License Agreement

We had been the exclusive United States licensee of certain power factor controller technology owned by the United States of America, as represented by NASA. This license agreement covered the United States and its territories and possessions and did not require us to pay royalties to NASA in connection with our sale of products employing technology utilizing the licensed patents. Our rights under the license agreement were non-transferable and were not to be sublicensed without NASA s consent. The license agreement terminated on December 16, 2002, with the expiration of all of the licensed patents.

Table of Contents

Government Regulation

We are not required to be certified by any government agencies. However, our products are manufactured to comply with specific Underwriters Laboratory codes that meet national safety standards. Presently, our products comply with UL 508 Industrial Control Equipment and the Company has also received certification meeting Canadian Standards Association (CSA) CSA-B44.1-96/ASME-17.5-1996 Elevator and Escalator Electrical Equipment. Our products are also CE marked. The CE certificate number is C1282PEC1.TLS.doc. The Department of Commerce does not require our technology to be certified for export. Our industrial code is 421610 and the SIC code is 5063.

Impact of the Energy Industry

Sales of our product are not dependant on continued deregulation of the electrical energy market because our products can be sold in regulated and deregulated markets. However, state and utility incentive programs for energy efficiency products can provide an additional source of investment return (in the form of an incentive payment or rebate) for companies and public-sector entities purchasing our product and future projects.

Effect of Environmental Regulations

We are not aware of any federal, state, or local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment with which compliance by us has had, or is expected to have, a material effect upon our capital expenditures, earnings, or competitive position.

Description of Property

The Company s corporate office space is located at 3960 Howard Hughes Pkwy, Suite 460, Las Vegas, Nevada 89169. The office lease payment is presently $11,292 per month, with standard increases through the end of the lease term in February 2011.

Legal Proceedings

We are not presently involved in any litigation.

In the winter of 2005-2006 we settled litigation with the owner of the former office space in Livonia, Michigan. Under the terms of the settlement, we have paid our former landlord $50,000 in cash and will pay the former landlord an additional $50,000 in 18 monthly installments of $2,778 each. As of the date of this report, this settlement agreement has been paid in full.

Table of Contents

MANAGEMENT

INFORMATION ABOUT THE COMPANY S EXECUTIVE OFFICERS AND DIRECTORS

The following table lists the current executive officers and directors and, in the case of directors, their length of service on the board. Each director is elected to hold office for a term expiring at the first annual meeting of stockholders held following such director s election and until his successor has been elected and qualified, or until his prior resignation or removal. All of the Company s current directors were either appointed by the plurality of votes cast by the holders of our common stock present, or represented, at the last Annual Meeting of the Stockholders in February, 2006, or elected by the board.

Name	Age	Director Since	Position
Steven Z. Strasser	58	2002	Chairman, Chief Executive Officer
John (BJ) Lackland	36	2002	Director, Chief Financial Officer, and Secretary
Raymond J. Skiptunis	64	2002	Director, Chairman of the Audit Committee
George Boyadjieff	68	2006	Director, Senior Technical Advisor
Douglas M. Dunn	64	2006	Director
Richard Morgan	61	2007	Director
Gary Rado	65	2005	Director

Director Independence

Pursuant to SEC rules, a majority of our Board of Directors is comprised of independent directors, as defined under Section 121(A) of the American Stock Exchange Constitution and Rules. Messrs. Skiptunis, Dunn, Morgan and Rado are independent directors. Our audit committee is comprised of Messrs. Skiptunis, Dunn and Rado; and our compensation committee is comprised of Messrs. Skiptunis and Dunn, all of whom are independent directors.

Steven Strasser Chairman and Chief Executive Officer. Prior to becoming the Company s CEO in October 2004, Mr. Strasser was the Managing Director, founder and majority owner of Summit Energy Ventures LLC (Summit), the largest shareholder in Power Efficiency Corporation. Summit is a private equity firm focused on investments in companies with energy efficiency technologies. At Summit, Mr. Strasser spent four years, from 2001-2005, evaluating and investing in energy technology companies and serving on the boards of portfolio companies. Mr. Strasser has been a director since August 2002.

From 1984 through 2000, Mr. Strasser was the founder and CEO of Northwest Power Enterprises. Over its seventeen-year history, Northwest Power Enterprises and its predecessor companies were involved in multiple aspects of the energy development business.

Mr. Strasser received law degrees from McGill University, Montreal, Canada and the University of Washington, Seattle, Washington.

