POWER EFFICIENCY CORP
Form SB-2/A
December 14, 2005

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As filed with the Securities and Exchange Commission on December 14, 2005

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NUMBER 2 TO FORM SB-2

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

POWER EFFICIENCY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**22-3337365**
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification Number)

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

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

**STEVEN S. STRASSER
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
POWER EFFICIENCY CORPORATION
3900 PARADISE ROAD
SUITE 283
LAS VEGAS, NV 89109
TEL: (702) 697-0377
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(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

**Copy to:
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LAS VEGAS, NV 89109
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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(2)
Common Stock, Par value $0.001 per share	30,552,700	$0.30	$18,703,511	$2,201

(1) We are registering 30,552,700 shares of Common Stock based on the maximum number of shares that may be sold as described in detail below.

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

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

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

SUBJECT TO COMPLETION, DATED DECEMBER 14, 2005

PROSPECTUS

POWER EFFICIENCY CORPORATION
30,552,700 SHARES OF COMMON STOCK

This prospectus, or this Registration Statement, relates to the resale of up to 30,552,700 shares of our Common Stock owned by or issuable to the selling stockholders as follows:

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

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

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

(4) 8,267,489 shares issuable upon exercise of stock options under the Company's 2000 Stock Option and Restricted Stock Plan (the "2000 Plan"). This does not include 5,212,500 shares issuable upon the exercise of certain stock options under the 2000 Plan granted to Steven Strasser, our Chairman and Chief Executive Officer.

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

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

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

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

The date of this Prospectus is December 14, 2005

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PROSPECTUS SUMMARY

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

THE COMPANY

Our Business

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

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

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

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

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

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

Highlights

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

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

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

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

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

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

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

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

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

Selling Stockholders

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

THE OFFERING

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

STOCK OPTIONS

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

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

RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

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

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

In Note 3 to our December 31, 2004 financial statements included in this prospectus, our auditors have stated that these factors raise substantial doubt about our ability to continue as a "going concern". Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of liabilities that might be necessary should we be unable to continue in existence.

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

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

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

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

We had accrued payables, salaries and expenses totaling approximately $525,000 as of September 30, 2005. Approximately $130,000 of these accrued liabilities represents disputed claims, which we expect to partially pay, settle for equity, or dispute entirely. We expect to resolve an additional $110,000 of these accrued liabilities by exchanging them for equity or deferring all payments until we are cash flow positive. We estimate we will need to pay approximately $165,000 toward accrued liabilities, including old trade payables and payments of interest and principal on existing notes, from October 1, 2005 through September 30, 2006, and we intend to use a portion of the proceeds of the Placement for that purpose. The remainder of the accrued payables, salaries and expenses are primarily current trade payables and reserves. 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 Long-Term Debt Total $1,633,724, And This Indebtedness Is Subject To Acceleration.

In addition to the accrued payables, salaries and expenses described immediately above, as of September 30, 2005, we had $1,633,724 in aggregate principal amount of long-term debt outstanding. The specific components of this indebtedness are as follows:

We owe $1,589,806 in Senior Secured Notes. They mature in October 2006 ($1,464,806 in principal amount) and February 2007 ($125,000 in principal amount), bear interest at 15% (paid from funds we have placed in escrow) and are secured by a first lien on substantially all our assets. 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 September 30, 2005, we do not have any past due payments on these Senior Secured Notes.

We owe Stephen Shulman, a former officer, $30,648. The entire principal balance of this note will be due and payable if we cannot pay any past due amount within 10 days of a written notice that the payment is in default. As of September 30, 2005, we do not have any past due payments on this note.

We owe Richard Koch, a former officer, $13,270. The entire principal balance of this note will be due and payable if we cannot pay any past due amount within 7 days of a written notice that the payment is in default. As of September 30, 2005, we do not have any past due payments on this note.

We owe our former landlord in Livonia, Michigan $50,000 payable in 18 monthly installments of $2,778 per month, commencing November 17, 2005 and ending April 17, 2007, in settlement of our lease dispute litigation. We do not have any past due payments on this settlement.

On June 30, 2005, we owed Summit, a related party, $300,000. The entire principal balance of this note was converted into 1,500,000 shares of Common Stock and 750,000 Common Stock warrants in connection with the Placement.

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. The absence of a line of credit 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, although we may grant a senior security interest in our accounts receivable and inventory to obtain a line of credit in the ordinary course of business.

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 our capital needs and repay outstanding debt. We cannot guarantee that any additional financing will be available on 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 $150,000 to $175,000 per month, not counting payments to certain creditors, including accrued salaries and expenses, and may increase in the near-term future. We may need to issue additional equity to raise required funds, and as a result existing equity owners would be diluted.

It is anticipated that the net proceeds of $2,232,750 from the Placement will last for up 15 months. 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 our Common Stock.

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.

Prior to the issuance of shares pursuant to the Placement, our management owned 40% of our issued and outstanding shares of Common Stock and voting equivalents. Now, after the conversion of the Series A-1 Stock and further investment by management in this offering, management will own approximately 29% of our issued and outstanding Common Stock and voting equivalents. 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 owns twenty-nine percent (29%) of our Common Stock and voting equivalents. 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 COO and CFO. In addition, we sublease space and obtain office services at market rates from Northwest Power Management, Inc., which is wholly-owned by Mr. Strasser. These relationships are discussed in more detail under "Certain Relationships And Related Party Transactions" herein. As a condition to the closing of the Placement, all of the holders of our Series A-1 Stock, which includes Summit, agreed to convert their shares of Series A-1 Stock into shares of Common Stock. After such conversion and this offering, Summit owns twenty-nine percent (29%) of our Common Stock and voting equivalents.

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. Management believes this improved technology may place us in a competitively superior position. 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. We rely principally upon trade secret and patent law to protect this technology. We also regularly enter into confidentiality agreements with our key employees, customers and potential customers and limit access to and distribution of our trade secrets and other proprietary information. These measures may not be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially 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.

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 that 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, is unable to develop or acquire components in a timely fashion, our ability to achieve production yields, revenues and net income would be adversely affected.

We Are Commercializing Our Technology Which Will Involve Uncertainty And Risks Related To Market Acceptance.

We are commercializing our technology in order to gain market acceptance and demonstrate competitive advantages. 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 Are Changing Our Marketing Strategy.

Our products have been distributed primarily through 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 distributors 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 30 customers. Of this number, four customers accounted for approximately 60% of our gross revenues in 2004. These customers and their respective gross revenue percentages are KONE, Inc.-23%; The George Washington University-11%; The May Department Stores-13%; and Weibermachine-13%. In light of our intentions to focus our business on OEMs in the elevator, oil field pump and manufacturing industries, 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.

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.

We compete 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 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. However, management believes that, based upon their performance and price, our products are attractive to customers. 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.

A customer's decision to purchase the Power Commander® 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, BJ Lackland and Nicholas Anderson. Loss of the services of any 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, Lackland and Anderson, but such contracts do not guarantee that 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 lives of our two principal executive officers, Steven Strasser and Nicholas Anderson. 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, our 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 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 Power Commander® line of 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 2,228 shares were traded on an average daily trading basis for the 12 months ended September 30, 2005. If limited trading in our Common Stock continues, it may be difficult for investors once and if the Securities are registered, to sell the Securities. Also, the sale of a large block of our Common Stock could depress the market price of our Common Stock 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 unorganized, 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 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.

