

Fitzsimmons Tracy  
 Form 4  
 June 28, 2010

**FORM 4**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 Fitzsimmons Tracy

2. Issuer Name and Ticker or Trading Symbol  
 SHENANDOAH  
 TELECOMMUNICATIONS  
 CO/VA/ [SHEN]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

(Last) (First) (Middle)

3. Date of Earliest Transaction  
 (Month/Day/Year)  
 06/21/2010

PO BOX 459

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

EDINBURG, VA 22824

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Ownership (Instr. 4) |     |       |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|-----|-------|
|                                 |                                      |  |                                | (A) or (D)  | Code  | V  | Amount                            | (D) | Price |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative | 2. Conversion | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if | 4. Transaction of | 5. Number | 6. Date Exercisable and Expiration Date | 7. Title and Amount of Underlying Securities | 8. F |
|------------------------|---------------|--------------------------------------|-------------------------------|-------------------|-----------|---|--|------|
|------------------------|---------------|--------------------------------------|-------------------------------|-------------------|-----------|---|--|------|

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| Security (Instr. 3)    | or Exercise Price of Derivative Security | any (Month/Day/Year) | Code (Instr. 8) | Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | (Month/Day/Year) | (Instr. 3 and 4) | Sec (Instr. 3 and 4) |                            |
|------------------------|--|----------------------|-----------------|--|------------------|------------------|----------------------|----------------------------|
|                        |  |                      | Code V          | (A) (D)  | Date Exercisable | Expiration Date  | Title                | Amount or Number of Shares |
| Restricted Stock Units |  | (1) 06/21/2010       | A               | 909  | (2)              | 06/21/2013       | Common Stock         | 909                        |

## Reporting Owners

| Reporting Owner Name / Address                        | Relationships |           |         |       |
|---|---------------|-----------|---------|-------|
|   | Director      | 10% Owner | Officer | Other |
| Fitzsimmons Tracy<br>PO BOX 459<br>EDINBURG, VA 22824 | X             |           |         |       |

## Signatures

Tracy  
Fitzsimmons    06/28/2010

\_\_\_\_\_  
Signature of Reporting Person

\_\_\_\_\_  
Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Each restricted stock unit represents a contingent right to receive one share of common stock.

The restricted stock unit vest 1/3 on each the first, second and third anniversary subject to the continuous service on the Board of

(2) Directors of the Company or one of its affiliates until the date of vesting. Vested shares will be delivered to the reporting person on the vesting date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. tained the CSA Mark, which indicates the product complies with the "essential requirements" of the Canadian laws or Directives, and is recognized, and required in some states, in the United States.

### Competition

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

- 1.

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Controllers which utilize a different electronic technology than the technology used by the Company;

2. Variable frequency drives ("VFDs"); and
3. High-energy efficient motors.

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

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

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

Lastly, our products may compete with high efficiency motors, which operate constant load motor applications at energy levels materially more efficient than those of standard efficiency motors. Such units are sold by well-recognized firms such as AO Smith, Lincoln Motors and General Electric, and are priced typically at \$500 to \$4,000 per unit. While our products address a market segment different from that addressed by high efficiency motors, our products may generally compete with high efficiency motors for capital expenditure dollars earmarked for improving energy efficiency.

#### **Research and Development**

We intend to continue our research and development effort to introduce new products based on the Performance Controller technology when adequate funds are available. Currently, we have under development a Solid State Energy Saving Motor Starter, and the single phase controller, both described below under "Proposed Products." We may not be able to complete development and commercialization of these products in the near term, or ever, or may have opportunities to develop other products before these are completed.

*Proposed Products*

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

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

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

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

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

**Manufacturing and Facilities**

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

maintain offices only in Floral Park, New York, and Las Vegas, Nevada. Our administrative and sales will be headquartered in Las Vegas and R&D will be conducted at our facility in Floral Park.

### **Employees**

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

### **Source of Supply and Availability of Raw Materials**

The performance controller has been designed to use a majority of standard, off-the-shelf, easily acquired components. Such components have been used in over 3,500 units, and are items readily available worldwide to our manufacturing partners at competitive prices. They also come in standard and miniature versions and offer us large latitude in product design. The performance controller uses a combination of components. Although we believe that most of the key components required for the production of its products are currently available in sufficient production quantities from multiple sources, there can be no assurance that they will remain so readily available.

### **Customers**

We currently do business with approximately 30 customers. Of this number, four customers accounted for 60% of our gross revenues in 2004. These customers and their respective gross revenue percentages are KONE, Inc. (23%), The George Washington University (11%), The May Department Stores (13%), and Weibermachine (13%). In light of our intentions to focus our business on OEMs in the elevator, oil field pump and manufacturing industries, we are, and may continue to be, dependent upon a small number of customers. Accordingly, the loss of one or more of these customers is likely to have a material adverse effect on our business.