John (BJ) Lackland Director, Chief Financial Officer, and Secretary. Mr. Lackland became the Company s CFO in October 2004. Mr. Lackland has been the Vice President and Director Summit Energy Ventures since 2001, a private equity firm that is the largest shareholder in Power Efficiency Corporation. Summit focuses on investments in companies with energy efficiency technologies. At Summit, Mr. Lackland evaluated and invested in energy technology companies and served on the boards of portfolio companies. Prior to joining Summit, Mr. Lackland was the Director of Strategic Relations at Encompass Globalization, where he was in charge of strategic alliances and mergers and acquisitions. Prior to Encompass, he was the Director of Strategic Planning and Corporate Development at an Internet business development consulting company, where he was in charge of strategic planning and investor relations. Mr. Lackland has been an independent consultant to Fortune 1,000 companies and startups. Mr. Lackland also worked at The National Bureau of Asian Research, an internationally acclaimed research company focusing on U.S. policy toward Asia, where he led economic and political research projects for Microsoft, Dell, Compaq and U.S. government agencies. Mr. Lackland has been a director since August 2002.

Mr. Lackland earned an M.B.A. from the University of Washington Business School, an M.A. in International Studies (Asian Studies) from the University of Washington s Jackson School of International Studies, and a B.A. in Politics, Philosophy and Economics from Claremont McKenna College.

28

Table of Contents

Raymond J. Skiptunis Director since July 2002. Mr Skiptunis was a director at TAG Entertainment, a movie production company from 2004 until January. Until September 2006, Mr. Skiptunis also served as an executive consultant at TAG Entertainment, from 2004. Prior to TAG Entertainment, Mr. Skiptunis was a self employed business consultant from 2003 to 2005. From November of 2001 through October of 2003, Mr. Skiptunis worked with the Company in various capacities, including consultant, CFO and interim CEO. From 1990 to 1996, Mr. Skiptunis served as Vice Chairman and CEO of Teamstaff, Inc., a professional employer organization. Prior to his time with Teamstaff, Inc., Mr. Skiptunis was the Chairman and President of Venray Management Corp, a venture capital firm, from 1983 to 1990, and the Vice President, CFO and a board member of Biosearch Medical Products from 1978 to 1983. Mr. Skiptunis earned a Bachelor of Science in Accounting from Rutgers University.

George Boyadjieff Director and Senior Technical Advisor. Mr. Boyadjieff has been a director of the Company since May 2006, and Senior Technical Advisor of the Company since April 2005. Mr. Boyadjieff is the retired CEO of the former Varco International, a New York Stock Exchange traded oil service company with over $1.3 billion in annual revenues at the time of Mr. Boyadjieff s retirement. Varco has recently merged with National Oil Well to become National Oil Well Varco (NOV). Mr. Boyadjieff joined Varco in 1969 as Chief Engineer and was appointed CEO in 1991. Currently Mr. Boyadjieff is the Chairman of the Board and interim CEO of Southwall Technologies, a Silicon Valley hi-tech firm. Mr. Boyadjieff joined Southwall in December 2004 as chairman of the board.

Mr. Boyadjieff holds over 50 US patents related to oil and gas well drilling equipment. Mr. Boyadjieff holds BS and MS degrees in Mechanical Engineering from the University of California at Berkeley and is a graduate of the University of California at Irvine executive program.

Dr. Douglas Dunn Director since May 2006. Dr. Dunn has had an extensive career in research, business and academic leadership. Dr. Dunn served as dean of Carnegie Mellon University s Graduate School of Industrial Administration (now the Tepper School of Business) from July 1996 through June 2002, after which he retired. He began his career AT&T Bell Laboratories, and his corporate experienced culminated in senior positions as a corporate officer leading Federal Regulatory Matters, Regional Government Affairs, and Visual Communications and Multimedia Strategy for AT&T. Dr. Dunn is a board member of Universal Stainless & Alloy Products, Inc. (NasdaqNM: USAP) and Solutions Consulting, a technology consulting firm, which is wholly owned by Perot Systems, Inc. He holds a Ph.D. in business from the University of Michigan, an MS in industrial management and a BS in physics from the Georgia Institute of Technology.

Richard Morgan Director since January 2007. Mr. Morgan is currently the Dean and a Professor of Law at the William S. Boyd School of Law at the University of Nevada, Las Vegas, a position he has held since September 1, 1997. Mr. Morgan is an experienced legal educator, having served as dean at both the Arizona State University College of Law and the University of Wyoming College of Law. Mr. Morgan earned his B.A. in Political Science at the University of California, Berkeley in 1967. In 1971 he received his J.D. from UCLA, where he was an editor of the UCLA Law Review. He practiced with the Los Angeles law firm of Nossaman, Krueger & Marsh in the corporate/securities areas from 1971 to 1980. He was a professor at the Arizona State University College of Law from 1980 to 1987 and served as associate dean from 1983 to 1987. He was dean at the University of Wyoming College of Law from 1987 to 1990 and returned to the Arizona State University College of Law in 1990, where he served as dean and professor of law until 1997. He currently serves as chair of the ABA Standards Review Committee.