Penny Stock Regulations May Impose Certain Restrictions On Marketability On The Company's Securities.

The Commission 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.

Our 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 23,439,266 shares of our Common Stock outstanding on September 30, 2005, 1,596,828 shares are freely trading in the market place (the "Free Trading Shares"). The Free Trading Shares are comprised mostly of shares that were originally issued in transactions that were exempt from registration under the Securities Act; these shares were, over time, resold pursuant to Rule 144 as discussed below.

The remaining 21,842,438 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. In addition, we have issued 3,918,848 shares of Common Stock on conversion of our Series A-1 Stock in connection with the closing of the Placement, and such shares will also constitute restricted securities under Rule 144. These shares include the 6,803,901 shares held by Summit and Steven Strasser in the aggregate, and the 3,249,049 shares of Common Stock held by Commerce, the offer and sale of which is not being registered hereunder.

In addition, we have approximately 13,207,216 Common Stock purchase warrants outstanding and approximately 13,479,989 Common Stock options outstanding, including the warrants issued in connection with the recent private offer 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. These shares include the 2,000,000 warrants and 5,212,500 options held by Summit and Steven Strasser in the aggregate, and the 438,239 warrants held by Commerce, the offer and sale of which is not being registered hereunder.

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. If this Registration Statement we are obligated to file in connection with the Placement is declared effective, the selling stockholders hereunder will have an enhanced ability to sell shares, and any such sales may have a similarly adverse effect of the market price of our shares.

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

As of September 30, 2005, the Company has reserved 71,429 shares of Common Stock for issuance upon exercise of stock options or similar awards which may be granted pursuant to the 1994 Plan, of which options to purchase an aggregate of 66,232 shares are outstanding. Furthermore, as of the same date we have reserved 15,000,000 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 12,404,989 shares are outstanding. The outstanding options under the 2000 Plan have a weighted average exercise price of $0.36. As of September 30, 2005, we have issued warrants exercisable for 13,207,216 shares of Common Stock to financial consultants, investors, former employees and other business partners, having a weighted average exercise price of $0.44 and expiring on various dates from August 1, 2005 to December 31, 2011.

Exercise of these options and warrants issued by the Company 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.

Our 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.

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," "predicts," "potential," "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 $13,215,000 in proceeds.

We have used the net proceeds from the offer and sale of the Senior Secured Notes for payment of accrued debts, product development, marketing and sales expenses and general working capital required for operations. We currently plan to use any proceeds received from the exercise of options and warrants for the same purposes.

We need at least $150,000 to $175,000 per month to continue our current operations, not including the payment of accrued liabilities. 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.

PRICE RANGE OF COMMON STOCK

As quoted on the OTC Bulletin Board from January 1, 2003 though July 31, 2005, 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, 2003		
First Quarter	$ 8.82	$ 4.90
Second Quarter	$ 9.31	$ 4.97
Third Quarter	$ 8.96	$ 5.46
Fourth Quarter	$ 8.68	$ 3.64
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 (through December 14, 2005)	$ 1.10	$ 0.30

On December 14, 2005, the last day prior to the date of this prospectus for which information was practicably available, the closing price for our Common Stock was $0.51 per share. As of June 30, 2005, our Common Stock was held by 116 stockholders of record. Through the Offering which closed in two phases, on July 8 and August 31, 2005 we have added 71 new stockholders. 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.

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 our board's present policy to retain all earnings to provide for our future growth.

CAPITALIZATION

The following table, as of September 30, 2005 (as adjusted for the subsequent increase in the Company's authorized capital to 100,000,000 shares of Common Stock and 10,000,000 Shares of Preferred Stock), sets forth our capitalization under two scenarios. The first column illustrates our capitalization as of September 30, 2005. The second column illustrates our capitalization assuming all 7,250,000 Placement Warrants, all 3,450,000 Placement Agent warrants issued in connection with the Placement, all 1,981,517 warrants issued in connection with our private offering of Senior Secured Notes, and all 1,375,699 warrants issued to private investors and others were exercised.

	September 30, 2005	
	Actual	**As if Warrants Exercised**
	(Unaudited)	
Stockholders' Equity (Capital Deficit)		
Common Stock, $.001 par value; 100,000,000 shares authorized; 23,439,266 shares issued and outstanding; 37,496,482 shares issued and outstanding if all warrants exercised	$ 23,439	$ 37,496
Preferred Stock, $.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding		
Additional Paid in Capital	19,146,792	25,071,112
Accumulated Deficit	(17,085,578)	(17,085,578)
Total Stockholders' Equity	$ 2,084,653	$ 8,023,030

In the near future we expect to grant more options and warrants for employees, directors, former employees and creditors. These warrants and options are not included in the above table. Although the exact number of options and warrants to be issued is not presently known, we do not expect to issue more than 1.5 million additional options and warrants in the coming months, unless we are required to do so in connection with future efforts to raise capital.

SELECTED FINANCIAL INFORMATION

The selected statements of operations and balance sheet data for the nine months ended September 30, 2004 and 2005 are derived from our unaudited 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.

	Nine months ended September 30,	
	2004	**2005**
Statements of Operations:		
Revenues	$ 218,860	$ 221,737
Cost of Sales:		
Material, labor and overhead	130,320	186,983
Inventory obsolescence	29,484	
Total Cost of Sales	159,804	186,983
Gross Profit	59,056	34,754
Costs and Expenses:		
Research and development	290,766	313,318
Selling, general and administrative	1,288,327	1,073,528
Depreciation and amortization	55,510	17,360
Total Costs and Expenses, Net	1,634,603	1,404,206
Loss from Operations	(1,575,547)	(1,369,452)
Other income(expense):		
Interest income (expense)	(16,454)	(391,398)
Total Other Expense	(16,454)	(391,398)
Net loss	(1,592,001)	(1,760,850)
Basic loss per common share	$ (0.36)	$ (0.16)
Weighted average common shares outstanding	4,426,976	11,122,128
Balance Sheet Data:		
Cash	$ 1,093	$ 1,628,826
Working capital (deficit)	(1,586,270)	1,326,693
Total assets	2,426,425	4,033,153
Long-term liabilities		1,948,500
Total stockholders' equity	811,016	2,084,653

MANAGEMENT'S DISCUSSION AND ANALYSIS
OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with our consolidated 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 13 of this prospectus.

OVERVIEW

We generate 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.

We began generating revenues from sales of its patented *Power Commander*® line of motor controllers in late 1995. As of September 30, 2005, we had total stockholders' equity of $2,084,653 primarily due to our sale of 14,500,000 shares of Common Stock under the Offering, 2,785,969 shares of Series A-1 Stock to Summit in June of 2002 and April of 2005, and the conversion of notes payable of approximately $1,047,000 into 982,504 shares of Series A-1 Stock in October of 2003. In addition, in August 2000, we purchased the assets of Percon, formerly the largest distributor of our products. The transaction was accounted for as a purchase and our Statements of Operations includes Percon's results of operations since the date of acquisition. The consolidation of the operations of both entities allowed us 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 us as part of the asset sale.

RESULTS OF OPERATIONS: FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004.

