

POWER EFFICIENCY CORP
Form 10-K
March 31, 2011

Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K

- x Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2010
- .. Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 000-31805

Power Efficiency Corporation
(Exact name of registrant as specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation
or Organization)

22-3337365

(I.R.S. Employer Identification No.)

839 Pilot Rd., Suite A
Las Vegas, NV
(Address of Principal Executive Offices)

89119
(Zip Code)

(702) 697-0377
(Issuer's Telephone Number, Including Area Code)

Securities Registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 Par Value
(Title of Class)

Check whether the Company: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ..

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 and Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes .. No ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or

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a smaller reporting company. See definition of "accelerated filer and large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2010, the aggregate market value of the common stock held by non-affiliates of the issuer was \$6,454,140. This amount is based on the closing price of \$0.19 per share for the Company's common stock as of such date.

On March 18, 2011 there were 49,005,733 shares of the Company's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

In this report, references to "we", "us" or "our" collectively refer to Power Efficiency Corporation.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report and the documents incorporated into this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), including, but not limited to, statements relating to the Company’s business objectives and strategy. Such forward-looking statements are based on current expectations, management beliefs, certain assumptions made by the Company’s management, and estimates and projections about the Company’s industry. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “forecasts,” “likely,” “predicts,” “projects,” “judgment,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict with respect to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may differ materially from those expressed, forecasted, or contemplated by any such forward-looking statements.

Factors that could cause actual events or results to differ materially include, but are not limited to, the following: continued market acceptance of the Company’s products; the Company’s ability to expand and/or modify its products on an ongoing basis; general demand for the Company’s products, intense competition from other developers, manufacturers and/or marketers of energy reduction and/or power saving products; the Company’s negative net tangible book value; the Company’s negative cash flow from operations; delays or errors in the Company’s ability to meet customer demand and deliver products on a timely basis; the Company’s lack of working capital; the Company’s need to upgrade its facilities; changes in laws and regulations affecting the Company and/or its products; the impact of technological advances and issues; the outcomes of pending and future litigation and contingencies; trends in energy use and consumer behavior; changes in the local and national economies; and other risks inherent in and associated with doing business in an engineering and technology intensive industry. See “Management’s Discussion and Analysis or Plan of Operation.” Given these uncertainties, investors are cautioned not to place undue reliance on any such forward-looking statements.

Unless required by law, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents that the Company files from time to time with the Securities and Exchange Commission (the “SEC”), particularly Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

GLOSSARY OF TERMS

Set forth below are technical terms used in the discussion in this document and explanations of the meanings of those terms.

Alternating Current (AC)	A type of electrical current, the direction of which is reversed at regular intervals or cycles; in the U.S. the standard is 120 reversals or 60 cycles per second; typically abbreviated as AC.
Ampere (amp)	A unit of measure for an electrical current; the amount of current that flows in a circuit; abbreviated as amp.
Current (Electrical)	The flow of electrical energy (electricity) in a conductor, measured in amperes.
Cycle	In an alternating current, the current goes from zero potential (or voltage) to a maximum in one direction, back to zero, and then to a maximum potential (or voltage) in the other direction. The number of complete cycles per second determines the current frequency; in the U.S. the standard for alternating current is 60 cycles.
Efficiency	Efficiency is the ratio of work (or energy) output to work (or energy) input, and cannot exceed 100 percent.
Energy	The capability of doing work.
Horsepower (HP)	A unit for measuring the power of motors or the rate of doing work. One horsepower equals 33,000 foot-pounds of work per minute or 746 watts.
Induction	The production of an electric current in a conductor by the variation of a magnetic field in its vicinity.
Induction Motor	The simplest and most rugged electric motor, it consists of a wound stator and a rotor assembly. The AC induction motor is so named because the electric current flowing in its secondary member (the rotor) is induced by the alternating current flowing in its primary member (stator). The power supply is connected only to the stator. The combined electromagnetic efforts of the two currents produce the force to create rotation.
Inrush Current	The current that flows at the instant of connection of a motor to the power source. Usually expressed as a multiple of motor full-load current.
Kilowatt (kW)	A standard unit of electrical power equal to one thousand watts.
Load	The demand on an energy producing system. The energy consumption or requirement of a piece or group of equipment.
Motor	A machine supplied with external energy that is converted into force and/or motion.

Power	The rate at which work is done, typically measured in watts or horsepower.
Power Factor	The ratio of watts to volt-amperes of an AC electric circuit.
Soft-start	Soft-start is the regulation of the supply voltage from an initial low value to full voltage during the starting process.
Torque (Motor)	The rotating force provided by a motor. The units of torque may be expressed as pound-foot, pound-inch (English system), or newton-meter (metric system).

Torque (Starting)	This torque is what is available to initially get the load moving and begin its acceleration.
Transformer	An electromagnetic device that changes the voltage of alternating current electricity; it consists of an induction coil having a primary and secondary winding and a closed iron core.
Voltage	The amount of electromotive force, measured in volts that exists between two points.
Watt	The amount of power required maintaining a current of one ampere at a pressure of one volt when the two are in phase with each other. One horsepower is equal to 746 watts.

PART I

Item 1. Description of Business.

(a) Business Development

Formation

Power Efficiency Corporation (the “Company”) was incorporated in Delaware on October 19, 1994. From inception through 1997, the Company was a development stage entity that was engaged in the design, development, marketing and sale of proprietary solid state electrical components designed to reduce energy consumption in alternating current induction motors. Alternating current induction motors are commonly found in industrial and commercial facilities throughout the world.

(b) Business of the Company

The Company’s Principal Products and Technology

In the late 1990s the Company commenced the sale of its initial product, which was based on analog technology and reduces energy consumption in alternating current induction motors in certain applications. This product has been known by several names, including the Power Commander® and Power Genius. In 2005 the Company began development of a digital product that would overcome many of the commercial limitations of the analog product. In 2008, limited models of the first-generation of the digital product were launched. In mid-2009 the Company launched a line of products up to 300 horsepower that had certification from Underwriters Laboratories (“UL”) and/or Canadian Standards Associate (“CSA”) and its second-generation digital circuitry was launched. Going forward, the Company has chosen to call its products Motor Efficiency Controllers (“MEC”).

The Company has developed patented and patent-pending technologies for effectively controlling the energy usage of an electric motor. The Company has been granted two United States Patents, the first 1998 and the second in 2010. Over the past four years the Company has undertaken extensive study and computer modeling of motors and their energy use, and has developed digital technologies for its controllers. In the process, the Company has discovered what it believes are significant innovations and has completed numerous patent filings around these new inventions in the US and other major world economies. The Company has branded these collective patented and patent pending technologies as E-SAVE Technology® and has a registered trademark on this name.

The Company has developed technologies and products for use on three-phase and single-phase motors. Three-phase power and motors are generally found in industrial and commercial buildings for larger applications than single-phase power and motors.

The Company’s marketing efforts initially focused on the three-phase version but it is also now marketing the single-phase product. The Company’s digital Three-Phase MEC is designed to have the following functionality:

1. Start a motor
2. Provide a soft start for the motor, bringing it gradually from rest to full speed
3. Provide various motor protection capabilities, such as sensing current overload, phase loss, under- and over-voltage, and more.
4. Save energy when the motor is at full speed but is less than fully loaded

The Company’s digital Single-Phase MEC is designed to have the following functionality:

1. Start a motor

2. Provide a soft start for the motor, bringing it gradually from rest to full speed
3. Save energy when the motor is at full speed but is less than fully loaded

Three-Phase and Single-Phase MECs are unique particularly because of their energy savings capabilities. The product reduces energy consumption by electric motors by electronically sensing and controlling the amount of energy the motor consumes. A motor with an MEC installed only uses the energy it needs to perform its work task, thereby typically reducing its energy use. The result is a reduction of energy consumption typically ranging from 15% - 35% in applications that do not always run at peak load levels. The amount of energy savings depends on a variety of factors, including the load on the motor and the motor's characteristics.

The Company's management believes its Motor Efficiency Controllers offer certain advantages over competing products for the following reasons:

- **Motor and Equipment Life:** The MEC extends motor life by reducing the stress and strain on the motor and surrounding equipment, and reduces the amperage to the motor, which results in cooler running.
- **Successful Utility and Customer Tests:** The MEC has been successfully tested by numerous electric utilities and customers. For example, Paragon Consulting Services, a contractor for Nevada Power Company, the electric utility for southern Nevada, performed 8 field tests on escalators and one on an elevator in major Las Vegas casinos. The tests resulted in average energy savings of over 30% on the escalators and 20% on the elevator.
- **Utility Incentive Financing:** The three-phase product has qualified for rebate incentive financing, most frequently called "rebates," from many electric utilities. This financing is generally paid to the end user of the MEC as an incentive to invest in energy saving products. As such, this financing effectively decreases the cost of the Company's MEC for end users. The utilities that have approved the Company's products for incentive financing include: NV Energy (formerly Nevada Power Company and Sierra Pacific Power Company), the Los Angeles Department of Water and Power, Southern California Edison, Sacramento Municipal Utility District, Anaheim Utilities, the New York Power Authority, Excel Energy and San Diego Gas and Electric.
- **Acceptance by Original Equipment Manufacturers:** The Company's products have been approved and installed by numerous original equipment manufacturers ("OEMs") in the escalator and granulator industries.

Three-Phase MEC

The Company initially focused its marketing efforts for the Three-Phase MEC in the elevator and escalator industry, although the Company is also actively marketing this product to industrial markets, such as recycling, mining, plastics, and manufacturing. Industries that operate equipment such as conveyor systems, crushing equipment, stamping presses, granulators, grinders, shredders and other motor driven equipment with varying loads, are believed to be viable target markets for the Three-Phase MEC. The Company is seeking to target markets with appropriate applications and market access, using direct sales, OEMs, distributors and independent representatives to address these markets.

Single-Phase Product

Like the Company's three-phase product described above, the Company's single-phase product reduces energy consumption in electric motors by sensing and controlling the amount of energy the motor consumes. Many motors commonly used in home appliances and other consumer goods are single-phase AC motors. Since the single-phase product is much smaller, has a much lower price point, and can be incorporated directly into a broad variety of applications, the Company believes it is a product most suitable for installation at the OEM level.

Product Development

The Company has devoted significant time and resources in the past several years toward developing "digital" versions of its three-phase and single-phase products. Through this process, the Company has transformed its technology so that its key technological breakthroughs are primarily incorporated in algorithms and software on a microchip. The Company believes the digital versions of its products have several distinct advantages over the older analog versions, including:

- **Motor starter and motor protection capabilities similar to standard solid state starters sold by large motor control companies.** The analog product could not start a motor and provided no motor protection, so the customer had to purchase these items at additional costs for components and installation. The digital MEC instead incorporates all these functions and therefore replaces a standard solid state motor control.
- **Increased ease of installation and reduced technical support requirements.** For example, instead of approximated and manual adjustments during installation, which can require technical support from the Company, the digitized

unit will allow more simplified and precise adjustments by customers and third party installers.