Gary Rado Director since September 2005. Mr. Rado retired in 2002 after being the President of Casio Inc. USA. Before joining Casio Inc. in 1996, Mr. Rado was with Texas Instruments Inc. for 21 years. He moved from District Sales Manager to Area Sales Manager to National Sales Manager of the Consumer Products Division. This division was responsible for home computer, calculator and educational products such as Speak and Spell. Mr. Rado was then promoted to Division Manager of Consumer Products worldwide and VP of marketing and sales. He ran the division for 7 years, with two years of running the division while based in Europe. Mr. Rado earned a Bachelors of Science in Business Administration from Concord College in 1963.

Table of Contents

Board of Directors and Committees of the Board

Our business affairs are conducted under the direction of our board of directors. The role of our board of directors is to effectively govern our affairs for the benefit of our stockholders and, to the extent appropriate under governing law, of other constituencies, which include our employees, customers, suppliers and creditors. Our board strives to ensure the success and continuity of our business through the selection of a qualified management team. It is also responsible for ensuring that our activities are conducted in a responsible ethical manner. Our board of directors has two standing committees, an audit committee and a compensation committee.

Our board of directors met twelve times in 2005 and fourteen times in 2006. None of the current directors missed more than three meetings during the period for which they have been a director and the meetings held by committees of the board of directors on which they serve.

We do not have a policy that requires directors to attend our annual meetings of stockholders.

Audit Committee

Raymond Skiptunis, Douglas Dunn and Gary Rado currently serve on our audit committee. Messrs. Skiptunis, Dunn and Rado are each independent directors as required by Section 301 of the Sarbanes-Oxley Act of 2002, Rule 10A(3)(b)(1) of the Securities Exchange Act of 1934 and Section 121(A) of the American Stock Exchange Constitution and Rules. Raymond Skiptunis, the Chairman of our audit committee, qualifies as a financial expert. Our audit committee, among other things:

- selects the independent auditors, considering independence and effectiveness;
- discusses the scope and results of the audit with the independent auditors and reviews with management and the independent auditors our interim and year-end operating results;
- considers the adequacy of our internal accounting controls and audit procedures;
- reviews and approves all audit and non-audit services to be performed by the independent auditors; and
- administers the whistleblower policy.

The audit committee has the sole and direct responsibility for appointing, evaluating and retaining our independent auditors and for overseeing their work.

Compensation Committee

Raymond Skiptunis and Douglas Dunn currently function as our compensation committee. Messrs. Skiptunis and Dunn are independent directors as required by SEC Rules and as defined in Section 121(A) of the American Stock Exchange Constitution and Rules. Our compensation committee, among other things:

- recommends to the board of directors the compensation level of the executive officers;
- reviews and makes recommendations to our board of directors with respect to our equity incentive plans;
- establishes and reviews general policies relating to compensation and benefits of our employees.

Table of Contents

Committee Interlocks and Insider Participation

None of our executive officers currently serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Executive Compensation

The following table sets forth all annualized compensation paid to our named executive officers at the end of the fiscal years ended December 31, 2006, 2005 and 2004. Individuals we refer to as our named executive officers include our Chief Executive Officer and the four other most highly compensated executive officers whose salary and bonus for services rendered in all capacities exceeded $100,000 during the fiscal year ended December 31, 2006.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Steven Z. Strasser	2006	$ 288,750							$ 288,750
Chairman and Chief	2005	$ 275,000(1)			$ 2,218,566				$ 2,493,566
Executive Officer	2004	$ 60,000							$ 60,000
John (BJ) Lackland (2)	2006	$ 183,750							$ 183,750
Director and Chief	2005	$ 175,000			$ 1,003,908				$ 1,178,908
Financial Officer	2004	$ 60,000							
Robert M. Murray (3)	2006	$ 175,000			$ 670,000(3)				$ 845,000
Chief Operating Officer	2005								
	2004								

(1) Effective June 1, 2005, Mr. Strasser entered into an employment contract with the Company. Mr. Strasser agreed to have his first year s salary paid $60,000 in cash and options to purchase 1,612,500 shares of common stock at an exercise price equal to not less than market at date

of grant in lieu of remaining cash vesting quarterly over one year. Mr. Strasser was also granted an additional 3,000,000 options on June 1, 2005 as part of his employment contract.