REVENUES

Total revenues for the three months ended September 30, 2005, were approximately $76,000, compared to $65,000 for the three months ended September 30, 2004, an increase of $11,000 or 17%. This increase is mainly attributable to an increase in sales in the elevator and escalator market segment. Sales to a new international customer totaled approximately $20,000 during the three months ended September 30, 2005. Sales to two new international distributors totaled approximately $1,500 during the three months ended September 30, 2004. Revenue of $18,000 was recognized for a government grant received associated with development expenses related to a medium voltage product application during the three months ended September 30, 2004. For the three months ending September 30, 2005, there was no revenue from the government agency.

Total revenues for the nine months ended September 30, 2005, were approximately $222,000, compared to $219,000 for the nine months ended September 30, 2004, an increase of $3,000 or 1%. This increase is mainly attributable to an increase in sales in the elevator and escalator market segment. Sales to a government agency totaled approximately $50,000, and sales to a new international customer totaled approximately $20,000 during the nine months ended September 30, 2005. Sales to three international distributors totaled approximately $41,000 during the nine months ended September 30, 2004. Revenue of $30,725 was recognized for a government grant received associated with development expenses related to a medium voltage product application during the nine months ended September 30, 2004. During 2005, there was no grant money received.

COST OF PRODUCT REVENUES

Total cost of product revenues, which includes material and direct labor, allocated costs, and inventory obsolescence and other write-offs for the three months ended September 30, 2005 were approximately $60,500 compared to $26,000 for the three months ended September 30, 2004, an increase of $34,500 or 133%. As a percentage of product revenues, total cost of revenues increased to approximately 80% for the three months ended September 30, 2005 compared to approximately 56% for the three months ended September 30, 2004. The increase in the costs as a percentage of product revenues was primarily due an increase in the production of higher costing units in 2005. Also, allocated costs were approximately $4,400 for the three months ended September 30, 2005 compared to $5,300 for the three months ended September 30, 2004, a decrease of $900 or 17%. As a percentage of product revenues allocated costs were 6% for the three months ended September 30, 2005 compared to 11% for the three months ended September 30, 2004. The allocated costs as a percentage of product revenues decreased as the allocated costs were absorbed by a higher volume of product revenues. Material and labor costs as a percentage of product revenues increased to 74% for the three months ended September 30, 2005 compared to 44% for the three months ended September 30, 2004. This increase was largely due to outsourcing a greater portion of the manufacturing process, resulting in higher direct labor costs per unit and lower allocated costs as a whole in 2005.

Total cost of product revenues, which includes material and direct labor, allocated costs, and inventory obsolescence and other write-offs for the nine months ended September 30, 2005 were approximately $187,000 compared to approximately $160,000 for the nine months ended September 30, 2004, an increase of $27,000 or 17%. As a percentage of product revenues, total costs of product revenues decreased to approximately 84% for the nine months ended September 30, 2005 compared to approximately 85% for the nine months ended September 30, 2004. The decrease in the costs as a percentage of product revenues was primarily due to no charges to inventory for obsolescence and other write-offs for the nine months ended September 30, 2005 compared to $30,000 for the nine months ended September 30, 2004, offset by the Company utilizing an outsourced manufacturer for production in 2005. Also, allocated costs were approximately $19,000 for the nine months ended September 30, 2005 compared to approximately $42,000 for the nine months ended September 30, 2004, a decrease of $23,000 or 121%. As a percentage of product revenue allocated costs were 9% for the nine months ended September 30, 2005 compared to 22% for the nine months ended September 30, 2004. The allocated costs as a percentage of product revenues decreased as the allocated costs were absorbed by a higher volume of product revenues and because the Company began the use of a turnkey manufacturer.

OPERATING EXPENSES

Research and Development Expenses

Research and development expenses were approximately $187,000 for the three months ended September 30, 2005, as compared to approximately $82,000 for the three months ended September 30, 2004, a $105,000 or a 128% increase. This increase is mainly attributable to the Company's laboratory testing done for further product development which incurred a charge of $76,000 during the three months ended September 30, 2005.

Research and development expenses were approximately $313,000 for the nine months ended September 30, 2005, as compared to approximately $291,000 for the nine months ended September 30, 2004, a $22,000 or an 8% increase. This increase is mainly attributable to the Company's reorganizing and cost reduction program implemented in August and September of 2004, offset by a $76,000 charge during the nine months ended September 30, 2005, related to laboratory testing done for further product development.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were approximately $427,000 for the three months ended September 30, 2005, as compared to $378,000 for the three months ended September 30, 2004 an increase of $49,000 or 13%. The increase in selling, general and administrative expenses over the prior year was due primarily to an increase in payroll and payroll related costs, as well as recruiting fees for new employees in the third quarter, offset by the elimination of some fixed costs related to the reduction in workforce and the Company's decision to reorganize its operations in August and September of 2004.

Selling, general and administrative expenses were approximately $1,039,000 for the nine months ended September 30, 2005, as compared to $1,288,000 for the nine months ended September 30, 2004 a decrease of $249,000 or 19%. The decrease in selling, general and administrative expenses over the prior year was due primarily to a decrease in payroll and payroll related costs for the whole year, as well as the elimination of some fixed costs related to the reduction in workforce and the Company's decision to reorganize its operations in August and September of 2004.

Financial Condition, Liquidity, and Capital Resources: For the Nine Months Ended September 30, 2005

Since inception, the Registrant has financed its operations primarily through the sale of its equity securities, debt securities and using available bank lines of credit. As of September 30, 2005, the Registrant had cash of $1,626,826.

Cash used for operating activities for the nine months ended September 30, 2005 was $1,510,777 which consisted of: a net loss of $1,760,850; plus depreciation and amortization of $17,360, amortization of deferred financing costs of $63,982, bad debt expenses of $4,530, amortization of debt discount related to issuance of debt securities of $181,726, the settlement of a litigation for $93,853, warrants issued in connection with the issuance of debt, employment agreements, and consulting fees of $27,549; less increases in accounts receivable of $65,165, and prepaid expenses and other current assets of $20,916 and decreases in inventory of $25,373, restricted cash of $165,416, accounts payable and accrued expenses of $180,742 and accrued salaries and payroll taxes of $62,893.

Cash used for operating activities for the nine months ended September 30, 2004 was $737,639, which consisted of: a net loss of $1,592,001; plus depreciation and amortization of $55,510, bad debt expense of $5,493, inventory obsolescence reserve of $29,484, loss on sale of fixed assets of $31,226, decreases in accounts receivable of $14,010, inventory of $40,518, increases in prepaid expenses and other assets of $13,481, accounts payable and accrued expenses of $298,236, customer deposits of $6,983 and accrued salaries and payroll taxes of $386,383.

Cash used in investing activities for the nine months ended September 30, 2005 was $1,373 compared with $21,576 in the nine months ended September 30, 2004. The amounts for both years consisted of the purchase of fixed assets.

Net cash provided by financing activities for the nine months ended September 30, 2005 was $2,746,505 which consisted of: proceeds from the issuance of debt securities and notes payable of $125,000 and $300,000, respectively; proceeds from the issuance of equity securities of $2,741,378, partially offset by repayments of loans to former officers of $56,416 and the conversion of a note payable to equity of $300,000, and an increase in deferred financing costs of $63,457.