- Reduced product size, which is important for many installations.
- Input-output communications capabilities, so the device can communicate with external control systems.
- Increased functionality. The Company expects to be able to add new functionality to the products. These new functions may include such things as:
 - o Recording and reporting of actual energy savings;
 - o Prediction of maintenance problems by reading and reporting on changes in the motor's operating characteristics; and
 - o More secure intellectual property protection through the use of secured chips and software.

Marketing and Sales

The Company's marketing efforts have historically been concentrated in the elevator and escalator industry, primarily to OEMs of elevator and escalator equipment and end users that own this equipment. With UL approval in mid-2009, the Company began targeting industrial markets, such as mining, aggregates and plastics. End users of the Company's products include retail chains, hotels, airports, transit systems, and mining, plastics and manufacturing companies.

The Company sells products into the elevator and escalator market primarily to and through global OEM resellers. The elevator and escalator market is dominated by four global companies, Otis Elevator, Schindler, ThyssenKrupp and KONE. Collectively these companies are believed to have over 80% of the world market for new equipment and service contracts.

The Company signed formal supply agreements for North America with ThyssenKrupp and KONE in the middle of 2009 and with Schindler in late 2010. Many of these global OEMs have their own private label versions of the Company's products. These private label products are made by the Company exclusively for a particular OEM. The Company also sells to and completes projects with Otis Elevator, although there is no formal agreement.

In 2010, the Company began targeting the Asian operations of these global OEMs. In the first half of 2010, the Company completed a sale to the Sands China Limited, owner of the Venetian Macau, Sands Macau and Four Seasons Macau. This sale was the Company's first major project in Asia.

The Company is focused on penetrating industrial markets through independent representatives and distributors who will in turn sell to OEMs of industrial equipment and end users. The Company significantly increased these industrial market activities in late 2009 after receiving UL certification, since this certification is required by many industrial concerns.

In 2010, the Company signed a private label agreement with one of the largest industrial distributors in the U.S. This distributor began offering the Company's three phase product through its website in late 2010 and plans to include the Company's products in its 2011 catalog, its largest sales channel.

The Company's longer term goal is to be a high value supplier of technologies, with numerous OEMs and other resellers engaged with high volume sales and/or licensing agreements.

Manufacturing and Distribution

The Company's strategy is to assemble internally products that sell at lower volumes, such as MECs for very large motors, and to outsource the manufacturing of higher volume products, such as smaller units and circuit boards. The Company believes this strategy allows for high quality production, cost efficiencies, and the capability to rapidly increase production volumes. Management believes this strategy has the ability to meet the Company's production needs.

Competition

Power Efficiency believes the principal competitive factors in the Company's markets include innovative product development, return on investment from energy savings, product quality, product performance, utility rebate acceptance, established customer relationships, name recognition, distribution and price.

Three-Phase Competition. The Company's Three-Phase MEC's principal capabilities include being a motor starter, providing a soft start and protection for the motor, and reducing the motor's electricity consumption once the motor is at full speed. The Company believes its products are unique primarily because of the last capability – energy savings.

The first capabilities - starting, soft starting and protecting a motor - are commonly found in existing motor control products. There are billions of dollars of motor starters and soft starts sold every year. These products are typically manufactured and marketed by large motor control 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 the Company currently has or may reasonably be expected to have in the foreseeable future. This competition may have an adverse effect on the ability of the Company to commence and expand its operations or operate in a profitable manner.

There are also several small companies that reportedly make products that combine motor starting, soft starting and energy savings. The Company is unaware of any large company that makes a product of this nature. Although the Company has not completed any formal market study, the Company believes its Three-Phase MEC has the following competitive advantages over other products:

- It combines soft start features with energy savings features in a single integrated unit that is CSA, UL and CE certified and has achieved energy savings levels of up to 15% to 35% in independent, third party testing;
- It has proprietary technology, protected by two U.S. patents. Two additional patent filings on new innovations are pending approval of the U.S. Patent and Trademark Office;
- It has been tested extensively by utilities with documented energy savings and approval for incentive financing rebates;
- It is accepted by OEMs in the escalator and granulator industries.

Single-Phase Competition. There have been several companies that have, with different technologies, attempted to exploit this market due to the enormous opportunity in single-phase motor applications. These products include among others, “Green Plug” (voltage clamping), “Power Planner” (digital microchip) and “Econelectric” (power factor control). The Company has made numerous innovations in the past three years that it believes overcome many of the problems with these and the Company’s earlier designs. The Company has filed for a patent on these innovations and has reduced the product in size and cost to the point it can be sold to OEMs of applicable appliances and other equipment driven by single-phase AC motors.

Premium Efficiency Motors. Motors are rated by their efficiency at or near full load. However, when motors, including “premium efficiency motors” are lightly loaded, they become very inefficient. Management believes that the energy savings gain attributable to premium efficiency motors is materially lower than that of its MEC on underloaded motor applications. Furthermore, the Company’s products are able to save energy on underloaded premium efficiency motors, so that such motors and the Company’s technology are not mutually exclusive.

Source of Supply and Availability of Raw Materials

The MEC has been designed to use standard, off-the-shelf, easily acquired components, except for the custom made circuit boards. Such off-the-shelf components are basic items readily available worldwide at competitive prices. They come in standard and miniature versions and offer the Company latitude in product design and production. Although the Company believes 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 they will remain so readily available or at comparable prices.

Customers

The Company currently does business with approximately 35 customers. Of this number, four customers presently account for approximately 80% of the Company’s gross revenues. These customers and their respective gross revenue percentages are KONE – 32%; Schindler – 26%; Energy Systems Group – 14%; and Venetian Macau – 7%. The Company is, and may continue to be, dependent upon a limited number of customers. Accordingly, the loss of one or more of these customers may have a material adverse effect upon the Company’s business.

Patents and Proprietary Rights

The Company currently relies on a combination of trade secrets, non-disclosure agreements and patent protection to establish and protect its proprietary rights in its products. There can be no assurance these mechanisms will provide the Company with any competitive advantages. Furthermore, there can be no assurance others will not independently develop similar technologies, duplicate or “reverse engineer” the proprietary aspects of the Company’s technology.

The Company has two U.S. patents issued with respect to its products. The first, “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 the Company. Management believes this patent protects the Company's intellectual property position beyond the expiration of the NASA License Agreement. The second patent, "Method, System, and Apparatus for Controlling an Electric Motor," No. 7,768,221 B2, was issued on August 3, 2010 and expires in 2027. This patent covers the Company's core algorithm for controlling the energy use of a three phase motor. This patent has been filed in many major world economies.

The Company has filed three utility patents on new inventions associated with the development of its digital products, one of which has resulted in a granted patent from the U.S. patent Office. The two other patent filings are still pending approval by the U.S. Patent Office and other countries' patent offices. The Company is continually making improvements to its products and technologies, and anticipates making additional patent filings on new inventions when warranted.

The Company has obtained U.S. Trademark registration of the E-Save Technology® mark.

NASA License Agreement

The Company 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 the Company to pay royalties to NASA in connection with the Company's sale of products employing technology utilizing the licensed patents. The Company's 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 upon expiration of all of the licensed patents.

The Company believes its products and other proprietary rights do not infringe any proprietary rights possessed by third parties. There can be no assurance, however, that third parties will not assert infringement claims in the future, the defense costs of which could be substantial.

Government Regulation

The Company is not required to be certified by any government agencies. However, most of the Company's products are manufactured to comply with specific codes that meet industry accepted safety standards. Presently, many of the Company's products are certified to comply with UL 508 Industrial Control Equipment and the Company has also received certification meeting CSA (Canadian Standards Association) B44.1/ASME-17.5 Elevator and Escalator Electrical Equipment for many of the Company's products. Many of the Company's products are also CE marked. The Department of Commerce does not require the Company's technology to be certified for export. The Company's industrial code is 421610 and the SIC code is 5063.

Deregulation of Electrical Energy

Sales of the Company's product are not dependent on deregulation of the electrical energy market as the Company's product can be sold in regulated and deregulated markets.

Research and Development

The Company intends to continue its research and development effort to introduce new products based on its energy saving technology. Towards this end, the Company spent \$722,753 and \$956,004 in fiscal years 2010 and 2009, respectively, on research and development activities, virtually none of which was borne by customers. A major focus of the Company's foreseeable research and development activities will be on completing additional features and refinements to the three-phase and single phase products. The Company also anticipates the possibility of working with OEMs that make or purchase motor control equipment, in order to develop products with features or specifications they require.

Effect of Environmental Regulations

The Company is 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 the Company has had, or is expected to have, a material effect upon the capital expenditures, earnings, or competitive position of the Company.

Employees

At the date of this document, the Company employs seventeen people. Of this number, two are engaged in accounting and finance, three in operations and general management, four in sales and marketing, and eight in product research

and development, engineering and manufacturing. At such time as business conditions dictate, the Company may hire additional personnel for, among other things, increased engineering, marketing and sales. The Company has no collective bargaining agreements and considers its relationship with its employees to be good. The Company utilizes consultants in the areas of marketing, product and technology development and finance on a regular basis.

(c) Reports to Security Holders

The Company is a smaller reporting company, and as such files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q under the scaled disclosure requirements and Current Reports on Form 8-K on a regular basis with the SEC.

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Item 1A.

Risk Factors.

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".

The Company has suffered recurring losses from operations, and experienced a deficiency of cash of approximately \$2,700,000 and \$3,000,000 from operations for the years ended December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and December 31, 2009, we had net losses of \$3,275,960 and \$4,168,708, respectively. In our Auditors' Report on our December 31, 2010 financial statements included in this report, our auditors have stated that these factors raise substantial doubt about our ability to continue as a "going concern". Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of liabilities that might be necessary should we be unable to continue in existence.

The Company's 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.

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 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 acceptable commercial levels. We have not had a profitable quarter in the past three years and we cannot guarantee we will ever operate profitably. In addition, we have limited revenue. For the year ended December 31, 2010, our total revenues were \$576,797, and for the year ended December 31, 2009, our total revenues were \$283,990.

We Do Not Have A Bank Line Of Credit.

At the present time, we do not have a bank line of credit, which further restricts our financial flexibility.

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

The Company continues to have limited working capital and will be dependent upon additional financing to meet capital needs and repay outstanding debt. We cannot guarantee additional financing will be available on acceptable terms, if at all. We also need additional financing to raise the capital required to fully implement our business plan. Our current operating expense level is approximately \$250,000 to \$300,000 per month. Management is seeking to raise additional capital through equity issuance, debt financing or other types of financing. However, there are no assurances that sufficient capital will be raised.