(2) Effective June 1, 2005, Mr. Lackland entered into an employment contract with the Company. Mr. Lackland agreed to have his first year s salary paid $120,000 in cash and options to purchase 412,500 shares of common stock at an exercise price equal to market at date of grant in lieu of remaining cash vesting quarterly over one year. Mr. Lackland was also granted an additional 1,800,000 options on June 1, 2005 as part of his employment contract.

(3)

Mr. Murray resigned effective January 5, 2007 and all of Mr. Murray s stock options were cancelled as of this date.

Table of Contents

Narrative Disclosure to Summary Compensation Table

During 2004, we hired the following officers: Steven Strasser, Chief Executive Officer, and John (BJ) Lackland, Chief Financial Officer. Effective June 1, 2005, the Company entered into employment agreements with the above officers. These two individuals comprise our current executive officers. The term of each agreement is five years. In the event of a defined change in control of the Company, each agreement will provide for accelerated vesting of stock options and a cash severance payment equal to 2.99 times the executive s then current salary and previous year s bonus.

The following table sets forth the material financial terms of the agreements for each of our executives as of December 31, 2006:

Name	Salary (1)	Bonus	Common Stock Options(5)
Steven Strasser	$ 275,000(2)	(4)	3,000,000
BJ Lackland	$ 175,000(3)		1,800,000

(1) To be increased annually by at least 5% of prior year.

(2) First year s salary to be paid $60,000 in cash and options to purchase 1,612,500 shares of Common Stock at an exercise price equal to not less than market at date of grant in lieu of remaining cash vesting quarterly over one year.

(3) First year s salary to be paid $120,000 in cash and options to purchase 412,500 shares of Common Stock at an exercise price equal to market at date of grant in lieu of

remaining cash vesting quarterly over one year.

(4) At the Board s discretion.

(5) Vesting evenly and quarterly over five years.

Outstanding equity awards

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	OPTION AWARDS					STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Steven Strasser	1,022,727	1,550,002		$ 0.22	5/31/2010				
	1,693,773	399,998		$ 0.20	5/31/2015				
	550,000	50,000		$ 0.65	11/28/2015				
BJ Lackland	1,042,500	1,170,000		$ 0.20	5/31/2015				
	325,000	50,000		$ 0.65	11/28/2015				
Robert M. Muray[(1)]		2,500,000		$ 0.25	4/16/2016				

(1)

Mr. Murray resigned effective January 5, 2007 and all of Mr. Murray s stock options were cancelled as of this date.

32

Table of Contents

Stock Option Plan Narrative Disclosure

As of December 31, 2006, we had an aggregate of 14,734,896 shares of Common Stock available for issuance under our stock plans. The following is a description of our plans.

2000 Stock Option and Restricted Stock Plan, or the 2000 Plan

The 2000 Plan, was adopted by our board of directors and our stockholders in 2000. On February 23, 2004, the 2000 Plan was amended and restated. As of December 31, 2006, no restricted shares of Common Stock have been issued, and none of the outstanding options to purchase 14,734,896 shares of our Common Stock have been exercised pursuant to the 2000 Plan.

Share Reserve. Under the 2000 Plan, we have initially reserved for issuance an aggregate of 20,000,000 shares.

Administration. The 2000 Plan is administered by the board of directors. The stock option awards qualify as performance-based-compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, or the Code, with two or more outside directors within the meaning of Section 162(m) of the Code. The board of directors has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each award, the exercisability of the awards and the form of consideration payable upon exercise.

Eligibility. Awards under the 2000 Plan may be granted to any of our employees, directors or consultants or those of our affiliates.

Options. With respect to non-statutory stock options intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code and incentive stock options, the exercise price must be at least equal to the fair market value of our Common Stock on the date of grant. In addition, the exercise price for any incentive stock option granted to any employee owning more than 10% of our Common Stock may not be less than 110% of the fair market value of our Common Stock on the date of grant. The term of any stock option may not exceed ten years, except that with respect to any participant who owns 10% or more of the voting power of all classes of our outstanding capital stock, the term for incentive stock options must not exceed five years.

Stock Awards. The administrator may determine the number of shares to be granted and impose whatever conditions to vesting it determines to be appropriate, including performance criteria. The criteria may be based on financial performance, personal performance evaluations and/or completion of service by the participant. The administrator will determine the level of achievement of performance criteria. Unless the administrator determines otherwise, shares that do not vest typically will be subject to forfeiture or to our right of repurchase, which we may exercise upon the voluntary or involuntary termination of the participant s service with us for any reason, including death or disability.

Adjustments upon Merger or Change in Control. The 2000 Plan provides that in the event of a merger with or into another corporation or a change in control, including the sale of all or substantially all of our assets, and certain other events, our board of directors (or a committee of the board of directors) may, in its discretion, provide for some or all of:

- assumption or substitution of, or adjustment to, each outstanding award;
- acceleration of the vesting of options and stock appreciation rights;
- termination of any restrictions on stock awards or cash awards; or
- cancellation of awards in exchange for a cash payment to the participant.