Net cash provided by financing activities for the nine months ended September 30, 2004 was $474,800, which primarily consisted of proceeds of $174,800 from the issuance of equity securities related to the Company's Regulation "S" stock offering and $300,000 of proceeds from the Summit Energy Ventures line of credit. Net cash provided by financing activities for the nine months ended September 30, 2004 was $474,800, which primarily consisted of proceeds of $184,800 from the issuance of equity securities related to the Company's Reg "S" stock offering and $300,000 of proceeds from the Summit Energy Ventures line of credit. This was partially offset by payments to a former officer of $10,000.

The Registrant expects to experience growth in its operating expenses, particularly in research and development and selling, general and administrative expenses, for the foreseeable future in order to execute its business strategy. As a result, the Registrant anticipates that operating expenses will constitute a material use of any cash resources.

Since capital resources are insufficient to satisfy the Registrant's liquidity requirements, management intends to sell additional equity or debt securities or obtain debt financing. The Registrant believes it can raise additional funds through private placements of equity. However, there are no assurances that sufficient capital can be raised.

Cash Requirements and Need for Additional Funds

The Registrant anticipates a substantial need for cash to fund its working capital requirements. In accordance with the Registrant's prepared expansion plan, it is the opinion of management that approximately $2.0 million will be required to cover operating expenses, including, but not limited to, marketing, sales and operations during the next twelve months. On July 8, 2005 and on August 31, 2005 the Company completed, in two phases, a stock offering for approximately $2.9 million in gross proceeds (see Note 5 to the Financial Statements), which netted approximately $2.2 million.

BUSINESS

General Background

We design, develop and market solid-state motor controllers, called "Performance Controllers," which reduce the amount of power consumed by alternating current induction motors in variable load applications. 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 brand names such as Power Commander® and Performance Controller, and by other companies under distribution agreements utilizing names such as EcoStart. These companies include the leading elevator/escalator manufacturers in the world, such as Otis Elevator Co (a division of United Technologies).

Description of Business

Formation

We were incorporated in Delaware in 1994. In our early years we focused on research and development and developing methods to validate the energy savings generated by our products. Field validation of the technology has resulted in an installed base of several thousand units in North America, Europe and Asia. High-profile product installations include the Smithsonian Museums, Honolulu International Airport, and Federated Department Stores. Our average revenue per three-phase unit sold is approximately $850; 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 that our diverse team gives us the ability to both grow and manage our business.

Government mandates to reduce energy, in response to high oil and gas prices, 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 Performance Controller in various configurations to meet a wide range of motor sizes. In addition to our original product family, we have developed a new platform "A" with an innovative design that reduces manufacturing cost and decreases the product's size to meet the needs of an expanded base of industrial applications. The Performance Controller 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 approximately 15 to 35 percent, in certain applications, as well as less wear and tear on the motor.

We believe the Performance Controller line offers a technologically superior energy reduction solution compared to competing products. In addition to the original technology that was licensed from NASA, the Performance Controller incorporates substantial proprietary design elements that are the result of our extensive laboratory and field testing. A United States patent has been issued for these engineering enhancements that will not expire until 2017. These refinements enable the Performance Controller 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 Performance Controller 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 gradually 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 Performance Controller currently works for three phase motors used primarily in commercial and industrial applications. The Controller 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 Controller allows full motor speed (RPM) to be maintained at all times, and provides the following major benefits to the customer:

1. Energy savings ranging from 15% to over 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 performance controller ranges from approximately $200 to more than $6,000, depending on the size of the motor it is intended to control.

The Industry

The world is presently feeling the effects of limited oil and gas supply. The increase in oil and gas costs has produced a new awareness of energy saving technology. 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. The August 14, 2003 power blackout in the eastern United States that resulted in a loss of power for over 40 million users dramatically illustrates the need to update the grid. Typical energy costs of $.07 per kilowatt-hour have increased to $.13 to $.15 per kWh in some areas. 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 lead to widespread acceptance of our technology.

Environmental Impact

The Performance Controller benefits the purchaser and society by reducing the consumption of electricity and therefore also reducing pollutants, including greenhouse gas emissions associated with the production of electricity.

The Market

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

Key Characteristics of Target Customer

1. Demographic Factors that contribute to our success:
   a. High retail electricity cost (generally > $0.08/kWh).
   b. Local utility or government offers "incentives" to save energy.
   c. Deregulated electricity market.
   d. Low national protectionism (i.e., allows imported technology).
   e. High national pressure to conserve energy.

2. Customer Factors that contribute to our success:
   a. Multiple paybacks of original investment, with each payback period shorter than the previous one as a result of anticipated electricity rate increases.
   b. Energy usage is a significant operating cost.
   c. Saving energy is a top-down management priority.
   d. Uses many constant-speed induction motors that are lightly loaded or cyclically loaded.
   e. Motor handles variable loads for extended periods of time (24/7 ideal application).
   f. Strives to be a "green" company (environmentally friendly).
   g. Government or other facility with mandated energy conservation targets.

Sustainable Competitive Advantage and Barriers to Entry

1. *Performance* Third-party testing has shown the Performance Controller to perform better than other energy-saving motor controllers, both in kilowatts saved and in reduction of inrush current. 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.

3. *Continuous Improvement* We continuously look for ways to reduce the manufacturing cost of our product family while introducing value-added features. Because the purchase decision depends largely upon saved capital expenditures from energy savings, maintaining the lowest "installed cost per kilowatt-hour saved" ratio provides us with a competitive advantage. By reducing the manufacturing cost and increasing the energy-saving performance we improve the payback value proposition.

4. *New Product Development* New products include a solid-state motor starter, a low cost single-phase energy saving motor controller, controllers adopted to handle higher voltage and a digital motor controller circuit.

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. Our distributors posses this level of technical skill. In addition, our distribution relationships with large OEM and electrical product partners provide access to many end customers.

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 Performance Controllers. The previous strategies (developed by previous management) relied on anticipated sales from strategic partners, the world's leading elevator and escalator companies, or attempted mass marketing to end users. Prior management did not have experience in the commercial application of energy-saving technologies. Therefore, the time and effort needed for these large strategic partners to approve and integrate our unique motor controllers into their product mix was underestimated, and the effects of mass marketing were overestimated. In our approach to large strategic elevator and escalator partners, concerns about rider safety led to a very cautious approach to embracing our technology. Fortunately, these safety standards have required us to develop a product with exceptional quality and reliability, and our strategic partners have accepted the product's safety. The reliability will help showcase the technological advances of the product as more installations are achieved and minimize future sales and marketing expense required for each dollar in sales. Progress is being made in this segment, as evidenced by recent sales programs with international hotel and department store operators and with major public power authorities. Our new and more comprehensive sales and marketing strategy has been designed to substantially increase the incentives available through marketing channels in order to drive unit sales volume. Increased volume enables manufacturing efficiencies that can be passed through in reduced pricing, further increasing customers' return on investment.

Our revised 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 the New York Power Authority ("NYPA") and our product has qualified for their incentive funding program. Under this program, NYPA provides financing for 100% of the installed cost of our units through low interest, long term loans to the end users. We believe incentive programs such as NYPA's 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, 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.