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

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

As of the date of this report, management controls approximately seventeen percent (17%) of our issued and outstanding Common Stock and voting equivalents and as much as 42% of our Common Stock on a fully diluted basis. Additionally, Summit Energy Ventures, LLC (“Summit”) owns seven percent (7%) of our common stock and voting equivalents and eighteen percent (18%) of our Common Stock on a fully diluted basis, which is included in the above numbers. Summit is controlled by Steven Strasser, our Chairman and CEO, and he has the right to vote all shares owned by Summit. BJ Lackland, our CFO, owns a minority equity interest in Summit. As a result, these persons will have the ability, acting as a group, to greatly influence 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.

The relationships between Summit and our executive officers are discussed in more detail under “Certain Relationships And Related Party Transactions” herein.

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.

The Company depends upon its proprietary technology, relying principally upon trade secret and patent law to protect this technology. The Company also regularly enters into confidentiality agreements with key employees, customers, potential customers, and vendors and limits access to and distribution of trade secrets and other proprietary information. However, these measures may not be adequate to prevent misappropriation of our technology. Additionally, our competitors may independently develop technologies substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. We also are subject to the risk of adverse claims and litigation alleging infringement of intellectual property rights of others.

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

We Are Dependent On Third-Party Suppliers.

Although we believe most of the key components required for the production of our products are currently available in sufficient production quantities from multiple sources, they may not remain so readily available. It is possible that other components required in the future may necessitate custom fabrication in accordance with specifications developed or to be developed by us. Also, in the event that we, or our contract manufacturer, as applicable, are unable to develop or acquire components in a timely fashion, our ability to achieve production yields, revenues and net income can be expected to be adversely affected

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

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

We Have Limited Experience in Direct Sales.

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 efforts into new markets. Our future growth and profitability will depend upon the successful development of business relationships with additional OEMs, growth in direct sales, and sales through select resellers and reps to penetrate the market with our products.

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

The Company currently does business with approximately 35 customers. Of this number, four customers accounted for approximately 80% of our gross revenues in 2010. 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 in the electric motor energy savings market, many of which have longer operating histories, established markets and far greater financial, advertising, research and development, manufacturing, marketing, personnel and other resources than we currently have or may reasonably expect to have in the foreseeable future. This competition may have an adverse effect on our ability to expand our operations or operate profitably. The motor control industry is also highly competitive and characterized by rapid technological change. Our future performance will depend in large part upon our ability to become and remain competitive and to develop, manufacture and market acceptable products in these markets. Competitive pressures may necessitate price reductions, which can adversely affect revenues and profits. If we are not competitive in our ongoing research and development efforts, our products may become obsolete, or be priced above competitive levels. However, management believes, 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.

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

Loss Of Key Personnel Could Have Significant Adverse Consequences.

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

We Do Not Have "Key Man" Life Insurance.

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

Delaware Law Limits The Liability Of Our Directors.

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

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

The Company 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 and umbrella liability up to \$5,000,000. Any large product liability suits occurring early in our growth may significantly and adversely affect our ability to expand the market for our products.

RISKS RELATED TO OUR COMMON STOCK AND CAPITAL STRUCTURE

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

Prices of our common stock are quoted on the over the counter market. Approximately 18,000 shares were traded on an average daily trading basis for the 12 months ended December 31, 2010. If limited trading in our common stock continues, it may be difficult for shareholders to sell their shares. Also, the sale of a large block of our common stock could depress the market price to a greater degree than a company that typically has a higher volume of trading of its securities.

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

The Company's common stock is currently quoted on a limited basis on the over the counter market under the symbol "PEFF". The quotation of our common stock on the over the counter market does not assure that a meaningful, consistent and liquid trading market exists at all times, 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.

The market for our common stock may become inactive 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 over-the-counter market provides significantly less liquidity than a national securities exchange, and quotes for stocks included on the Over the Counter Markets are not listed in the financial sections of newspapers, as are those for major securities exchanges. 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 Of Our Securities.

The SEC has adopted regulations which generally define a "penny stock" to be any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, our common stock is subject to rules that impose additional requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document relating to the penny stock market. The broker-dealer must also disclose the commission payable

to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell the Company's securities and may affect the ability of investors to sell the Company's securities in the secondary market and the price at which such purchasers can sell any such securities.

Stockholders should be aware that, according to the Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

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

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

We May Never Pay Cash Dividends On Our Common Stock.

We have not paid or declared any dividends on our common stock and do not anticipate paying or declaring any cash dividends on our common stock in the foreseeable future.

Sales Of Common Stock Under Rule 144 May Adversely Affect The Market Price Of Our Common Stock.

Possible Resales under Rule 144. Of the 49,005,733 shares of the Company's common stock outstanding on the date of this report, 34,094,201 shares are freely trading in the market place (the "Free Trading Shares"). The Free Trading Shares are comprised mostly of shares (1) originally issued in private offerings of common stock from June through March 2007, that were later registered in the Company's S-1 Registration Statement (the "Registration Statement"), declared effective on October 10, 2008 and (2) shares originally issued in transactions exempt from registration under the Securities Act.

The remaining 14,911,532 shares of our common stock outstanding are restricted securities as defined in Rule 144 and under certain circumstances may be resold without registration pursuant to Rule 144. These shares include the 10,212,601 shares held by Summit and Steven Strasser in the aggregate, and 4,698,931 shares held by directors and insiders.

In addition, the Company had 49,253,084 common stock purchase warrants outstanding and 19,243,240 common stock options outstanding as of the date of this report, including the warrants issued in connection with the private offer and sale of preferred stock units in 2009 and 2010 (See Note 16 to the Financial Statements). The shares issuable on exercise of the options and warrants may, under certain circumstances, be available for public sale in the open market under the Registration Statement or pursuant to Rule 144, subject to certain limitations.

In general, pursuant to Rule 144, after satisfying a six month holding period: (i) affiliated stockholder (or stockholders whose shares are aggregated) 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 and (ii) non-affiliated stockholders may sell without such limitations, provided we are current in our public reporting obligations. Rule 144 also permits the sale of securities by non-affiliates that have satisfied a one year holding period without any limitation or restriction. Any substantial sale of the common stock pursuant to Rule 144 may have an adverse effect on the market price of the Company's shares.

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

As of the date of this report, 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 no options are outstanding. Furthermore, we have reserved 25,000,000 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 19,243,240 shares are outstanding. The outstanding options under the 2000 Plan have a weighted average exercise price of \$0.30. As of the date of this report, we have issued warrants exercisable for 49,253,084 shares of common stock to financial consultants, investors, former employees and other business partners, having a weighted average exercise price of \$0.32 and expiring on various dates from April 2011 to June 2015. Exercise of these options and warrants in the future will reduce the percentage of common stock held by the public stockholders. Furthermore, the terms on which we could obtain additional capital during the life of the options and warrants may be adversely affected, and it should be expected that the holders of the options and warrants would exercise them at a time when we would be able to obtain equity capital on terms more favorable than those provided for by such options and warrants.

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

The Company’s Certificate of Incorporation authorizes the issuance of “blank check” preferred stock with such designations, rights and preferences as may be determined from time to time by the board of directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the relative voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be used as a method of discouraging, delaying or preventing a change in control of the Company, which could have the effect of discouraging bids for the Company and thereby prevent stockholders from receiving the maximum value for their shares. From January 20, 2010 through July 30, 2010, the Company sold 4,375 shares of its Series C-1 preferred stock and 326,252 shares of its Series D preferred stock in private offerings of units (See Note 16 to the Financial Statements).

Item 1B. Unresolved Staff Comments.

None

Item 2. Description of Property.

The Company’s corporate office space is located at 839 Pilot Road, Suite A, Las Vegas, Nevada 89119. The office lease calls for rent of \$6,580 per month, plus an annual increase equal to 8%, through the end of the lease term in December 2012.

Item 3. Legal Proceedings.

The Company is currently involved in a lawsuit against a former director (the “Defendant”) who formed and became CEO of a company marketing products competitive to the Company’s. The Company filed this action against the Defendant for misappropriation of trade secrets, false advertising, defamation/libel and other claims primarily arising from the Defendants’ use of the Company’s confidential and proprietary information in the development and marketing of motor control products. The Company seeks a temporary restraining order, preliminary injunction, permanent injunction, damages, exemplary damages, attorneys’ fees and costs against the Defendants. The Company’s complaint was filed on August 6, 2009 in the U.S. District Court, District of Nevada.

Item 4. Removed and Reserved.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market for Common Stock

The Company's common stock is traded on the OTCQB tier of the over-the-counter securities market under the symbol "PEFF".

The following table sets forth the high and low bid information for quarterly periods in the two twelve month periods ended December 31, 2010 and December 31, 2009

Twelve months Ended December 31, 2010	High	Low
October 1, 2010 — December 31, 2010	\$ 0.18	0.10
July 1, 2010 — September 30, 2010	0.20	0.12

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April 1, 2010 — June 30, 2010	0.28	0.14
January 1, 2010 — March 31, 2010	0.32	0.20

Twelve months Ended December 31, 2009	High	Low
October 1, 2009 — December 31, 2009	\$ 0.45	0.20
July 1, 2009 — September 30, 2009	0.25	0.11
April 1, 2009 — June 30, 2009	0.30	0.12
January 1, 2009 — March 31, 2009	0.30	0.08

As of March 18, 2011, there were 172 shareholders of record of the Company's common stock.

The Company has not paid dividends on its common stock since its incorporation. The Company does not expect to pay cash dividends on its common stock in the foreseeable future. The Company intends to invest funds otherwise available for dividends, if any, on improving the Company's capital assets.

EQUITY COMPENSATION PLAN INFORMATION AS OF MARCH 31, 2011

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding warrants and rights (b)	Number of securities remaining available for future issuance under 2000 Stock Option and Restricted Stock Plan (excluding securities reflected in column (a))(c)
2000 Stock Option and Restricted Stock Plan approved by security holders	19,243,240	\$ 0.30	5,756,760
Equity compensation plans not approved by security holders	0	0.00	0
Total	19,243,240	\$ 0.30	5,756,760

The Company maintains a Stock Option Equity Compensation Plan. (See Note 12 to the Financial Statements)

Recent Sales of Unregistered Securities

During the period covered by this report we did not issue any securities that were not registered under the Securities Act of 1933, as amended, except previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K.

Item 6. Selected Financial Data

We are a "smaller reporting company" as defined by Regulation S-K and, as such, are not providing the information contained in this item pursuant to Regulation S-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

The Company generates revenues from a single business segment: the design, development, marketing and sale of proprietary energy efficiency technologies and products for electric motors. The Company's products, called Motor Efficiency Controllers ("MEC"), save up to 35 percent of the electricity used by a motor in appropriate applications. The Company's patented technology platform, called E-Save Technology®, saves energy when a

constant speed alternating current induction motor is operating in a lightly loaded condition. Target applications for the Company's three-phase MECs include escalators, MG set elevators, grinders, crushers, saws, stamping presses, and many other types of industrial equipment. The Company has also developed a single-phase MEC targeted at smaller motors, such as those found in clothes washers, dryers, and other appliances and light commercial equipment. The Company has two existing patent and two patents pending on E-Save Technology®.