Table of Contents

Amendment and Termination. The board of directors has the authority to amend, alter or discontinue the 2000 Plan, subject to the approval of the stockholders, but no amendment will impair the rights of any award, unless mutually agreed to between the participant and the administrator.

Compensation of Directors Summary Table

DIRECTOR COMPENSATION

Name (a)	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Raymond J. Skiptunis	$ 6,000		$ 39,038				$ 45,038
George Boyadjieff			$ 26,025				$ 26,025
Douglas M. Dunn			$ 26,025				$ 26,025
Richard Morgan							
Gary Rado			$ 8,675				$ 8,675

Narrative to Director Compensation

In January 2007, non-employee directors received options to purchase 100,000 shares of common stock per year for their board service, pro-rated for the quarters in the year they served. Employee directors do not receive compensation for serving on the board of directors. The Chairman of the Audit Committee received an additional 50,000 options per year, pro-rated for the quarters in the year he served, and $1,000 per month. Depending on the anticipated workload and organization, the board of directors may elect to increase the compensation for committee members and/or all non-executive board members.

Compensation Disclosure and Analysis

Our compensation discussion and analysis addresses the following topics:

- The members and role of our Compensation Committee;
- Our compensation-setting process; and
- Our compensation decisions for fiscal year 2006.

Raymond Skiptunis and Douglas Dunn are the members of our compensation committee. The primary goals of the compensation committee are to (i) recommend to the board of directors the compensation level of the executive officers; (ii) review and make recommendations to our board of directors with respect to our equity incentive plan; and (iii) establish and review general policies relating to compensation and benefits of our employees.

Currently, the base salaries of both of our executives are determined by their employment contracts. However, the compensation committee reviews the many factors in recommending stock option and year end bonus awards of our executives. Among the factors that are part of the compensation committee s recommendation are:

- the Company s overall performance;
- the individual executive s performance and responsibilities; and
- market conditions that affect executive salary.

Table of Contents

The compensation decisions made in fiscal 2006 for the named executive officers were as follows:

We did not increase base salaries for the named executive officers, and there is no plan to do so in fiscal 2007.

In 2006, no bonuses were awarded to the named executive officers.

In 2006, only one then-named executive officer received a stock option grant, and these grants were subsequently canceled upon the executive officer s resignation.

Limitation of Liability and Indemnification of Directors and Officers

Our certificate of incorporation provides that the personal liability of our directors shall be limited to the fullest extent permitted by the provisions of Section 102(b)(7) of the General Corporation Law of the State of Delaware, or the DGCL. Section 102(b)(7) of the DGCL generally provides that no director shall be liable personally to us or our stockholders for monetary damages for breach of fiduciary duty as a director, provided that our certificate of incorporation does not eliminate the liability of a director for (i) any breach of the director s duty of loyalty to us or our stockholders; (ii) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) acts or omissions in respect of certain unlawful dividend payments or stock redemptions or repurchases; or (iv) any transaction from which such director derives improper personal benefit. The effect of this provision is to eliminate our rights and the rights of our stockholders through stockholders derivative suits on our behalf, to recover monetary damages against a director for breach of her or his fiduciary duty of care as a director including breaches resulting from negligent or grossly negligent behavior except in the situations described in clauses (i) through (iv) above. The limitations summarized above, however, do not affect our or our stockholders ability to seek non-monetary remedies, such as an injunction or rescission, against a director for breach of her or his fiduciary duty.

In addition, our certificate of incorporation and bylaws provide that we shall, to the fullest extent permitted by Section 145 of the DGCL, indemnify all directors and officers who we may indemnify pursuant to Section 145 of the DGCL. Section 145 of the DGCL permits a company to indemnify an officer or director who was or is a party or is threatened to be made a party to any proceeding because of his or her position, if the officer or director acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of such company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. We have entered into indemnification agreements with our directors and officers consistent with indemnification to the fullest extent permitted under the DGCL.

Table of Contents

We maintain a directors and officers liability insurance policy covering certain liabilities that may be incurred by our directors and officers in connection with the performance of their duties. The entire premium for such insurance is paid by us.