3. **The Petroleum Industry:** This focus involves growing sales to oil producers that operate oil pump jacks in the U.S. and, ultimately, in international markets. Electricity is a very significant cost in the extraction of oil from the ground and our product has shown an ability in initial tests to reduce the consumption of electricity on pump jacks by over 10%. We have started testing the product in this application and are currently pursuing a direct sales strategy to begin our sales in the oil industry. However, we may discover in the future that it is more beneficial to sell our products through one of many possible marketing channels, such as oil field equipment or service providers, original equipment manufacturers of pump jacks or other oil field equipment, or other marketing channels.

4. **Industrial Distributors:** This focus involves establishing relationships with distributors and sales representatives, both nationally and internationally, 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 the CSA Mark, 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.

Competition

We believe that the three phase Performance Controller 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 Performance Controller includes several direct competitors and the following:

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

Our products compete with other products which have energy savings capabilities similar to those of our products. Somar Environmental Systems Ltd. and Fairford Electronics Ltd., both of the United Kingdom, and Coast Energy Management Industries 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 our competitors' products by a significant margin. A chart depicting the results of the Medsker test is shown below. All three of the above manufacturers incorporate digital circuitry. Both of the British companies have very limited exposure in the United States. To our knowledge, none of these companies has a patented product that is UL, CSA and CE approved.

Further, our products may compete indirectly with "soft starters" produced by well-recognized firms such as Allen Bradley, ABB and Siemens. These devices typically range in price between $750 and $1,500 per unit. We believe that we offer the only "soft start" product which achieves an increased level of energy efficiency up to 35% for the attached motor.

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, 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, Lincoln Motors and General Electric, and are priced typically at $500 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 Performance Controller technology when adequate funds are available. Currently, we have under development a Solid State Energy Saving Motor Starter, and the single phase controller, both described below under "Proposed 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.

Proposed Products

1. *Solid State Motor Starter.* We have developed and tested, on a limited basis, a totally solid state motor starter that incorporates all the energy-saving and soft-start features of the Performance Controller. This solid state motor starter will incorporate all of the components typically required for a stand alone combination starter. These components include a circuit breaker, a contactor, and motor overload protection. In addition to these conventional components, our unit will also incorporate both our soft start and our energy saving features as differentiators from the competition. This unit will therefore have the capability to start the motor from complete stop, provide a soft start feature and provide ongoing energy savings while the motor runs. Almost all motor starters are electromechanical devices whose basic design has not changed for 50 years. Every three phase industrial or commercial motor throughout the world requires a motor starter.

Our Solid State Motor Starter offers the following advantages compared to its existing electromechanical counterpart:

1. It is smaller, lighter and more reliable,
2. It saves energy,
3. The soft-start and energy saving feature reduce wear and tear on the motor and the surrounding electrical and mechanical systems and,
4. Motor life is extended and reliability increased with reduced repair and maintenance costs.

Before being ready for commercial marketing, certain improvements have to be implemented, including but not limited to the following: (1) the unit needs to be redesigned to facilitate selection of power levels to match National Electrical Manufacturing Association ("NEMA") ratings for existing starters; (2) research must be conducted to design a unit for larger motor applications (10 to 200 horsepower range); and (3) the approval of Underwriters Laboratories must be obtained for each category of starter.

2. *Single-Phase Controller.* We have developed prototype single-phase controllers that currently provide energy savings without soft start capabilities. The goal of this project is to develop a product that can be installed on single-phase motors as a retrofit and also constitute an OEM product that can be installed at the factory. This product in prototype form has recently been tested on commercial coffee grinders with a large retail chain in Canada and on "slushie" machines. We believe, but have not extensively tested, that the technology should show positive results and energy savings on such appliances as clothes dryers and washing machines and some home refrigerators. We believe this single phase product will have significant applications in the appliance market, a very large market on its own.

Manufacturing and Facilities

Currently, we have an arrangement with a manufacturer in the electronics industry, Q.C. Corporation d/b/a System Controls located in Livonia, Michigan. System Controls manufactures units for us on an as-needed basis. Under the arrangement, we issue a purchase order to System Controls that outlines, among other things, the number of units to be manufactured and the price per unit. System Controls is under no obligation to accept the order and we are under no obligation to use System Controls for our manufacturing needs. We believe the arrangement with System Controls has been mutually beneficial to both parties and expect that the relationship will continue. We also believe that System Controls has the ability to meet our near-term production needs and we would be successful in finding alternative manufacturers should System Controls not be available to manufacture the product. We are currently qualifying a second contract manufacturer, Cole Industries, in Las Vegas, Nevada, and expect that this company will be able to manufacture our product successfully. We maintain offices only in Floral Park, New York, and Las Vegas, Nevada. Our administrative and sales will be headquartered in Las Vegas and R&D will be conducted at our facility in Floral Park.

Employees

As of September 30, 2005, we had 11 full-time employees. Relations with our employees are good.

Source of Supply and Availability of Raw Materials

The performance controller has been designed to use a majority of standard, off-the-shelf, easily acquired components. Such components have been used in over 3,500 units, and are items 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. The performance controller uses a combination of components. 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 30 customers. Of this number, four customers accounted for 60% of our gross revenues in 2004. These customers and their respective gross revenue percentages are KONE, Inc. (23%), The George Washington University (11%), The May Department Stores (13%), and Weibermachine (13%). In light of our intentions to focus our business on OEMs in the elevator, oil field pump and manufacturing industries, 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.

Intellectual Property

We currently rely on a combination of trade secrets, non-disclosure agreements and a patent 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 under the NASA License Agreement (described below), which were developed by us. We believe this patent protects our intellectual property position beyond the expiration of the NASA License Agreement because:

- the circuitry covered by our patent more effectively reduces the motor vibration; and

- the circuitry eliminates most of the balance and synchronization problems that are created by other energy saving motor controllers, including those that use the NASA technology.

We do not have patent protection outside of the United States and South Africa. In fact, we believe that a Chinese company has copied our technology, as well as our logo and general Website appearance, and is 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 have obtained U.S. Trademark registration of the Power Commander® mark.

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.

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 compliant. 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.

Deregulation of Electrical Energy and 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 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

Our corporate office space is located at 3900 Paradise Road, Suite 283, Las Vegas, Nevada 89109 and shared with one of our major investors, Summit, under a sublease with a management company wholly owned by our CEO and described under "Certain Relationships And Related Party Transactions" below. Upon the commencement of the new employment agreements with Messrs. Strasser and Lackland, effective June 1, 2005, we terminated this agreement and have assumed all payments for the office lease at a rental of $3,700 per month through the end of the lease term in May 2007. We also lease office space in Floral Park, New York for research and development activities on a month to month basis at a rental of $1,000 per month.

Legal Proceedings

We have recently settled litigation with the owner of the former office space in Livonia, Michigan. We vacated in 2004. Under 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 month. After application of our accrued loss contingency reserve, we recognized a loss of approximately $65,000 on our September 30, 2005 financial statements.