### **Intellectual Property**

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

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

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

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

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

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

We have obtained U.S. Trademark registration of the Power Commander® mark.

### **NASA License Agreement**

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

### **Government Regulation**

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

### **Deregulation of Electrical Energy and the Energy Industry**

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

### **Effect of Environmental Regulations**

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

### **Description of Property**

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

### **Legal Proceedings**

We have recently settled litigation with the owner of the former office space in Livonia, Michigan. We vacated in 2004. Under the settlement we have paid our former landlord \$50,000 in cash and will pay the former landlord an additional \$50,000 in 18 monthly installments of \$2,778 each month. After application of our accrued loss contingency reserve, we recognized a loss of approximately \$65,000 on our September 30, 2005 financial statements.

## MANAGEMENT

## Directors and Executive Officers

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

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

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

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

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

*John (BJ) Lackland* Chief Financial and Operating Officer and Director. Mr. Lackland is a Vice President and Director of Summit. Prior to joining Summit, BJ was the Director of Strategic Relations at Encompass Globalization, where he was in charge of strategic alliances and mergers and acquisitions. Prior to Encompass, he was the Director of Strategic Planning and Corporate Development at an



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Internet business development consulting company, where he was in charge of strategic planning and investor relations. BJ has also served as an independent consultant to Fortune 1,000 companies and startups. BJ also worked at The National Bureau of Asian Research, an internationally acclaimed think tank focusing on U.S. policy toward Asia, where he led economic and political research projects for Microsoft, Dell, Compaq and U.S. government agencies.

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

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

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

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

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

*Gary Rado* Director. Mr. Rado was with Casio Inc. as an executive VP responsible for marketing and sales of the digital camera business. After 3 years he was promoted to President of the U.S. Company for 3 years. Mr. Rado retired in April of 2002. Before Casio Inc., Mr. Rado was with Texas Instruments Inc. for 21 years. He moved from District Sales Manager to Area Sales Manager to National Sales Manager of the Consumer Products Division. This division was responsible for Home Computer, calculator and educational products such as Speak and Spell. Mr. Rado was then promoted to Division Manager of Consumer Products worldwide and VP of marketing and sales. He ran the

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division for 7 years, with two years of running the division while based in Europe. Mr. Rado earned a Bachelors of Science in Business Administration from Concord College in 1963.

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

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

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

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

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

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

## Board Committees

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

*Audit Committee.* Currently our entire board of directors is functioning as our audit committee. Our audit committee, among other things:

selects the independent auditors, considering independence and effectiveness;

discusses the scope and results of the audit with the independent auditors and reviews with management and the independent auditors our interim and year-end operating results;

considers the adequacy of our internal accounting controls and audit proceeds;

reviews and approves all audit and non-audit services to be performed by the independent auditors; and

administers the whistleblower policy.

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

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

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

recommends to the board of directors the compensation level of the executive officers;

reviews and makes recommendations to our board of directors with respect to our equity incentive plans;

establishes and reviews general policies relating to compensation and benefits of our employees.

## Compensation Committee Interlocks and Insider Participation

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

## Director Compensation

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

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### Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid to our named executive officers during the fiscal years ended December 31, 2004, 2003 and 2002. Individuals we refer to as our "named executive officers" include our Chief Executive Officer and the four other most highly compensated executive officers whose salary and bonus for services rendered in all capacities exceeded \$100,000 during the fiscal year ended December 31, 2004.

**Summary Compensation Table**

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

\*

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

\*\*

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

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

### Options and Warrants

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

## Option Grants in 2005 Fiscal Year

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

- (1) Each option vests over a three-to-five year period, with some already vested, and some yet to be vested. The exercise price of each option shown in the table was equal to or greater than the fair market value of the stock on the date of grant, and all options have ten-year terms. Vesting for each option accelerates in the event of a change of control, including a merger, sale or liquidation.
- (2) In 2005, we granted options to purchase a total of 11,250,000 shares to employees, directors and consultants under our stock option plan.
- (3) The potential realizable value of the options granted is calculated by multiplying the difference between the exercise price of the option and the market value per share of the underlying stock (assuming a 5% or 10%, as the case may be, compounded annual increase of the stock price from the date of grant to the final expiration of the option) by the number of shares underlying the options granted. The price appreciation assumptions are required disclosures under the rules of the Commission and are not to be viewed as any expectation or prediction by us of the future value of the underlying Common Stock.

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

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

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

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

On June 1, 2005, we entered into employment agreements with Steven Strasser as Chief Executive Officer, BJ Lackland as Chief Operating and Financial Officer, and Nicholas Anderson as Chief Technology Officer. The term of each agreement will be five years. In the event of a defined change in control of the Company, each agreement will provide for accelerated vesting of stock options and a cash severance payment equal to 2.99 times the executive's then current salary and previous year's bonus.