Insofar as indemnification for liabilities arising under the Securities Act, our directors and officers, and persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

STOCK OWNERSHIP

The following table sets forth information as to our shares of common stock beneficially owned as of March 31, 2007 by (i) each person known by us to be the beneficial owner of more than five percent of our outstanding common stock, (ii) each of our directors, (iii) each of our executive officers named in the Summary Compensation Table and (iv) all of our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Shares Owned	Percent of Shares Owned(10)
Steven Strasser, CEO, Chairman of the Board	15,706,240(2)	22.78%
John (BJ) Lackland, CFO, Director	1,607,500(3)	2.33%
Raymond J. Skiptunis, Director	397,824(4)	Less than 1%
Gary Rado, Director	150,000(5)	Less than 1%
George Boyadjieff, Director	2,050,000(6)	2.97%
Douglas Dunn, Director	100,000(7)	Less than 1%
Richard Morgan, Director	25,000(8)	Less than 1%
Summit Energy Ventures, LLC	8,803,901(2)	12.77%
Sarkowski Family L.P.	5,429,689	7.88%
Ron Boyer	4,364,154	6.33%
Commerce Energy Group	3,838,333(9)	5.57%
All Executive Officers and Directors as a Group (6 persons)	20,036,564	29.06%

(1) Information in this table regarding directors and executive officers is based on information provided by them. Unless otherwise indicated in the footnotes and subject to community property laws where applicable, each of the directors and executive officers has sole

voting and/or investment power with respect to such shares. The address for each of the persons reported in the table other than Commerce Energy Group is in care of Power Efficiency Corporation at 3960 Howard Hughes Pkwy, Ste 460, Las Vegas, Nevada 89169.

(2) Includes 8,803,901 common shares and common shares subject to options and warrants exercisable within 60 days of the date hereof held by Summit, in which Steven Strasser is one of two members, and 5,735,671 common shares subject to options and warrants which are presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Strasser was also granted an additional

2,221,449 common shares subject to options and warrants which will become exercisable after 60 days of the date hereof. Mr. Strasser s options and warrants expire on various dates from May, 2010 through November, 2015.

(3) Includes 1,607,500 common shares and common shares subject to options and warrants presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Lackland was also granted an additional 980,000 common shares subject to options which will become exercisable after 60 days of the date hereof. Mr. Lackland s options and warrants expire on various dates from May, 2010 through November, 2015.

(4) Includes 375,285 common shares subject to options and warrants presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Skiptunis options and warrants expire on various dates from October, 2014 through January, 2017.

(5) Includes 150,000 common shares subject to options presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Rado s options expire on various dates from September, 2015 through January, 2017.

(6) Includes 1,050,000 common shares subject to options and warrants presently exercisable or will become exercisable

within 60 days
of the date
hereof.
Mr. Boyadjieff s
options and
warrants expire
on various dates
from April,
2010 through
January, 2017.

36

Table of Contents

(7) Includes 100,000 common shares subject to options presently exercisable or which will become exercisable within 60 days of the date hereof. Dr. Dunn s options expire on various dates from May 2016 through January, 2017.

(8) Includes 25,000 common shares subject to options presently exercisable or which will become exercisable within 60 days of the date hereof. Mr. Morgan s options expire January, 2017.

(9) Includes 589,284 common shares subject to warrants presently exercisable or which will become exercisable within 60 days of the date hereof, as well as 3,249,049 common shares owned by Commerce s wholly owned subsidiary,

Commonwealth Energy Corporation. Commerce was also granted 98,995 common shares subject to warrants which will become exercisable after 60 days of the date hereof. Commerce s warrants expire on various dates from October 2009 through November 2011.

(10) The percentage for common stock includes all common shares subject to options and warrants exercisable within 60 days of the date hereof.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Relationship with EMTUCK, LLC and Northwest Power Management, Inc

On April 20, 2006 and May 19, 2006, we issued a total of $1,500,000 in senior secured debt to EMTUCK, LLC (EMTUCK), of which Northwest Power Management, Inc. (NPM) a management company wholly owned by Mr. Strasser, was the managing member. In connection with this transaction, we issued the members of EMTUCK 2,647,572 warrants to purchase our common stock, of which, Mr. Strasser received 1,323,786 warrants. The $1,500,000 in senior secured notes was paid off in full on November 30, 2006.

Relationship with Steven Strasser and Summit

Mr. Strasser, our CEO, owns 99.5% of Summit. As of December 31, 2006, Summit owned 6,803,901 shares of our common stock and 2,000,000 warrants to purchase common stock. The total voting power currently represented by Summit s ownership of our common stock and voting equivalents is 19%. In addition, Mr. Strasser owns beneficially 15,428,948 shares of common stock (including those shares beneficially owned by Summit) issued or issuable on the exercise of options and warrants exercisable within 60 days of December 31, 2006.