MANAGEMENT

Directors and Executive Officers

The following table provides information regarding our directors and executive officers:

Name	Age	Positions with the Company
Steven Strasser	56	Chairman of the Board and CEO
Nicholas Anderson	70	Chief Technology Officer, Founder, Director
John (BJ) Lackland	34	Chief Financial and Operating Officer, Director
Scott Lanning	42	General Manager of Sales
Richard Trussler	48	Director of Engineering
Gary Rado	65	Director
Eric Naroian	43	Director
Ray Skiptunis	61	Director
Richard Pulford	58	Director
Leonard Bellezza	56	Director

Steven Strasser Chairman and CEO. Mr. Strasser is Managing Director and founder of Summit, a private equity firm that focuses on investing in and acquiring companies that provide energy efficiency technologies and solutions. Previously, 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. The company developed sites for gas-fired power plants in the Northwest, including development of sites in excess of 3,000 MW, and sold three sites to nationally recognized power generating companies, totaling approximately 2,000 MW. Mr. Strasser's background is as an attorney and developer. He has received law degrees from the McGill University, Montreal Canada and the University of Washington, Seattle, Washington. He practiced law for approximately fifteen years, specializing in finance, real estate and international law both in Canada and the United States. Mr. Strasser is a former member of the Washington State Bar Association, and a current member of the American and Canadian Bar Associations.

Nicholas Anderson Chief Technical Officer, Director and Founder. Nicholas Anderson currently serves as our Chief Technical Officer, and he has been Director of Energy Services of Coyne Electrical Contracting, Inc., a major electrical service organization based in New York, New York. From 1988 to 1992, Mr. Anderson was the founder and CEO of Power Reducing Equipment, Inc., a company formed to develop products to reduce energy consumption in AC motors. During this period, Mr. Anderson obtained a patent for our technology, which patent was issued in April 1994 and transferred to us. From 1980 to 1988, Mr. Anderson was President of Commander Control, Inc., a subsidiary of Endless Energy Corporation, a conglomerate involved in the manufacture and sale of various energy saving products. In this capacity, Mr. Anderson was responsible for designing a complete line of motor controllers and for manufacturing various energy products including controllers in South Korea and Hong Kong. Mr. Anderson was also responsible for creating a worldwide distribution network for motor controllers including the U.S., the United Kingdom, Belgium, Greece, Japan, Hong Kong, South Korea, China, Venezuela and the Dominican Republic.

Mr. Anderson attended the City College School of Engineering, and received a certification in Electronics Design from Manhattan Technical Institute in 1957.

John (BJ) Lackland Chief Financial and Operating Officer and Director. Mr. Lackland is a Vice President and Director of Summit. Prior to joining Summit, BJ 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. BJ has also served as an independent consultant to Fortune 1,000 companies and startups. BJ also worked at The National Bureau of Asian Research, an internationally acclaimed think tank focusing on U.S. policy toward Asia, where he led economic and political research projects for Microsoft, Dell, Compaq and U.S. government agencies.

BJ earned an M.B.A. from the University of Washington Business School, an M.A. in 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.

Scott Lanning General Manager of Sales. Prior to joining Power Efficiency, Mr. Lanning was Manager/Salesman for Stusser Electric Company, Bellevue and Seattle, WA. He managed Stusser's Automation Technology Group and the Bellevue location where he built and inspired an outstanding sales team and returned the Bellevue location to profitability in less than one year. Mr. Lanning has been selling related equipment for almost twenty years in the Pacific North-west and held various sales and managerial positions at Telemecanique/Square D, Allen-Bradley Company and at Consolidated Electrical Distributors.

Mr. Lanning graduated with honors in the Electronics Program at Columbia Basin College, Pasco, WA, where he earned an A.S., Electronic Technology degree. He then went on to Central Washington University, Ellensburg, WA, where he earned a B.S. degree in Electronic Engineering Technology in 1988. While at CWU he completed all three fields of study Emphasis in Power and Control Systems, Communications and Power Distribution instead of only the one required. He is currently a resident of Kirkland, WA and will soon be relocating to Las Vegas.

Richard Trussler Director of Engineering. Mr. Trussler started work as a Manufacturing Engineer at Jaguar Rover Cars working on the "Mini-Metro", Land Rovers and Jaguars". Mr Trussler became a Mechanical Engineer at GEC, and as a Structural Engineering expert designing highly stressed equipment for "Upholder" Class Submarines and "Broadsword" Class Frigates. He designed the "HMC1172" MV Motor Starter, and taught himself electrical and electronic engineering, becoming a Senior Electrical Engineer working on "Gemdrive" VF Drives. As Section Leader, Mr. Trussler designed the "Gempower" UPS, and then as Project Manager, Developments designed "HWX" Medium Voltage Switchgear. He became Engineering Manager for Eaton Cutler-Hammer UK then took on product management as Commercial and Engineering Manager, ending up as Operations Manager Designate for the last 3 months in the UK. Mr. Trussler then moved to Eaton Electrical in Pittsburgh to create and manage the IEC Design Centre developing the "USP" modular enclosure system and using this "Trilogy" LV switchgear and control-gear and MV switchgear. When the centre was due to move to the UK, Mr. Trussler became Engineering Director at Kingston in Tennessee, developing electromechanical timers, range locks and icemaker motors for the appliance industry, before moving to PEC.

Mr. Trussler is a former volunteer Observer in the Royal Observer Corps, Royal Air Force, chosen to represent Coventry Group Control at the Corps stand down ceremony in London. He is a former member of the Rotary Club of Exmouth Raleigh, UK and then of the Rotary Club of Upper St. Clair in Pittsburgh.

Gary Rado Director. Mr. Rado was with Casio Inc. as an executive VP responsible for marketing and sales of the digital camera business. After 3 years he was promoted to President of the U.S. Company for 3 years. Mr. Rado retired in April of 2002. Before Casio Inc., 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.

Eric Naroian Director. Eric Naroian was elected to our board of directors on November 29, 2005. Mr. Naroian was previously the Executive Vice President of Sales and Marketing for Sanmina-SCI Corporation, a leading electronics manufacturing service provider. When Mr. Naroian joined the company in 1993, Sanmina had 25 sales persons and $60 million in sales, when he retired in 2004, he managed over 400 sales persons and the company had grown to over $10 billion in annual sales. Mr. Naroian, as the Senior Vice President, also helped Dynamic Details, Inc., a provider of time-critical electronics manufacturing services, become profitable by rapidly increasing sales and eventually going public. He received his B.S. in business administration from Northeastern University in 1987.

Raymond J. Skiptunis Director. Mr. Skiptunis has been a self employed business consultant since October of 2003. From November of 2001 through October of 2003, Mr. Skiptunis worked with us in various capacities, including consultant, CFO and interim CEO. From January of 1997 through November of 2001, Mr. Skiptunis was a self employed business consultant. Mr. Skiptunis earned a Bachelor of Science in Accounting from Rutgers University.

Richard D. Pulford Director. Mr. Pulford has been President of Corporate Strategies, Inc. since 1981. Corporate Strategies, Inc. provides investment banking services in the Great Lakes region.