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The following table sets forth the material financial terms of the agreements for each executive:

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

- (1) To be increased annually by at least 5% of prior year.
- (2) First year's salary to be paid \$60,000 in cash and options to purchase 1,612,500 shares of Common Stock at an exercise price equal to not less than market at date of grant in lieu of remaining cash vesting quarterly over one year.
- (3) First year's salary to be paid \$120,000 in cash and options to purchase 412,500 shares of Common Stock at an exercise price equal to market at date of grant in lieu of remaining cash vesting quarterly over one year.
- (4) To be paid in cash.
- (5) At the Board's discretion.
- (6) Vesting evenly and quarterly over five years.

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

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

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

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

### Stock Option Plans

As of September 30, 2005, we had an aggregate of 15,071,429 shares of Common Stock available for issuance under our stock plans. The following is a description of our plans.



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

The 2000 Plan, was adopted by our board of directors and our stockholders in 2000. On September 8, 2003, the 2000 Plan was amended and restated. As of September 30, 2005, no restricted shares of Common Stock have been issued, and none of the outstanding options to purchase 12,404,989 shares of our Common Stock have been exercised pursuant to the 2000 Plan.

*Share Reserve.* Under the 2000 Plan, we have initially reserved for issuance an aggregate of 15,000,000 shares.

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

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

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

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

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

assumption or substitution of, or adjustment to, each outstanding award;

acceleration of the vesting of options and stock appreciation rights;

termination of any restrictions on stock awards or cash awards; or

cancellation of awards in exchange for a cash payment to the participant.

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

### **The 1994 Plan**

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

### **Limitation of Liability and Indemnification of Directors and Officers**

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

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

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

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

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

**Relationship with Northwest Power Management, Inc.**

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

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

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

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

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

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

On April 28, 2004, Summit acquired 1,204,819 shares of our Series A-1 Stock, convertible into 1,000,000 shares of Common Stock, for a total purchase price of \$200,000 in cash. As part of the transaction, we issued to Summit five-year warrants to purchase 500,000 shares of our Common Stock at an exercise price per share equal to twice the average closing bid price per share for the five days preceding the date the warrants are issued.

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

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

**Relationship with Commerce Energy Corporation and Commerce Energy Group**

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

Until June of 2004, Commerce was a member of Summit. At that time Summit was reorganized and Commerce ceased to be a member of Summit. Summit received the Common and Preferred Shares it now owns as a distribution in connection with the reorganization.

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

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

### **Agreements with Officers and Directors**

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

### **SELLING STOCKHOLDERS**

The following table provides certain information with respect to the selling stockholders' beneficial ownership of our Common Stock as of September 30, 2005 and as adjusted to give effect to the sale of all of the shares of common stock offered by this prospectus. We do not know when or in what amounts the selling stockholders may offer for sale the shares of common stock pursuant to this prospectus. The selling stockholders may choose not to sell any of the shares offered by this prospectus. For purposes of this table, we have assumed that the selling stockholders will have sold all of the shares covered by this prospectus upon the completion of the offering.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a selling stockholder and the percentage of ownership of that selling stockholder, shares of Common Stock underlying outstanding shares of our Series A preferred stock, convertible debentures, options or warrants held by that selling stockholder that are convertible or exercisable, as the case may be, within 60 days from the date of this prospectus are included. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other selling stockholder. Each selling stockholder's percentage of ownership in the following table is based upon 23,439,166 shares of Common Stock outstanding as of September 30, 2005. We will not receive any of the proceeds from the sale of our Common Stock by the selling stockholders.

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Except as noted below, none of these selling stockholders are, or are affiliates of, a broker-dealer registered under the Exchange Act.

Except as described below, to our knowledge, none of the selling stockholders within the past three years has had any material relationship with us or any of our predecessors or affiliates:

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

Explanation of Responses:

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**Shares of  
Common Stock  
Beneficially Owned Prior  
to Offering**

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**Shares of  
Common Stock  
Beneficially Owned After  
Offering**

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260 E. Flamingo Road, #311  
Las Vegas, NV 89109