Analog Three-phase MEC

The Company began generating revenues from sales of its patented analog three-phase MEC line of motor controllers in the late 1990's. The Company sold this product through the second quarter of 2009, and are currently providing repair services and parts for units in the field.

Digital Three-phase MEC

In 2005, the Company began development of a digital version of its three-phase MEC so that the product would be capable of high volume sales through existing distribution channels for motor controls. The digital version is much smaller in size and easier to install than the analog product, is driven by a powerful microprocessor and digital signal processor. The digital MEC is a complete motor control device, meaning it can start, stop, soft start and protect a motor, and is therefore capable of replacing standard motor starters and soft starts that do not save energy. The product can be installed by OEMs at their factories or it can be retrofitted on to existing equipment.

In 2008, the Company launched limited sales of the digital three-phase MEC and initiated testing of the digital product by several OEMs, primarily in the elevator/escalator industry. In the summer of 2009, the Company announced its first OEM agreements and that it had received Underwriters' Laboratories ("UL") certification on a full line of the Company's digital three-phase products. UL certification enables the Company to sell its digital three-phase products to industrial markets. The Company is developing a network of independent sales representatives to penetrate the industrial markets.

Digital Single-phase MEC

In 2006, the Company began development on its digital single-phase product. The digital single phase MEC is targeted at appliances, such as clothes washers and dryers. The Company has one patent pending on its digital single-phase MEC.

Capitalization

As of December 31, 2010, the Company had total stockholders' equity of \$3,939,067 primarily due to (i) the Company's sale of 326,252 shares of Series D Convertible Preferred Stock in a private offering in June and July of 2010, (ii) the Company's sale of 34,625 shares of Series C-1 Convertible Preferred Stock in a private offering in December 2009 through February 2010, (iii) the Company's sale of 140,000 shares of Series B Convertible Preferred Stock in a private offering from October of 2007 through January of 2008, (iv) the Company's sale of 12,950,016 shares of common stock in a private stock offering from November of 2006 through March of 2007, (v) the Company's sale of 14,500,000 shares of common stock in a private stock offering in July and August of 2005, (vi) the Company's sale of 2,346,233 shares of Series A-1 Convertible Preferred stock to Summit Energy Ventures, LLC in June of 2002 and (vii) the conversion of notes payable of approximately \$1,047,000 into 982,504 shares of Series A-1 Convertible Preferred Stock in October of 2003. All of the Company's Series A-1 Convertible Preferred Stock was converted into the Company's common stock in 2005.

Because of the nature of our business, the Company makes significant investments in research and development for new products and enhancements to existing products. Historically, the Company has funded its research and development efforts through cash flow primarily generated from debt and equity financings. Management anticipates that future expenditures in research and development will continue at current levels.

The Company's results of operations for the year ended December 31, 2010 were marked by a significant increase in revenues and a decrease in losses from operations that are more fully discussed in the following section "Results of Operations for the Years Ended December 31, 2010 and 2009". Sales cycles for our products are generally lengthy and can range from less than a month to well over one year, depending on customer profile. Larger OEM deals and sales to larger end users generally take a longer period of time, whereas sales through channel partners may be closed

within a few weeks. Because of the complexity of this sales process, a number of factors that are beyond the control of the Company can delay the closing of transactions.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

The following table sets forth certain line items in our condensed statement of operations as a percentage of total revenues for the periods indicated:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Revenues	100.0 %	100.0 %
Cost of revenues	74.5	78.8
Gross profit	25.5	21.2
Costs and expenses:		
Selling, general and administrative	433.2	933.0
Research and development	125.3	335.6
Depreciation and amortization	7.4	23.4
Total expenses	565.9	1,292.1
Loss from operations	(540.4)	(1,270.9)
Other expense	(15.7)	(175.6)
Provision for taxes	(11.9)	(21.4)
Net loss	(568.0)	(1,467.9)
Dividends paid or payable on Series B, Series C-1 and Series D Preferred Stock	612.2	447.5
Net loss attributable to common shareholders	(1,180.2)	(1,915.5)

REVENUES

Revenues for the year ended December 31, 2010, were approximately \$577,000, compared to approximately \$284,000 for the year ended December 31, 2009, an increase of \$293,000 or 103%. This increase is mainly attributable to an increase in sales in both the elevator and escalator market and the industrial market during the year ended December 31, 2010. Specifically, elevator and escalator sales grew to approximately \$422,000, which included one large sale to a marquee end user of approximately \$52,000 and marked increases in sales to two escalator and elevator OEMs, for the year ended December 31, 2010, from approximately \$184,000 for the year ended December 31, 2009. Industrial and other sales grew to approximately \$155,000 for the year ended December 31, 2010, from \$100,000 for the year ended December 31, 2009. The increase in elevator and escalator sales in the year ended December 31, 2010 is primarily due to the commercialization and increased market acceptance of the Company's digital products resulting from the OEM agreements the Company signed in 2009 and 2010. The digital product has been tested and approved for use on a retrofit and OEM basis by two elevator and escalator OEMs and on a retrofit basis by a third OEM. Industrial and other sales increased during the year ended December 31, 2010, due to an increase in international sales, which generally have higher margins than domestic sales. For the year ended December 31, 2010, industrial and other sales, which solely consisted of digital units, were approximately 27% of total revenues, escalator and elevator sales, which solely consisted of digital units, were approximately 73% of total revenues. For the year ended December 31, 2009, industrial and other sales, of which all but one sale consisted of digital units, were approximately 35% of total revenues, escalator and elevator sales, which consisted of a mix of digital units and analog units, were approximately 65% of total revenues.

COST OF REVENUES

Cost of revenues for the year ended December 31, 2010 were approximately \$430,000, compared to approximately \$224,000 for the year ended December 31, 2009, an increase of \$206,000, or 79%. This increase is mainly

attributable to an overall increase in sales of 103%, as described above. As a percentage of sales, total cost of revenues decreased to approximately 75% for the year ended December 31, 2010, compared to approximately 79% for the year ended December 31, 2009. The decrease in the costs as a percentage of revenues was primarily due to the increase in international industrial sales, which generally have higher gross margins. Also, the Company's production costs have decreased due to the switch from analog products to digital products, and the Company has planned product cost reductions that it expects will continue to reduce the cost of revenue in 2011. The decrease in product costs in 2010 was partially offset by the Company's decreased pricing in OEM agreements and new industrial sales channels, as well as one large sale with sharply reduced pricing to a marquee end user. The Company chose to make this highly discounted sale for strategic marketing purposes.

GROSS PROFIT

Gross profit for the year ended December 31, 2010 was approximately \$147,000, compared to approximately \$60,000 for the year ended December 31, 2009, resulting in an increase of \$87,000 or 144%. This increase is mainly attributable to increases in sales in both the elevator and escalator and the industrial markets during the year ended December 31, 2010 as described above. As a percentage of revenue, gross profit increased to approximately 26% for the year ended December 31, 2010, compared to approximately 21% for the year ended December 31, 2009.

OPERATING EXPENSES

Selling, General and Administrative Expenses

Selling, general and administrative expenses were approximately \$2,517,000 for the year ended December 31, 2010, compared to approximately \$2,650,000 for the year ended December 31, 2009, a decrease of \$133,000 or 5%. The decrease in selling, general and administrative expenses compared to the prior year was primarily due to a decrease in marketing expenses of \$18,000, legal and professional fees of \$42,000, consulting fees of \$25,000, and a decrease in stock based compensation costs related to FASB ASC 718 (SFAS 123(R)) of \$112,000. These decreases were partially offset by increases in travel expenses of \$34,000, and stockholders and public relations expenses of \$22,000.

Research and Development Expenses

Research and development expenses were \$723,000 for the year ended December 31, 2010, compared to approximately \$953,000 for the year ended December 31, 2009, a decrease of \$230,000 or 24%. This decrease is mainly attributable to a reduction in salaries and related payroll expense of \$168,000 due to changes in the Company's engineering workforce, recruiting expense of \$19,000 and an overall decrease in the Company's product development and certification costs related to the Company's digital controller for both its single-phase and three-phase products of \$30,000.

Change in Fair Value of Warrant Liability

Warrants issued in connection with a private offering of the Company's common stock completed on July 8, 2005 and August 31, 2005 are being accounted for as liabilities in accordance with FASB ASC 820-10, Fair Value Measurements and Disclosures (Prior authoritative literature: FASB EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-5"), issued January 2009), based on an analysis of the terms and conditions of the warrant agreements.

As a result, the fair value of these warrants (five year warrants to purchase up to 5,696,591 shares of the Company's common stock at an exercise price of \$0.44 per share), amounting to \$381,856 as of January 1, 2009, was reclassified from equity and reflected as a liability. The fair value of these warrants amounted to \$0 as of December 31, 2010 and \$828,827 as of December 31, 2009. The \$828,827 decrease in the fair value of these warrants during 2010 has been reflected as a non-operating gain in the Statement of Operations for 2010. The warrants were valued at each reporting period using the Black-Scholes pricing model to determine the fair market value per share. The warrants expired on various dates between July and August 2010.

Financial Condition, Liquidity, and Capital Resources

The Company has suffered recurring losses from operations, and experienced a deficiency of cash of approximately \$2,690,000 and \$3,000,000 from operations for the years ended December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and December 31, 2009, we had net losses of \$3,275,960 and \$4,168,708,

respectively. In our Auditors' Report on our December 31, 2010 financial statements included in this report, our auditors have stated that these factors raise substantial doubt about our ability to continue as a "going concern". Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of liabilities that might be necessary should we be unable to continue in existence.

The Company's 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.

Since inception, the Company has financed its operations primarily through the sale of its securities. In 2010, the Company received a total of approximately \$5,395,000 in gross proceeds from private placements of its Series D, Secured Notes and Series C-1 preferred stock and warrants to purchase common stock. In 2009, the Company received a total of approximately \$1,210,000 in gross proceeds from a private placement of its Series C and Series C-1 preferred stock and warrants to purchase common stock.

Net cash used for operating activities for the year ended December 31, 2010 was \$2,689,762 which primarily consisted of: a net loss of \$3,275,960; less depreciation and amortization of \$42,709, warrants and options issued in connection with services from vendors, and to employees and consultants of \$326,834, and noncash interest expense related to debt discount of \$818,541, decreases in inventory of \$64,134 and prepaid expenses of \$13,887, and increases in accounts receivable of \$39,923 and deposits of \$10,057. In addition, these amounts were partially offset by a gain on the sale of fixed assets of \$102, change in fair value of warrant liability of \$828,827, and increases in accounts payable and accrued expenses of \$146,692, deferred tax liability of \$49,946, and deferred rent of \$2,364.