The following summarizes transactions resulting in the issuance of our equity securities to Summit over the last two years:

On July 8, 2005, Summit acquired 3,000,000 shares of our common stock for a total purchase price of $600,000. As part of the transaction, Summit converted a $300,000 note payable into common stock. Summit was also issued 1,500,000 warrants in connection with this transaction.

Also on July 8, 2005, Summit converted 2,785,969 shares of our Series A-1 Convertible Preferred Stock into 2,315,203 shares of common stock.

On November 30, 2006, Mr. Strasser acquired 1,166,668 shares of our common stock for a total purchase price of $350,000. As part of the transaction, Mr. Strasser was issued 583,334 warrants to purchase common stock.

Also on November 30, 2006 we issued $550,000 in secured debt to Mr. Strasser. Mr. Strasser was issued 687,500 warrants in connection with this transaction.

Table of Contents

Relationship with John (BJ) Lackland

Mr. Lackland, our CFO and COO, owns 0.5% of Summit. Mr. Lackland owns beneficially 1,517,500 shares of common stock, issued or issuable on the exercise of options and warrants exercisable within 60 days of December 31, 2006.

On November 30, 2006, Mr. Lackland acquired 100,000 shares of our common stock for a total purchase price of $30,000. Mr. Lackland was also issued 50,000 warrants in connection with this transaction.

Relationship with Commonwealth Energy Corporation and Commerce Energy Group

As of December 31, 2006, Commerce Energy Group, directly and through its wholly owned subsidiary, Commonwealth Energy Corporation, owns 3,249,049 shares of our common stock. The total voting power currently represented by Commonwealth s ownership of our common stock is 9%.

Until June of 2004, Commonwealth was a member of Summit. At that time Summit was reorganized and Commonwealth ceased to be a member of Summit. Summit received the common and preferred shares it now owns as a distribution in connection with the reorganization.

On April 28, 2005, Commerce Energy Group agreed to acquire an additional 180,723 shares of our Series A-1 Convertible Preferred Stock convertible into 150,000 shares of our common stock in consideration of the cancellation of a license agreement with us. As part of the transaction, we issued to Commerce Energy Group five-year warrants to purchase 75,000 shares of our common stock at an exercise price per share equal to twice the average closing bid price per share for the five days preceding the date the warrants are issued.

On July 8, 2005, Commerce Energy Group converted 1,928,310 shares of our Series A-1 Convertible Preferred Stock into 1,603,645 shares of our common stock.

On November 30, 2006, we issued $200,000 in secured debt to Commerce Energy Group. Commerce Energy Group was issued 250,000 warrants in connection with this transaction.

Agreements with Officers and Directors

We will enter and expect to continue to enter into indemnification agreements with our directors and officers. Generally, these agreements attempt to provide the maximum protection permitted by law with respect to indemnification. See Management Limitation of Liability and Indemnification of Directors and Officers.

SELLING STOCKHOLDERS

The following table provides certain information with respect to the selling stockholders beneficial ownership of our Common Stock as of April 26, 2007 and as adjusted to give effect to the sale of all of the shares of common stock offered by this prospectus. We do not know when or in what amounts the selling stockholders may offer for sale the shares of common stock pursuant to this prospectus. The selling stockholders may choose not to sell any of the shares offered by this prospectus. For purposes of this table, we have assumed that the selling stockholders will have sold all of the shares covered by this prospectus upon the completion of the offering.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a selling stockholder and the percentage of ownership of that selling stockholder, shares of Common Stock underlying outstanding shares of our Series A preferred stock, convertible debentures, options or warrants held by that selling stockholder that are convertible or exercisable, as the case may be, within 60 days from the date of this prospectus are included. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other selling stockholder. Each selling stockholder s percentage of ownership in the following table is based upon 38,516,676 shares of Common Stock outstanding as of May 9, 2007.

We will not receive any of the proceeds from the sale of our Common Stock by the selling stockholders.

Table of Contents

Except as noted below, none of these selling stockholders are, or are affiliates of, a broker-dealer registered under the Exchange Act.
Except as described below, to our knowledge, none of the selling stockholders within the past three years has had any material relationship with us or any of our predecessors or affiliates:

Selling Stockholder	Shares of Common Stock Beneficially Owned Prior to Offering (All exercisable within 60 days of Prospectus)		Number of Shares of Common Stock Registered for Sale (All exercisable within 60 days of Prospectus)	Total Number of Shares of Common Stock Registered for Sale	Shares of Common Stock Beneficially Owned After Offering	
	Number of Shares	Percent			Number of Shares	Percent
Nicholas Anderson (2)(10) 1536 208th Street Bayside, NY 11360	670,541	2%	66,000	66,000	604,541	2%
R. Scott Caputo 1155 Colonial Way Bridgewater, NJ 08807	4,285	*	4,285	4,285		0%
Norbert Mayer (2) 576 Grassy Hill Road Orange, CT 06477	15,000	*	15,000	15,000		0%
Scott Straka (2) Hitachi America Ltd. 50 Prospect Ave Tarrytown, NY 10591	14,284	*	14,284	14,284		0%
Leonard Bellezza (2) 79 Talltimber Rd. Middletown, NJ 07748	89,927	*	81,284	81,284	8,643	*
Art Marsh Blue Mountain Investments 7386 Fairway Lane Parker, CO 80134	1,428	*	1,428	1,428		0%
Raymond Skiptunis (2)(5) 4459 Via Bianca Ave.	360,324	1%	211,000	211,000	149,324	*

Las Vegas, NV 89141					
Charles Mataya 2 Locust Drive Helmetta, NJ 08828	30,000	*	30,000	30,000	0%
Timothy Franzen (2) 260 E. Flamingo Road, #311 Las Vegas, NV 89109	7,143	*	7,143	7,143	0%
Joan Dziena 865 UN Plaza, #16E New York, NY 10017	1,214	*	1,214	1,214	0%

Table of Contents

Selling Stockholder	Shares of Common Stock Beneficially Owned Prior to Offering (All exercisable within 60 days of Prospectus) Number of Shares	Percent	Number of Shares of Common Stock Registered for Sale (All exercisable within 60 days of Prospectus)	Total Number of Shares of Common Stock Registered for Sale	Shares of Common Stock Beneficially Owned After Offering Number of Shares	Percent
Richard Koch (2) 1604 Sound Watch Dr. Wilmington, NC 28409	154,666	*	106,354	106,354	48,312	*
Leon Mayer 547 McKinley Plymouth, MI 48170	50,000	*	50,000	50,000		0%
Ron Heagle 5533 Bilbao Place Sarasota, FL 34238	100,000	*	100,000	100,000		0%
Rick Pulford (2) 3000 Town Center, Suite 540 Southfield, MI 48075	168,551	*	25,000	25,000	143,551	*
John BJ Lackland (2) 3960 Howard Hughes Parkway, Ste 460 Las Vegas, NV 89169	1,407,500	4%	1,407,500	2,587,500		0%
Don Fields (2) 11642 Deer Forest Road Reston, VA 20194	200,000	1%	200,000	200,000		0%
Nils Weibull (2) 1689 W. Huron River Drive Ann Arbor, MI 48103	118,000	*	118,000	118,000		0%
Dan Koch	39,000	*	39,000	39,000		0%

301 W 10th St, Apt 203 Charlotte, NC 28202					
Brian Chan 3960 Hoawrd Hughes Parkway, Ste 460 Las Vegas, NV 89109	200,000	1%	200,000	300,000	0%
George Boyadjieff 18772 Colony Circle Villa Park, CA 92861	450,000	1%	450,000	450,000	0%
Gary Rado 16 Chesterfield Drive Warren, NJ 07059	100,000	*	100,000	100,000	0%
Herbert Soroca (6) Bear Stearns Securities Corp One Metro Center Brooklyn, NY 11201-3859	129,780	*	129,780	129,780	0%
Bradley Reifer (6) 123 Fraleigh Hill Rd. Millbrook, NY 12545	101,828	*	101,828	101,828	0%
Herman Gross 12 Jordan Drive Great Neck, NY 11021	1,153,850	3%	1,153,850	1,153,850	0%

Table of Contents

Selling Stockholder	Shares of Common Stock Beneficially Owned Prior to Offering (All exercisable within 60 days of Prospectus) Number of Shares	Percent	Number of Shares of Common Stock Registered for Sale (All exercisable within 60 days of Prospectus)	Total Number of Shares of Common Stock Registered for Sale	Shares of Common Stock Beneficially Owned After Offering Number of Shares	Percent
Allan Duffy 741 Bayshore Drive, Apt. 14 Fort Lauderdale, FL 33304	57,693	*	57,693	57,693		0%
Danny Guifoile (6) 650 5th Avenue, 6th Floor New York, NY 10019	30,894	*	30,894	30,894		0%
Patricia R. Schwarz 740 Pinehurst Way Palm Beach Gardens, FL 33418	57,693	*	57,693	57,693		0%
David H. Schwartz 740 Pinehurst Way Palm Beach Gardens, FL 33418	57,693	*	57,693	57,693		0%
Kevin Fisher Bear Stearns Security Corp One Metrotech Center North Brooklyn, NY 11201-3859	28,847	*	28,847	28,847		0%
Abacus Solutions 745 5th Avenue New York, NY 10151	100,000	*	100,000	100,000		0%
Justin Bellezza	1,000	&n				