Leonard Bellezza Director. Len Bellezza has provided leadership, direction, and consultation to the nation's largest retailers in the areas of merchandise management, product development, logistics, merchandise information systems, strategic sourcing, customer relationship management, store operations, category optimization and product development strategies. Mr. Bellezza has been a board member for three years. He is also a director for Abacus Solutions, LLC ("Abacus"), a premier consulting firm. Prior to joining Abacus, Mr. Bellezza was director in retail strategy and operations for Deloitte & Touche USA LLP ("Deloitte"). Prior to Deloitte, he worked at Frederick Atkins Inc. ("Atkins"), where he served as Vice President and a member of the Operating Committee. Atkins developed and sourced apparel and home store merchandise for 28 department store groups. While at Atkins, he directed operations, global logistics, and merchandise processing facilities, and technology. He developed an overall sourcing strategy with key agencies in the Far East, negotiated global logistics contracts with consolidators, freight forwarders and custom brokers. Prior to joining Atkins, Mr. Bellezza enjoyed a 20-year long career at Federated Department Stores, Inc., d/b/a Macy's ("Macy's"). At Macy's, he performed numerous roles, rising from training squad through various merchandising roles, to positions including Senior Vice President for Profit and Loss Strategy, Senior Vice President for Merchandise Processing, and Senior Vice President for Information Technology. He formulated the overall merchandise plan for Macy's in concert with the merchandising organization. This included vendor selection, private label development, buying line structure, and sales promotion while coordinating all activities of sales supporting elements

In the early 1990's, Mr. Bellezza was involved in an enforcement proceeding with the Commission for insider trading. Mr. Bellezza received investment advice from a business associate between August 1989 and September 1991, relating to several stocks including Norton, Stanley, Square D, Time Warner, and Motel Six. In 1992, the Commission determined that the information he had received constituted information not available to the general public and that he had engaged in stock transactions while in possession of that information. On September 17, 1992, Mr. Bellezza agreed to pay back gains of approximately $51,000. Later, the Commission and Mr. Bellezza reached an agreement whereby he would pay a penalty on those gains of approximately $150,000. The penalty was paid in installments with the final installment being paid in 1997.

Mr. Bellezza is a veteran of the U.S Army, serving as both a Tactical Intelligence Officer and Armor Unit Commander. He received a B.A. in Economics and an M.B.A. from Rutgers University.

Board Committees

Our board of directors has an audit committee and a compensation committee. Our board of directors may also establish in the future any other committees that it deems necessary or advisable.

Audit Committee. Currently our entire board of directors is functioning as our audit committee. 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 proceeds;
- 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.

Up to December 31, 2004, we had a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act or 1934, as amended (the "Exchange Act"). Until recently, Mr. Lackland was the sole member and chairman of the committee. In September 2004, Mr. Lackland became our Interim Chief Financial Officer and therefore had to resign from the audit committee. At that time, Mr. Rick Pulford, a director, became the sole member of the audit committee on a temporary basis, and as of December 31, 2004, Mr. Pulford was the committee's sole member. As Mr. Pulford agreed only to serve on the audit committee on a temporary basis, on February 10, 2005, the board of directors dissolved the audit committee because there were no independent directors willing to serve on it. The board of directors desires to locate and form an audit committee as soon as willing and qualified directors can be identified and retained. Until that time, the board of directors as a whole has taken on the audit committee functions.

Compensation Committee. The sole member of our compensation committee is Raymond Skiptunis, who qualifies as an independent director under current NASDAQ and SEC rules and regulations. Mr. Skiptunis chairs the compensation committee. 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.

Compensation Committee Interlocks and Insider Participation

Except for Mr. Skiptunis' prior service as an officer which terminated in October 2003, none of the members of our compensation committee has at any time been one of our officers or employees. None of our executive officers currently serves, or in the past year has served, 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.

Director Compensation

Non-employee directors have recently received 100,000 options per year for their board service.

Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid to our named executive officers during the fiscal years ended December 31, 2004, 2003 and 2002. 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, 2004.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards
Name and Principal Position	**Fiscal Year**	**Salary($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Securities Underlying Option/ Warrants**
Steven S. Strasser Chairman and Chief Executive Officer	2004 2003 2002	$ 60,000			600,000
Nicholas Anderson Director and Chief Technical Officer	2004 2003 2002	$ 60,000* 156,000 138,000			500,000
Richard Koch Director and Former Chief Executive Officer	2004 2003 2002	$ 240,000** 240,000			 21,354

*

Mr. Anderson signed a salary reduction agreement on October 20, 2004, reducing his salary from $174,000 to $60,000 effective September 1, 2004.

**

Mr. Koch resigned as Chief Executive Officer on August 27, 2004.

During 2004, we hired the following officers: Steven Strasser, Chief Executive Officer, $60,000; John (BJ) Lackland, Chief Financial Officer, $60,000. Along with Nick Anderson, the Company's Chief Technology Officer, these two individuals comprise our current executive officers. Effective June 1, 2005, the Company entered into employment agreements with the above officers with altered compensation plans. Please see the section below entitled "Compensation Agreements".

Options and Warrants

The following table shows all stock options granted during the nine months ended September 30, 2005 to the executive officers named in the Summary Compensation Table. These options were granted under our 2000 Plan established by our board of directors in March 2003 and September 2003, respectively. No stock appreciation rights were granted during 2004.

Option Grants in 2005 Fiscal Year

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(3)	
Name	Number of securities underlying Options Granted(1)	Percentage of Total Options Granted to Employees in Fiscal Year(2)	Exercise Price in Dollars per Share	Market Price on Date of Grant	Expiration Date	5%	10%
Steven Strasser	2,727,270	26.26%	$ 0.22	$ 0.20	5/30/10	$ 288,488	$ 814,768
Steven Strasser	1,885,230	17.45%	$ 0.20	$ 0.20	5/30/15	$ 237,122	$ 600,914
Nicholas Anderson	150,000	1.39%	$ 0.65	$ 0.31	2/09/15	$ (21,756)	$ 23,109
Nicholas Anderson	2,000,000	18.52%	$ 0.20	$ 0.20	5/30/10	$ 251,558	$ 637,497
John (BJ) Lackland	2,212,500	20.48%	$ 0.20	$ 0.20	5/30/15	$ 278,286	$ 705,231

(1) Each option vests over a three-to-five year period, with some already vested, and some yet to be vested. The exercise price of each option shown in the table was equal to or greater than the fair market value of the stock on the date of grant, and all options have ten-year terms. Vesting for each option accelerates in the event of a change of control, including a merger, sale or liquidation.

(2) In 2005, we granted options to purchase a total of 11,250,000 shares to employees, directors and consultants under our stock option plan.

(3) The potential realizable value of the options granted is calculated by multiplying the difference between the exercise price of the option and the market value per share of the underlying stock (assuming a 5% or 10%, as the case may be, compounded annual increase of the stock price from the date of grant to the final expiration of the option) by the number of shares underlying the options granted. The price appreciation assumptions are required disclosures under the rules of the Commission and are not to be viewed as any expectation or prediction by us of the future value of the underlying Common Stock.

The following table sets forth information concerning unexercised options and warrants and options held by our executive officers as of September 30, 2005, and their exercise of options and warrants during the nine months ended September 30, 2005.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

			Number of Securities Underlying Unexercised Options at 9/30/05		Value of Unexercised in the Money Options at 9/30/05	
Name	Shares Acquired or Exercised(#)	Value Realized($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Steven Strasser		$		4,612,500	$	$
Nicholas Anderson		$	75,000	2,075,000	$	$
John (B.J.) Lackland		$		2,212,500	$	$

Employment Contracts, Termination of Employment Arrangements and Change of Control Agreements

On June 1, 2005, we entered into employment agreements with Steven Strasser as Chief Executive Officer, BJ Lackland as Chief Operating and Financial Officer, and Nicholas Anderson as Chief Technology Officer. The term of each agreement will be 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 executive:

Name		Salary(1)	Bonus	Common Stock Options(6)
Steven Strasser	$	275,000(2)	(5)	3,000,000
BJ Lackland	$	175,000(3)		1,800,000
Nicholas Anderson	$	215,000(4)		2,000,000

(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) To be paid in cash.