Net cash used for operating activities for the year ended December 31, 2009 was \$3,002,386 which primarily consisted of: a net loss of \$4,168,708; less bad debt expense of \$8,149, depreciation and amortization of \$66,589, loss on the disposal of fixed assets of \$3,097, warrants and options issued in connection with services from vendors, and to employees and consultants of \$405,143, change in fair value of warrant liability of \$514,089, deferred tax provision of \$49,946, decreases in prepaid expenses and other current assets of \$10,728, and deposits of \$11,292, increases in accounts receivable of \$30,133 and inventory of \$35,233. In addition, these amounts were partially offset by decreases in deferred rent of \$3,750, and increases in accounts payable and accrued expenses of \$166,405.

Net cash used in investing activities for fiscal year 2010 was \$76,486, compared to \$32,882 in fiscal year 2009. The amount for 2010 consisted of the purchase of fixed assets of \$19,178, costs related to patent applications of \$58,108, and proceeds from the sale of fixed assets of \$800. The amount for 2009 consisted of the purchase of fixed assets of \$9,601, costs related to patent applications of \$24,174, and proceeds from the sale of fixed assets of \$893.

Net cash provided by financing activities for fiscal year 2010 was \$5,086,291, which consisted of proceeds from the issuance of equity securities of \$4,667,750, proceeds from the issuance of notes payable of \$868,541, partially offset by the repayment of notes payable of \$450,000.

Net cash provided by financing activities for fiscal year 2009 was \$1,182,819. The entire amount consisted of the net proceeds from the issuance of equity securities.

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

Cash Requirements and Need for Additional Funds

The Company anticipates a substantial need for cash to fund its working capital requirements. The opinion of management is that approximately \$2.5 - 3 million will be required to cover operating expenses, including, but not limited to, marketing, sales, research and operations during the next twelve months. If the Company is unable to obtain funding on reasonable terms or finance its needs through current operations, the Company will be forced to restructure, file for bankruptcy or cease operations.

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

Critical Accounting Policies and Estimates

Management's discussion and analysis of Power Efficiency Corporation's financial condition and results of operations are based upon the audited financial statements contained in this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an on-going basis, management evaluates estimates, including those related to the valuation of inventory and the allowance for uncollectible accounts receivable. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. We believe the following critical accounting policies require management to make significant judgments and estimates in the preparation of the Company's annual financial statements.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. The Company reviews inventory for impairments to net realizable value whenever circumstances arise. Such circumstances may include, but are not limited to, the discontinuation of a product line or re-engineering certain components making certain parts obsolete. Management has determined a reserve for inventory obsolescence is not necessary at December 31, 2010 or 2009.

Accounts Receivable

The Company carries its accounts receivable at cost less an allowance for doubtful accounts and returns. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Change in customer liquidity or financial condition could affect the collectability of that account, resulting in the adjustment upward or downward in the provision for bad debts, with a corresponding impact to our results of operations.

Fair Value Measurements:

FASB ASC 820-10 (SFAS No. 157) emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820-10 (SFAS No. 157) establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Company has applied FASB ASC 820-10 (SFAS 157) to measure the amount of the liability related to its derivative instruments at fair value and to determine fair value for purposes of testing goodwill for impairment.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Liabilities measured at fair value on a recurring basis include warrant liabilities resulting from an equity financing in 2005 (see Note 11). Total gains resulting for this fair value measurement are recorded as a component of other income in the statement of operations for the years ended December 31, 2010 and 2009. There were no purchases, sales, issuance or settlements, nor were there any transfers in and/or out of a level 3 classification. In accordance with FASB ASC 820-10 (SFAS 157), the warrant liabilities were being remeasured to fair value each quarter until they all expired. The warrants were valued using the Black-Scholes option pricing model, using observable and unobservable assumptions (Level 3) consistent with our application of FASB ASC 718 (SFAS 123(R)).

Revenue Recognition

Revenue from product sales is recognized when pervasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Returns and other sales adjustments (warranty accruals, discounts and shipping credits) are provided for in the same period the related sales

are recorded. The Company does not have any post shipment obligations nor customer acceptance provisions, but it does provide its customers a limited right of return for defective products under its two year warranty. Shipping and handling fees and related freight costs and supplies associated with shipping products to customers are included as a component of cost of goods sold. The Company accounts for sales returns as a component of its estimated warranty accrual, discounts as a reduction in revenue, and shipping credits as a reduction in its cost of goods sold. The Company does not grant price concessions to its OEMs, resellers or distributors.

Accounting for Stock Based Compensation

The Company accounts for employee stock options as compensation expense, in accordance with FASB ASC 718 (SFAS 123(R)). FASB ASC 718 (SFAS 123(R)) requires companies to expense the value of employee stock options and similar awards, and applies to all outstanding and vested stock-based awards.

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. The impact of applying FASB ASC 718 (SFAS 123(R)) approximated \$267,000 and \$405,000 in additional compensation expense during the periods ended December 31, 2010 and 2009, respectively. Such amounts are included in research and development expenses and selling, general and administrative expense on the statement of operations.

Product Warranties

The Company typically warrants its products for two years. Estimated product warranty expenses are accrued in cost of sales at the time the related sale is recognized. Estimates of warranty expenses are based primarily on historical warranty claim experience. Warranty expenses include accruals for basic warranties for products sold. While management believes our estimates are reasonable, an increase or decrease in submitted warranty claims could affect warranty expense and the related current and future liability.

Accrued warranty expenses at December 31, 2009 and 2010 consist of the following:

Balance, January 1, 2009	\$4,433
Additions	5,487
Deductions	(7,272)
Balance, December 31, 2009	2,648
Additions	6,327
Deductions	(6,895)
Balance, December 31, 2010	\$2,080

Provision for Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes pursuant to FASB ASC 740 Accounting for Income Taxes (Prior authoritative literature FASB SFAS No. 109, Accounting for Income Taxes ("SFAS 109")), which requires the recognition of deferred tax assets and liabilities for both the expected future tax impact of differences between the financial statement and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carryforwards. FASB ASC 740 (SFAS 109) additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. We have reported net operating losses for consecutive years, and do not have projected taxable income in the near future. This significant evidence causes our management to believe a full valuation allowance should be recorded against the deferred tax assets.

Goodwill

FASB ASC 350, Goodwill and Other Intangible Assets (Prior authoritative literature: FASB SFAS No. 142, Goodwill and Other Intangible Assets (“SFAS 142”)) requires that goodwill shall not be amortized. At a minimum, goodwill is tested for impairment, on an annual basis by the Company, or when certain events indicate a possible impairment, utilizing a two-step test, as described in FASB ASC 350 (SFAS 142).

The Company’s most recent impairment analysis was performed as of December 31, 2010, on the Company’s single reporting unit. Using the Company’s market capitalization (based on Level 1 inputs), management determined that the estimated fair market value substantially exceeded the Company’s book value. As of December 31, 2010, the Company’s market capitalization was \$15,037,141, and the Company’s book value was \$3,939,067. As of December 31, 2009, the Company’s market capitalization was \$13,896,024, and the Company’s book value was \$801,642. Based on this, no impairment exists as of December 31, 2010 and 2009. Circumstances may arise in which the Company will perform an impairment test in addition to its annual tests. A significant impairment could have a material adverse affect on our financial condition and results of operations.

Advertising:

Advertising costs are expensed as incurred. Advertising expenses were \$0 and \$4,553 for the years ended December 31, 2010 and 2009, respectively.

New Accounting Pronouncements:

In December 2010, the FASB issued ASU No. 2010-28, Intangibles (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28). ASU 2010-28 provides guidance on (i) the circumstances under which step 2 of the goodwill impairment test must be performed for reporting units with zero or negative carrying amounts, and (ii) the qualitative factors to be taken into account when performing step 2 in determining whether it is more likely than not that an impairment exists. ASU 2010-28 is effective for public entities with fiscal years beginning after December 15, 2010, with early adoption prohibited. Upon initial application, all entities having reporting units with zero or negative carrying amounts are required to assess whether it is more likely than not that impairment exists and any resulting goodwill impairment should be recognized as a cumulative-effect adjustment to opening retained earnings in the period of adoption. It is uncertain whether the adoption of ASU 2010-28 will have a material impact on the Company's financial condition or results of operations during fiscal year 2011.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are a "smaller reporting company" as defined by Regulation S-K and as such, are not providing the information contained in this item pursuant to Regulation S-K.

Item 8. Financial Statements and Supplementary Data.

The financial statements of the Company and the notes related to the financial statements, together with the independent registered public accounting firm's report thereon, are set forth beginning on pages F-1 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

(a) Disclosure Controls and Procedures.

Under the supervision and with the participation of its Chief Executive Officer, and Chief Financial Officer, management has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, the Chief Executive Officer, and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the Company's Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to the Company's management, including its Chief Executive Officer, and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting.

During the quarter ended December 31, 2010, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there

any significant deficiencies or material weaknesses in the Company's internal controls. Accordingly, no corrective actions were required or undertaken.

(c) Management's Report on Internal Control Over Financial Reporting

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Internal control over financial reporting is promulgated under the Exchange Act as a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition or disposition of our assets that could have a material effect on the financial statements.

Readers are cautioned that internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore, even effective internal control over financial reporting can only provide reasonable assurance with respect to the financial statement preparation and presentation.

Our management, under the supervision and with the participation of our CEO and CFO, has evaluated the effectiveness of our internal controls over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) as of the end of the period covered by this Report based upon the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, our management has made an assessment that our internal control over financial reporting is effective as of December 31, 2010.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding ICFR pursuant to a permanent exemption from auditor reporting on ICFR for non-accelerated filers provided by the Dodd-Frank Act of 2010. Management's report on ICFR was not subject to attestation by the Company's registered public accounting firm.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

INFORMATION ABOUT THE COMPANY'S EXECUTIVE OFFICERS AND DIRECTORS

The following table lists the current executive officers and directors and, in the case of directors, their length of service on the board. Each director is elected to hold office for a term expiring at the first annual meeting of stockholders held following such director's election and until his successor has been elected and qualified, or until his prior resignation or removal. All of the Company's current directors were either appointed by the plurality of votes cast by the holders of our common stock present, or represented, at the 2010 Annual Meeting of the Stockholders in May 2010, or elected by the board.

Name	Age	Director	Position
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		Since	
Steven Z. Strasser	62	2002	Chairman, Chief Executive Officer
John (BJ) Lackland	40	2002	Director, Chief Financial Officer, and Secretary
Douglas M. Dunn	68	2006	Director
Kenneth Dickey	69	2009	Director, Consultant
Herman Sarkowsky	82	2010	Director
Marc Lehmann	38	2010	Director
Raphael Diamond	36	2010	Director

Director Independence

Pursuant to SEC rules, a majority of our Board of Directors is comprised of independent directors, as defined under Section 121(A) of the New York Stock Exchange Constitution and Rules. Messrs. Dickey, Dunn, Sarkowsky, Lehman and Diamond are independent directors. Our audit committee is comprised of Messrs. Dunn and Lehmann; and our compensation committee is comprised of Messrs. Dickey and Sarkowsky, all of whom are independent directors.

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

From 1984 through 2000, Mr. Strasser was the founder and CEO of Northwest Power Enterprises. Over its seventeen-year history, Northwest Power Enterprises and its predecessor companies were involved in multiple aspects of the energy development business. Mr. Strasser received law degrees from McGill University, Montreal, Canada and the University of Washington, Seattle, Washington.

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

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

Dr. Douglas Dunn — Dr. Dunn has had an extensive career in research, business and academic leadership. Dr. Dunn served as dean of Carnegie Mellon University's Graduate School of Industrial Administration (now the Tepper School of Business) from July 1996 through June 2002, after which he retired. He began his career at AT&T Bell Laboratories, and his corporate experience culminated in senior positions as a corporate officer leading Federal Regulatory Matters, Regional Government Affairs, and Visual Communications and Multimedia Strategy for AT&T. Dr. Dunn is a board member of Universal Stainless & Alloy Products, Inc. (NasdaqNM: USAP) and Umami Sustainable Seafood, Inc. (OTCBB: UMAM.OB). He holds a Ph.D. in business from the University of Michigan, an MS in industrial management and a BS in physics from the Georgia Institute of Technology.

Kenneth Dickey— Mr. Dickey is the co-founder of The Institute of Strategic Mapping, and has spent his extensive career learning how superior results can be achieved from very average businesses and how to translate this winning process into an understandable, reusable format. Mr. Dickey has been retired since February 2002. From October

1999 to February 2002, Mr. Dickey was Vice President Sales-Marketing for Safetronics, where he developed sales and marketing strategies, completed Safetronic's acquisition of Fincor Electric, a manufacturer of variable frequency drives, and ran that business unit. Prior to this, Mr. Dickey was the President/CEO of Cleveland Motion Control, Dynact Inc., and Motion Science, Inc., from February 1997 to October 1999. Prior to this, Mr. Dickey served as Senior Vice-President Sales for Reliance Electric/Rockwell Automation from 1994 thru 1996. His responsibilities included Sales/Marketing with 76 sales offices (located in the Americas), which generated more than \$900 million in revenue. He also spent 9 years as the Operating General Manager of the Industrial Motor Division at Reliance Electric from 1986 to 1994. Mr. Dickey earned his Bachelor of Science degree in Finance from the University of Akron and an Executive MBA from Case-Western Reserve University.

Herman Sarkowsky - Mr. Sarkowsky is the President of the Sarkowsky Investment Corporation, a private investment firm for more than the past five years and serves on the Board of Directors of WebMD (NASDAQ), an online provider of medical information, and University of Washington Medical Center for more than the past five years. Mr. Sarkowsky has been in the home building and construction business since 1950. He developed the Key Tower in Seattle, was a partner in the Frederick and Nelson department store chain, and founded the United Homes Corporation in the 1960s. Mr. Sarkowsky has served as a member of the Washington State Racing Association and was a co-founder of two major sports franchises in the Pacific Northwest, the Portland Trail Blazers of the NBA and the Seattle Seahawks of the NFL.

Mr. Sarkowsky graduated in 1949 from the University of Washington with a B.A. in Business.

Marc Lehmann - Mr. Lehmann is the founder and Managing Partner of Riverloft Capital Management, L.P. since June 2010. Prior to Riverloft, Mr. Lehmann was a Partner at JANA Partners LLC from 2002 to June 2010. Prior to joining JANA Partners, Mr. Lehmann was an analyst at Appaloosa Management L.P. from 1999 to 2002. Prior to that, Mr. Lehmann had been an associate at NationsBanc Montgomery Securities, the Founder and President of Legacy Investment Research, and an Equity Research Associate at S.A.C. Capital Advisors, Morgan Stanley & Co. and Lehman Brothers. Mr. Lehmann graduated with an M.B.A. from the Wharton School at the University of Pennsylvania in 1999 and with a B.S. from the Stern School of Business, New York University in 1993.

Raphael Diamond - Mr. Diamond is the founder, President and CEO of Securing America's Future Energy (SAFE) since 2004. Mr. Diamond is also the President and CEO of the Electrification Coalition since 2009, a nonpartisan, not-for-profit group of business leaders committed to promoting policies and actions that facilitate the deployment of electric vehicles on a mass scale in order to combat the economic, environmental, and national security dangers caused by our nation's dependence on petroleum. Prior to his roles with SAFE and the Electrification Coalition, Mr. Diamond served as Deputy Director of Community Outreach on Senator Joe Lieberman's 2004 presidential campaign. Before that, Mr. Diamond was a Director at the Washington consulting firm Fontheim International LLC, working in all practice areas of the firm. Prior to his work in Washington, he worked with senior executives at Seagram Spirits and Wine Group on special projects. Mr. Diamond earned an Honours Bachelor of Arts from the University of Toronto in Peace and Conflict Studies and Political Science, as well as a Master of Arts in Law and Diplomacy from The Fletcher School.

Board of Directors and Committees of the Board

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

Our board of directors met eight times in 2010.

We do not have a policy that requires directors to attend our annual meetings of stockholders. All but one of the directors attended the 2010 Meeting of Stockholders on May 21, 2010.

Audit Committee

Douglas Dunn, and Marc Lehman currently serve on our audit committee. Messrs. Dunn and Lehmann are each independent directors as required by Section 301 of the Sarbanes-Oxley Act of 2002, Rule 10A(3)(b)(1) of the

Securities Exchange Act of 1934 and Section 121(A) of the New York Stock Exchange Constitution and Rules. Dr. Dunn, the current Chairman of our audit committee, qualifies as a financial expert. Our audit committee, among other things:

- selects the independent auditors, considering independence and effectiveness;

• receives the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with the independent accountant the independent accountant's independence;

• 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;

• discusses with the independent accountant the matters required to be discussed by Statement on Auditing Standards No. 114 (Communications with Audit Committees);

- considers the adequacy of our internal accounting controls and audit procedures;
- reviews and approves all audit and non-audit services to be performed by the independent auditors; and
 - administers the whistleblower policy.

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

Compensation Committee

Kenneth Dickey, and Herman Sarkowsky currently serve on our compensation committee. Messrs. Dickey and Sarkowsky are independent directors as required by SEC Rules and as defined in Section 121(A) of the American Stock Exchange Constitution and Rules. Mr. Dickey serves as the Chairman of our 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.

Committee Interlocks and Insider Participation

None of our executive officers currently serve 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.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Securities Exchange Act of 1934, as amended, requires that all executive officers and directors of the Company and all persons who beneficially own more than ten percent of the Company's common stock file an initial report of their ownership of the Company's securities on Form 3 and report changes in their ownership of the Company's securities on Form 4 or Form 5. These filings must be made with the Securities and Exchange Commission and the National Association of Securities Dealers with a copy sent to the Company. To our knowledge, all executive officers, directors and all persons who beneficially own more than ten percent of the Company's common stock have timely filed these filings.

CODE OF CONDUCT

The Company adopted a code of conduct on August 8, 2008. In early 2006, the Company developed and implemented an official Employee Manual that requires ethical behavior from its employees, and defines the consequences of unethical behavior by its employees.

Item 11. Executive Compensation.

Summary Compensation Table

The following table summarizes compensation information for the last two fiscal years for (i) Mr. Steven Z. Strasser, our Principal Executive Officer and (ii) John (BJ) Lackland, our Principal Financial Officer, who were serving as

executive officers at the end of the fiscal year and who we refer to collectively, the Named Executive Officers.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Nonqualified			Total (\$)
						Non-Equity Incentive Compensation (\$)	Deferred Compensation (\$)	All Other Compensation (\$)	
Steven Z. Strasser(1) Chairman and Chief Executive Officer	2010	\$ 307,645	-	-	\$ 640,000	-	-	-	\$ 947,645
	2009	\$ 304,730	-	-	-	-	-	-	\$ 304,730
John (BJ) Lackland (2) Director and Chief Financial Officer	2009	\$ 201,077	-	-	\$ 320,000	-	-	-	\$ 521,077
	2008	\$ 177,037	-	-	-	-	-	-	\$ 177,037

Narrative Disclosure to Summary Compensation Table

During 2004, we hired the following officers: Steven Strasser, Chief Executive Officer, and John (BJ) Lackland, Chief Financial Officer. Effective June 1, 2010, the Company entered into employment agreements with the above officers. These two individuals comprise our current executive officers. The term of each agreement is five years. In the event of a defined change in control of the Company, each agreement will provide for accelerated vesting of stock options and a cash severance payment equal to 2.99 times the executive's then current salary and previous year's bonus.

The following table sets forth the material financial terms of the agreements for each of our executives as of December 31, 2010:

Name	Salary	Bonus(1)	Common Stock Options(2)
Steven Strasser	\$ 300,000	-	4,000,000
BJ Lackland	\$ 200,000	-	2,000,000

(1) At the discretion of the disinterested members of the Board.

(2) Vesting evenly and quarterly over five years.

Outstanding equity awards

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	OPTION AWARDS					STOCK AWARDS				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Exercise Price (\$)	Equity Incentive Plan Awards: Option Expiration Date	Market Awards: Value of Shares or Units of Stock That Have Vested (#)	Market Awards: Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Vested (#)	Equity Incentive Plan Awards: Payout Value of Unearned Shares, Units or Other Rights That Have Vested (#)	Equity Incentive Plan Awards: Value of Shares, Units or Other Rights That Have Not Vested (#)
Steven Strasser	277,778	2,500,002	-	\$ 0.18	5/31/2015	-	-	-	-	-
	122,222	1,099,998	-	\$ 0.18	5/31/2020	-	-	-	-	-
	2,039,771	-	-	\$ 0.20	5/31/2015	-	-	-	-	-
	600,000	-	-	\$ 0.65	11/28/2014	-	-	-	-	-
BJ Lackland	200,000	1,800,000	-	\$ 0.18	5/31/2020	-	-	-	-	-
	2,212,500	-	-	\$ 0.20	5/31/2015	-	-	-	-	-
	375,000	-	-	\$ 0.65	11/28/2014	-	-	-	-	-

Stock Option Plan Narrative Disclosure

As of December 31, 2010, we had an aggregate of 19,243,240 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 July 16, 2009, the 2000 Plan was amended and restated. As of December 31, 2009, no restricted shares of Common Stock have been issued, and 245,000 of the outstanding options to purchase shares of our Common Stock have been exercised pursuant to the 2000 Plan. There are 19,243,240 options outstanding under the 2000 Plan as of December 31, 2009.

Share Reserve. Under the 2000 Plan, we have initially reserved for issuance an aggregate of 25,000,000 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.