(5) At the Board's discretion.

(6) Vesting evenly and quarterly over five years.

In the case of Mr. Anderson, the new employment agreement will supercede a previous employment agreement dated April 1, 2001, and salary reduction agreement entered into on October 20, 2004.

On November 7, 2002, we entered into an employment and deferred compensation agreement with Raymond Skiptunis, our Chief Executive Officer and Chief Financial Officer at the time. This agreement was terminated through a settlement and release agreement dated June 7, 2003. On January 8, 2004, we settled this obligation in full by issuing 15,397 shares of common stock to the former officer. This number of shares equaled the amount of deferred compensation owing under the agreement divided by our stock price on January 8th, 2004.

On June 12, 2003, we entered into an employment agreement with Richard Koch, a new Chief Executive Officer. In addition to a base salary, this individual also received 142,857 stock options, which will vest over a five-year period. On August 27, 2004, this Chief Executive Officer resigned, and we reached a settlement agreement that included the payment of some accrued wages and vacation in cash, some payment over time through an unsecured note with a principal balance of $25,334, and the issuance of 85,000 warrants, valued at approximately $22,000, for the purchase of our common stock in lieu of cash payment. The warrants expire five years from the date of issuance.

On September 15, 2003, the Company entered into an employment agreement with Keith Collin, a new Chief Financial Officer. In September 2004 this Chief Financial Officer resigned. We reached a settlement and consulting agreement with this then former officer that included payment of a back salary in cash over several months as well as payments of cash and 35,000 warrants, which were valued at approximately $9,000, for consulting services. In October 2004 the former officer also agreed to accept 15,000 warrants in lieu of some of the accrued wages. All warrants issued to this former officer expire five years after issuance.

Stock Option Plans

As of September 30, 2005, we had an aggregate of 15,071,429 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 September 8, 2003, the 2000 Plan was amended and restated. As of September 30, 2005, no restricted shares of Common Stock have been issued, and none of the outstanding options to purchase 12,404,989 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 15,000,000 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.

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.

The 1994 Plan

Prior to the adoption of the 2000 Plan, our board adopted a stock option plan reserving a total of 71,429 shares, which we refer to as the 1994 Plan. The 1994 Plan was adopted in 1994, however, no new grants from this plan are available. Options with respect to 66,232 shares are outstanding under the 1994 Plan as of December 31, 2004. The 1994 Plan provides for the issuance of non-statutory stock options to our employees, directors and consultants, with an exercise price equal to the fair market value of our Common Stock on the date of grant. All options granted under the 1994 Plan are fully vested. No additional options may be granted under the 1994 Plan.

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.

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.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Relationship with Northwest Power Management, Inc.

On November 18, 2004, our board of directors ratified an agreement with Northwest Power Management, Inc. ("NPM"), a management company wholly owned by Steven Strasser, our current Chief Executive Officer. Under the agreement, we paid NPM a fee of $20,000 per month which is applied to a rental under a sublease of office space in Las Vegas, Nevada from NPM to us, including general office expenses and utilities, and the then current salaries and benefits for our Chief Executive Officer and Interim Chief Financial Officer. The parties agreed to terminate this agreement effective June 1, 2005 in connection with the Employment Agreements for Mr. Strasser and Mr. Lackland.

Relationship with Summit, Steven Strasser and John (BJ) Lackland

Mr. Strasser, our CEO, owns 99.5% of Summit. Mr. Lackland, our COO and CFO, owns 0.5% of Summit. Summit owns 6,803,901 shares of our Common Stock and voting equivalents. The total voting power currently represented by Summit's ownership of our Common Stock and voting equivalents is 29%. In addition, Summit owns 2,000,000 shares Common Stock, Mr. Strasser owns beneficially 854,125 shares of Common Stock, and Mr. Lackland owns beneficially 378,125 shares of Common Stock, in each case issuable on the exercise of options and warrants exercisable within 60 days of September 30, 2005.

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

On October 30, 2003, Summit converted a revolving credit note evidencing $1,046,896 in outstanding principal and interest into 982,504 shares of Series A-1 Stock.

On February 18, 2004, Summit acquired 3,124,102 shares of Common Stock through exercise of a warrant issued to Summit in connection with the above revolving credit transaction and an investment in Series A-1 Convertible Preferred Stock I June 2002. The exercise price was the cancellation and surrender of the warrant.

On April 28, 2004, Summit acquired 1,204,819 shares of our Series A-1 Stock, convertible into 1,000,000 shares of Common Stock, for a total purchase price of $200,000 in cash. As part of the transaction, we issued to Summit five-year warrants to purchase 500,000 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, 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.

Relationship with Commerce Energy Corporation and Commerce Energy Group

Commerce Energy Group, directly and through its wholly owned subsidiary, Commerce Energy Corporation, owns 3,249,049 shares of our Common Stock. The total voting power currently represented by Commerce's ownership of our Common and Convertible Preferred Stock is 14%.

Until June of 2004, Commerce was a member of Summit. At that time Summit was reorganized and Commerce 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 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.

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 September 30, 2005 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 23,439,166 shares of Common Stock outstanding as of September 30, 2005. We will not receive any of the proceeds from the sale of our Common Stock by the selling stockholders.

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:

	Shares of Common Stock Beneficially Owned Prior to Offering			Shares of Common Stock Beneficially Owned After Offering	
Selling Stockholder	**Number of Shares**	**Percent**	**Number of Shares of Common Stock Registered for Sale**	**Number of Shares**	**Percent**
Nicholas Anderson(2) 1536 208th Street Bayside, NY 11360	789,565	3%	531,259	258,306	1%
Anthony Caputo 1155 Colonial Way Bridgewater, NJ 08807	213,272	1%	18,831	194,441	1%
R. Scott Caputo 1155 Colonial Way Bridgewater, NJ 08807	25,713	*	25,713		
Gerard S. Difiore P.O. Box 23416 Newark, NJ 07198	4,285	*	4,285		
Norbert Mayer(2) 576 Grassy Hill Road Orange, CT 06477	31,427	*	31,427		
Scott Straka(2) Hitachi America Ltd. 50 Prospect Ave Tarrytown, NY 10591	14,284	*	14,284		
Doug Finch(2) 1300 West Franklin St. Jackson, MI 89109	11,428	*	11,428		
Leonard Bellezza(2) 79 Talltimber Rd. Middletown, NJ 07748	97,069	*	88,426	8,643	*
Art Marsh Blue Mountain Investments 7386 Fairway Lane Parker, CO 80134	1,428	*	1,428		
Raymond Skiptunis(2)(5) 4133 Demoline Circle Las Vegas, NV 89141	133,539	1%	111,000	22,539	*
Charles Mataya 2 Locust Drive Helmetta, NJ 08828	30,000	*	30,000		
Timothy Franzen(2)	7,143	*	7,143		

	Shares of Common Stock Beneficially Owned Prior to Offering	Shares of Common Stock Beneficially Owned After Offering
260 E. Flamingo Road, #311 Las Vegas, NV 89109		