Compensation of Directors Summary Table

Name (a)	DIRECTOR COMPENSATION						Total (\$)
	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)*	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation (\$)	All Other Compensation (\$)	
Douglas M. Dunn	-	-	\$ 42,000	-	-	-	\$42,000
Kenneth Dickey	-	-	\$ 18,000	-	-	-	\$18,000
Marc Lehmann	-	-	\$ 10,000	-	-	-	\$10,000
Herman Sarkowsky	-	-	\$ 10,000	-	-	-	\$10,000
Raphael Diamond	-	-	\$ 8,000	-	-	-	\$8,000
George Boyadjieff**	-	-	\$ 21,000	-	-	-	\$21,000
Gary Rado**	-	-	\$ 26,250	-	-	-	\$26,250
Dick Morgan**	-	-	\$ 26,250	-	-	-	\$26,250
Greg Curhan***	-	-	\$ 7,000	-	-	-	\$7,000

*Aggregate fair value as of date of grant.

** Messrs. Boyadjieff, Rado and Morgan resigned from the Board of Directors on July 16, 2010.

*** Mr. Curhan resigned from the Board of Directors on March 29, 2010.

Narrative to Director Compensation

In January 2010, non-employee directors received options to purchase 100,000 shares of common stock per year for their board service, pro-rated for the quarters in the year they served. Employee directors do not receive compensation for serving on the board of directors. The Chairman of the audit committee received an additional 50,000 options per year, pro-rated for the quarters in the year he served. The remaining members of the audit committee receive an additional 25,000, prorated for the quarters in the year they served. Depending on the anticipated workload and organization, the board of directors may elect to increase the compensation for committee members and/or all non-executive board members.

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.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

STOCK OWNERSHIP

The following table sets forth information as to our shares of common stock beneficially owned as of March 31, 2010 by (i) each person known by us to be the beneficial owner of more than five percent of our outstanding common stock, (ii) each of our directors, (iii) each of our executive officers named in the Summary Compensation Table and (iv) all of our directors and executive officers as a group.

Title of Class	Name of Beneficial Owner(1)	Shares Owned	Percent of Shares Owned(9)
Common Stock	Steven Strasser, CEO, Chairman of the Board	26,447,153 (2)	40.54 %
Common Stock	John (BJ) Lackland, CFO, Director	3,478,387 (3)	6.65 %
Common Stock	Douglas Dunn, Director	765,248 (4)	1.54 %
Common Stock	Marc Lehmann, Director	4,750,00 (5)	8.84 %
Common Stock	Kenneth Dickey, Director	574,646 (6)	1.16 %
Common Stock	Herman Sarkowsky, Director	12,319,965 (7)	21.65 %

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Common Stock	Raphael Diamond, Director	50,000	(8)	Less than 1%
Common Stock	Summit Energy Ventures, LLC	6,803,901	(2)	13.88 %
Common Stock	Phil Meisel	18,750,000		27.67 %
Common Stock	Ron Boyer	14,262,791		23.80 %
Common Stock	Byron LeBow Family Trust	7,716,678		13.98 %
Common Stock	Marathon Hard Asset Fund L.P.	6,041,593		11.54 %
Common Stock	Irwin Helford Family Trust	4,672,259		8.92 %
Common Stock	George Boyadjieff	4,330,994		8.43 %
Common Stock	All Executive Officers and Directors as a Group (8 persons)	48,385,399		58.66 %

- (1) Information in this table regarding directors and executive officers is based on information provided by them. Unless otherwise indicated in the footnotes and subject to community property laws where applicable, each of the directors and executive officers has sole voting and/or investment power with respect to such shares. The address for each of the persons reported in the table is in care of Power Efficiency Corporation at 839 Pilot Road, Suite A, Las Vegas, Nevada 89119.
- (2) Includes 10,212,601 common shares held by Summit Energy Ventures, LLC, in which Steven Strasser is one of two members, 2,010,000 common shares subject to the conversion of 20,100 shares of Series B Preferred Stock, 1,083,334 common shares subject to the conversion of 8,125 shares of Series C-1 Preferred Stock, 3,454,700 common shares subject to the conversion of 34,547 shares of Series D Preferred Stock, and 9,686,518 common shares subject to options and warrants which are presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Strasser was also granted an additional 3,400,000 common shares subject to options which will become exercisable after 60 days of the date hereof. Mr. Strasser's options and warrants expire on various dates from April, 2011 through August, 2020.
- (3) Includes 199,637 common shares, 100,000 common shares subject to the conversion of 1,000 shares of Series B Preferred Stock, 187,500 common shares subject to the conversion of 1,875 shares of Series D Preferred Stock, and 2,992,250 common shares and common shares subject to options and warrants presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Lackland was also granted an additional 1,700,000 common shares subject to options which will become exercisable after 60 days of the date hereof. Mr. Lackland's options and warrants expire on various dates from November, 2011 through May, 2020.
- (4) Includes 52,748 common shares, 100,000 common shares subject to the conversion of 1,000 shares of Series B Preferred Stock, and 612,500 common shares subject to options and warrants presently exercisable or will become exercisable within 60 days of the date hereof. Dr. Dunn's options expire on various dates from May, 2016 through February, 2020.
- (5) Includes 3,125,000 common shares subject to the conversion of 3,125 shares of Series D Preferred Stock, and 1,625,000 common shares subject to options and warrants presently exercisable or will become exercisable within 60 days of the date hereof. Mr. Lehmann's options and warrants expire on various dates from June, 2015 through August, 2020.
- (6) Includes 32,979 common shares, 166,667 common shares subject to the conversion of 1,250 shares of Series C-1 Preferred Stock, 375,000 common shares subject to options and warrants presently exercisable or which will become exercisable within 60 days of the date hereof. Mr. Dickey's options expire on various dates from February, 2012 through February, 2020.
- (7) Includes 4,413,567 common shares, 1,100,000 common shares subject to the conversion of 1,100 shares of Series B Preferred Stock, 1,350,000 common shares subject to the conversion of 1,350 shares of Series D Preferred Stock, and 5,456,398 common shares subject to options presently exercisable or which will become exercisable within 60 days of the date hereof. Mr. Sarkowsky's options expire on various dates from November, 2011 through August, 2020.
- (8) Includes 50,000 common shares subject to options presently exercisable or which will become exercisable within 60 days of the date hereof. Mr. Diamond's options expire in November, 2020.
- (9) The percentage for common stock includes all common shares subject to options and warrants exercisable within 60 days of the date hereof.

Item 13. Certain Relationships, Related Transactions and Director Independence.

Relationship with Steven Strasser and Summit

Mr. Strasser, our CEO, owns 99.5% of Summit. As of March 31, 2011, Summit owned 6,803,901 shares of our common stock and 2,000,000 warrants to purchase common stock. In addition, Mr. Strasser owns beneficially 28,447,153 shares of common stock (including those shares beneficially owned by Summit) issued or issuable on the exercise of options and warrants, the conversion of Series B Preferred Stock and the conversion of Series C-1 Preferred Stock, exercisable within 60 days of March 31, 2011.

On June 21, 2010, Mr. Strasser purchased 34,547 shares of Series D Preferred Stock and 1,727,350 warrants to purchase the Company's common stock for \$552,000 in cash and cancellation of indebtedness.

On May 13, 2010, the Company issued secured notes payable to Mr. Strasser, totaling \$200,000. The secured notes bear interest at 12% per annum, payable semiannually. The secured notes and related accrued interest were converted into Series D Preferred Stock on June 21, 2010.

On March 30, 2010, the Company issued unsecured notes payable to Mr. Strasser, totaling \$250,000. The unsecured notes bear interest at 5%, payable upon maturity. \$200,000 of these unsecured notes were converted into secured notes on May 13, 2010, and the remaining \$50,000 plus related interest was paid off in full on May 26, 2010.

On February 24, 2010, Mr. Strasser purchased 1,875 shares of Series C-1 Preferred Stock and 93,750 warrants to purchase the Company's common stock for \$75,000 in cash.

On December 11, 2009, Mr. Strasser exchanged 6,250 shares of Series C Preferred Stock into 6,250 shares of Series C-1 Preferred Stock and 312,500 warrants to purchase the Company's common stock.

On September 29, 2009, Mr. Strasser purchased 350,000 shares of common stock, 2,500 shares of Series B Preferred Stock, and 203,062 warrants to purchase the Company's common stock for \$90,000 in cash, from another shareholder.

On August 12, 2009, Mr. Strasser purchased 6,250 shares of Series C Preferred Stock and 312,500 warrants to purchase the Company's common stock for \$250,000 in cash.

Relationship with John (BJ) Lackland

Mr. Lackland, our CFO, owns 0.5% of Summit. Mr. Lackland owns beneficially 2,886,026 shares of common stock, issued or issuable on the exercise of options and warrants, and the conversion of Series B Preferred Stock, exercisable within 60 days of December 31, 2009.

On June 21, 2010, Mr. Lackland purchased 1,875 shares of Series D Preferred Stock and 93,750 warrants to purchase the Company's common stock for \$30,000 in cancellation of indebtedness.

On September 29, 2009, Mr. Lackland purchased 1,000 shares of Series B Preferred Stock and 50,000 warrants to purchase the Company's common stock for \$15,000 in cash, from another shareholder.

Item 14. Principal Accountant Fees and Services.

(1) Audit Fees.

The aggregate fees in fiscal years 2010 and 2009 for professional services rendered by the principal independent registered accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were \$95,784 and \$90,064, respectively.

(2) Audit-Related Fees.

The aggregate fees billed in fiscal years 2010 and 2009 for assurance and related services by the principal independent registered accountant that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under Item 14(1) above were \$0 for both years.

(3) Tax Fees.

The aggregate fees billed in fiscal years 2010 and 2009 for professional services rendered by the principal independent registered accountant for tax compliance, tax advice, and tax planning were \$2,500 and \$5,750, respectively.

(4) All Other Fees

The aggregate fees billed in fiscal years 2010 and 2009 for products and services provided by the principal independent registered accountant, other than the services reported in Items 14(1) through 14(3) above were \$0 for both years.

(5) Audit Committee Approval

During fiscal year 2010 and 2009, the Audit Committee pre-approved all engagements and fees for services the principal independent registered accountant provided since it was formally formed.

PART IV

Item 15.

Exhibits.

(a)

Exhibits

EXHIBIT INDEX

Description of Document

Exhibit

Number

Description

- | | |
|------|---|
| 3.1 | Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-SB filed on October 20, 2000. |
| 3.2 | Amendment to the Certificate of Incorporation of the Company dated June 5, 2002, incorporated by reference to Exhibit 3.1 to Company's Current Report on Form 8-K filed on June 18, 2002. |
| 3.3 | Amendment to the Certificate of Incorporation of the Company dated July 6, 2005, incorporated by reference to Exhibit 3.3 to the Company's Form SB-2 Registration Statement filed October 25, 2005. |
| 3.4 | Amendment to the Certificate of Incorporation of the Company dated October 13, 2005, incorporated by reference to Exhibit 3.4 to the Company's Form SB-2 Registration Statement filed October 25, 2005. |
| 3.5 | Amended and Restated By-laws of the Company dated March 23, 2004, incorporated by reference to Exhibit 3.1 to Company's Quarterly Report on Form 10-QSB filed on May 14, 2004. |
| 3.6 | Certificate of Amendment of Certificate of Designation of Series A Convertible Preferred Stock of Power Efficiency Corporation, incorporated by reference to Exhibit 4.2 to Company's Current Report on Form 8-K filed on May 25, 2003. |
| 3.7 | Certificate of Certificate Eliminating Reference To A Series Of Shares Of Stock From the Certificate of Incorporation of the Company, dated October 22, 2007, incorporated by reference to Exhibit 3.7 to the Company's Amendment No. 2 to Form S-1 filed on August 29, 2008. |
| 3.8 | Certificate of Designations of Preferences, Rights and Limitations of Series B Convertible Preferred Stock of Registrant dated October 23, 2007, incorporated by reference to Exhibit 3.8 to the Company's Amendment No. 2 to Form S-1 filed on August 29, 2008. |
| 3.9 | Certificate of Designation of the Company's Series C Preferred Stock, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 21, 2009. |
| 3.10 | Amendment to the Company's Certificate of Incorporation, filed with the Delaware Secretary of State on May 26, 2010, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K Filed on May 26, 2010 |
| 3.11 | Certificate of Designation of the Company's Series D Preferred Stock, filed with the Delaware Secretary of State, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K Filed on |

June 24, 2010

- 4.1 Form of Placement Agent Warrant issued pursuant to Exhibit 10.45, incorporated by reference to Exhibit 3.2 to Company's Current Report on Form 8-K Filed on July 19, 2005
- 4.2 Form of Investor Warrant, incorporated by reference to Exhibit 3.1 to Company's Current Report on Form 8-K filed on July 19, 2005

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- 4.3 Specimen common stock certificate of the Company, incorporated by reference to Exhibit 4.5 to the Company's Form SB-2/A Registration Statement filed December 8, 2005.
- 4.4 Agreement dated April 22, 2005, between the Company and Summit Energy Ventures, LLC, for the issuance of preferred stock and warrants, incorporated by reference to Exhibit 4.6 to the Company's Form SB-2 Registration Statement filed October 25, 2005.
- 4.5 Agreement dated April 22, 2005, between the Company and Commerce Energy Group, Inc., for the issuance of preferred stock and warrants, incorporated by reference to Exhibit 4.7 to the Company's Form SB-2 Registration Statement filed October 25, 2005.
- 4.6 Form of Equity Warrant, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed January 24, 2007
- 4.7 Form of Equity Warrant, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 8, 2007
- 4.8 Form of Warrant, issued to certain investors in the Company's private placement of units on January 21, 2008, incorporated by reference to Exhibit 4.8 to the Company's Amendment No. 2 to Form S-1 filed on August 29, 2008.
- 4.9 Form of Warrant, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 21, 2009.
- 4.10 Form of Warrant, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K Filed on June 24, 2010
- 10.1 United States Patent #5,821,726, incorporated by reference to Exhibit 10(g) to Company's Annual Report on Form 10-SB filed on October 20, 2000.
- 10.2 1994 Stock Option Plan, incorporated by reference to Exhibit 10(i) to Company's Annual Report on Form 10-SB filed on October 20, 2000.
- 10.3 Patent License Agreement (DN-858) with NASA, incorporated by reference to Exhibit 10.10 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.4 Patent License Agreement (DE-256) with NASA incorporated by reference to Exhibit 10.11 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.5 Settlement and Release Agreement with NASA incorporated by reference to Exhibit 10.12 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.6 Modification No. 1 to Patent License Agreement (DE-256) with NASA, incorporated by reference to Exhibit 10.13 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.7 Product Warranty, incorporated by reference to Exhibit 10.16 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.8

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Test Report from Medsker Electric, Inc., incorporated by reference to Exhibit 10.17 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.

10.9 Test Report from Oak Ridge National Laboratory, incorporated by reference to Exhibit 10.18 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.

10.10 Test Report from Oregon State University - The Motor Systems Resource Facility, incorporated by reference to Exhibit 10.19 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.

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- 10.11 Test Report from Otis Elevator Co., incorporated by reference to Exhibit 10.20 to Company's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.12 Certificate of Amendment of Warrant, incorporated by reference to Exhibit 10.4 to Company's Current Report on Form 8-K filed May 25, 2003.
- 10.13 Settlement Agreement and Mutual General Release with Stephen L. Shulman and Summit Energy Ventures, LLC dated October 3, 2003, incorporated by reference to Exhibit 10.5 to Company's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.14 Amendment to the Amended and Restated Stockholders' Agreement among Anthony Caputo, Nicholas Anderson, Philip Elkus, Stephen Shulamn, Performance Control, LLC, Summit Energy Ventures, LLC and Power Efficiency Corporation dated September 22, 2003, incorporated by reference to Exhibit 10.7 to Company's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.15 Business Property Lease with Arens Investment Company dated November 1, 2003, incorporated by reference to Exhibit 10.36 to Company's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.16 Letter agreement with Pali Capital, Inc. dated February 25, 2004, incorporated by reference to Exhibit 10.40 to Company's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.17 Amended and Restated 2000 Stock Option and Restricted Stock Plan dated February 23, 2004, incorporated by reference to Exhibit 10.41 to Company's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.18 Amended and Restated 1994 Stock Option Plan, incorporated by reference to Exhibit 10.42 to Company's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.19 Single Phase Licensing Agreement with Commerce Energy Group, incorporated by reference to Exhibit 10.1 to Company's Quarterly Report on Form 10-QSB filed November 15, 2004.
- 10.20 Business Property Lease Amendment involving Glenborough LLC and Northwest Power Management, Inc. dated February 7, 2005, incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.21 Settlement and Consulting Agreement with Keith Collin dated September 27, 2004, incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.22 Placement Agency Agreement dated as of June 1, 2005, between the Company and Joseph Stevens & Co., Inc., incorporated by reference to Exhibit 10.51 to the Company's Form SB-2 Registration Statement filed October 25, 2005.
- 10.24 Consulting Agreement with George Boyadjieff, dated June 9, 2005, incorporated by reference to Exhibit 10.54 to the Company's Form 10-KSB filed on March 31, 2006
- 10.25 Consulting Agreement with Steven Blum dated February 21, 2006, incorporated by reference to Exhibit 10.55 to the Company's Form 10-KSB filed on March 31, 2006
- 10.26

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Consulting Agreement with CEO Cast, Inc, dated January 2, 2006, incorporated by reference to Exhibit 10.56 to the Company's Form 10-KSB filed on March 31, 2006

- 10.27 Letter Agreement with USBX Advisory Services, LLC, dated January 6, 2006, incorporated by reference to Exhibit 10.57 to the Company's Form 10-KSB filed on March 31, 2006
- 10.28 Employment Agreement with Steven Strasser dated June 1, 2005, incorporated by reference to Exhibit 8.1 to the Company's Current Report of Form 8-K filed July 13, 2005.

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- 10.29 Employment Agreement with John Lackland dated June 1, 2005, incorporated by reference to Exhibit 8.2 to the Company's Current Report on Form 8-K filed on July 13, 2005.
- 10.30 Interim Financing Agreement with EMTUCK, LLC dated April 18, 2006, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 24, 2006.
- 10.31 Promissory Note granted to EMTUCK, LLC dated April 19, 2006, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 24, 2006.
- 10.32 Security Agreement with EMTUCK, LLC dated April 19, 2006, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 24, 2006.
- 10.33 Form of EMTUCK Warrant, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 24, 2006.
- 10.34 Promissory Note granted to EMTUCK, LLC dated May 19, 2006, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 26, 2006.
- 10.35 Form of Pali Note Extension Consent Letter dated October 23, 2006, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 27, 2006.
- 10.36 Form of Securities Purchase Agreement, dated November 30, 2006, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 5, 2006.
- 10.37 Form of Note, dated November 30, 2006, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 5, 2006.
- 10.38 Form of Debt Warrant, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 5, 2006.
- 10.39 Form of Equity Warrant, incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on December 5, 2006.
- 10.40 Form of Securities Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 24, 2007.
- 10.41 Consulting Agreement amendment with George Boyadjieff, dated June 9, 2007, incorporated by reference to the Quarterly Report on Form 10-QSB filed on August 13, 2007.
- 10.42 Manufacturing Services Agreement, dated September 6, 2007 by and among the Company and Sanima-Sci Corporation, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2007.
- 10.43 Consulting Agreement amendment with George Boyadjieff, dated June 9, 2007, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB filed on August 13, 2007.
- 10.44 Manufacturing Services Agreement, dated September 6, 2007 by and among the Company and Sanima-Sci Corporation, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 12, 2007.

10.45 Securities Purchase Agreement, dated as of October 27, 2007 by and between the Company and certain Investors, incorporated by reference to Exhibit 10.45 to the Company's Amendment No. 2 to Form S-1 filed on August 29, 2008.

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- 10.46 Securities Purchase Agreement, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 21, 2009.
- 10.47 Form of Unsecured Promissory Note granted to Steven Strasser, dated March 30, 2010, incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 31, 2010.
- 10.48 Form of Securities Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K Filed on June 24, 2010.
- 10.49 Employment Agreement with Steven Strasser dated August 13, 2010, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 filed on August 16, 2010.
- 10.50 Employment Agreement with BJ Lackland dated August 13, 2010, dated August 13, 2010, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 filed on August 16, 2010.
- 31.1 Certification of Steven Strasser pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; filed herewith
- 31.2 Certification of John Lackland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; filed herewith
- 32.1 Certification of Steven Strasser pursuant to Section 906 of the Sarbanes Oxley Act of 2002; filed herewith
- 32.2 Certification of John Lackland pursuant to Section 906 of the Sarbanes Oxley Act of 2002; filed herewith
- 99.1 Press Release, dated March 31, 2011, announcing year end 2010 results; filed herewith

POWER EFFICIENCY CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

POWER EFFICIENCY CORPORATION

DECEMBER 31, 2010 AND 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Power Efficiency Corporation
Las Vegas, Nevada

We have audited the accompanying balance sheets of Power Efficiency Corporation as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Power Efficiency Corporation at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses and has generated negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/BDO USA, LLP

Las Vegas, Nevada
March 31, 2011

POWER EFFICIENCY CORPORATION
BALANCE SHEETS

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	\$2,567,607	\$247,564
Accounts receivable, net of allowance of \$28,861 in 2010 and 2009	106,066	66,143
Inventories	217,119	281,253
Prepaid expenses	22,550	36,437
Total Current Assets	2,913,342	631,397
PROPERTY AND EQUIPMENT, net	64,847	86,533
OTHER ASSETS:		
Deposits	36,971	26,914
Patents, net	141,907	86,342
Goodwill	1,929,963	1,929,963
Total Other Assets	2,108,841	2,043,219
	\$5,087,030	\$2,761,149
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$687,168	\$722,195
Warrant liability	-	