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|  |           |    |           |         |    |
|--|-----------|----|-----------|---------|----|
| Joan Dziena<br>865 UN Plaza, #16E<br>New York, NY 10017  | 1,214     | *  | 1,214     |         |    |
| Richard Koch(2)<br>1604 Sound Watch Dr.<br>Wilmington, NC 28409                                  | 154,666   | 1% | 106,354   | 48,312  | *  |
| Keith Collin(2)(3)<br>547 McKinley<br>Plymouth, MI 48170   | 50,000    | *  | 50,000    |         |    |
| Ron Heagle<br>5533 Bilbao Place<br>Sarasota, FL 34238  | 100,000   | *  | 100,000   |         |    |
| Rick Pulford(2)<br>3000 Town Center, Suite 540<br>Southfield, MI 48075                           | 168,551   | 1% | 25,000    | 143,551 | 1% |
| John "BJ" Lackland(2)<br>3900 Paradise Road, Suite 283<br>Las Vegas, NV 89109                    | 378,125   | 2% | 378,125   |         |    |
| Don Fields(2)<br>11642 Deer Forest Road<br>Reston, VA 20194                                      | 200,000   | 1% | 200,000   |         |    |
| Nils Weibull(2)<br>1689 W. Huron River Drive<br>Ann Arbor, MI 48103                              | 118,000   | 1% | 118,000   |         |    |
| Dan Koch<br>301 W 10th St, Apt 203<br>Charlotte, NC 28202  | 39,000    | 0% | 39,000    |         |    |
| George Boyadjieff<br>18772 Colony Circle<br>Villa Park, CA 92861                                 | 150,000   | 1% | 150,000   |         |    |
| Herbert Soroca(6)<br>Bear Stearns Securities Corp<br>One Metro Center<br>Brooklyn, NY 11201-3859 | 129,780   | 1% | 129,780   |         |    |
| Bradley Reifer(6)<br>123 Fraleigh Hill Rd.<br>Millbrook, NY 12545                                | 101,828   | *  | 101,828   |         |    |
| Herman Gross<br>12 Jordan Drive<br>Great Neck, NY 11021  | 1,153,850 | 5% | 1,153,850 |         |    |
| Allan Duffy<br>741 Bayshore Drive, Apt. 14<br>Fort Lauderdale, FL 33304                          | 57,693    | *  | 57,693    |         |    |

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|   |         |    |         |
|---|---------|----|---------|
| Danny Guifoile(6)<br>650 5th Avenue, 6th Floor<br>New York, NY 10019                                | 30,894  | *  | 30,894  |
| Patricia R. Schwarz<br>740 Pinehurst Way<br>Palm Beach Gardens, FL 33418                            | 57,693  | *  | 57,693  |
| David H. Schwartz<br>740 Pinehurst Way<br>Palm Beach Gardens, FL 33418                              | 57,693  | *  | 57,693  |
| Kevin Fisher<br>Bear Stearns Security Corp<br>One Metrotech Center North<br>Brooklyn, NY 11201-3859 | 28,847  | *  | 28,847  |
| Abacus Solutions<br>745 5th Avenue<br>New York, NY 10151  | 100,000 | *  | 100,000 |
| Justin Bellezza<br>500 Washington Avenue<br>Carlstadt, NJ 07072                                     | 1,000   | *  | 1,000   |
| Steven Sacharoff<br>500 Washington Avenue<br>Carlstadt, NJ 07072                                    | 33,000  | *  | 33,000  |
| Bernard Geik<br>500 Washington Avenue<br>Carlstadt, NJ 07072  | 33,000  | *  | 33,000  |
| Domimick Rizzitano<br>500 Washington Avenue<br>Carlstadt, NJ 07072                                  | 33,000  | *  | 33,000  |
| DB Max<br>8520 Roundhill Ct.<br>Saline, MI 48176  | 700     | *  | 700     |
| Reed Smith LLP<br>P.O. Box 23416<br>Newark, NJ 07198  | 150,000 | 1% | 150,000 |
| Richard A. Ackner<br>14643 Draft House Lane<br>Wellington, FL 33414                                 | 375,000 | 2% | 375,000 |
| Daniel Anderson<br>4409 Willow Creek Circle<br>Bellbrook, OH 45305                                  | 75,000  | *  | 75,000  |



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|  |         |    |         |
|--|---------|----|---------|
| Bryan Arakelian<br>7110 N. Fresno Street<br>Suite 410<br>Fresno, CA 93720  | 150,000 | 1% | 150,000 |
| Robert F. Arnold & Susan L. Arnold<br>JR WROS<br>2 Fielding Street<br>Wakefield, MA 01880  | 150,000 | 1% | 150,000 |
| Paul J. Bargiel<br>100 West Monroe<br>Suite 902<br>Chicago, IL 60603   | 112,500 | *  | 112,500 |
| John J. Bender<br>2803 22nd Street S.<br>Lacrosse, WI 54601  | 300,000 | 1% | 300,000 |
| Berkowitz and Garfinkel D.D.S.,<br>P.A. Employees' Pension Plan<br>D/T/D 7/1/1972<br>Mark Berkowitz &<br>Eric Garfinkel Trustees<br>17 Country Club Lane<br>Marlboro, NJ 07746 | 187,500 | 1% | 187,500 |
| Lester B. Boelter<br>50 Shady Oak Court<br>Winona, MN 55987  | 375,000 | 2% | 375,000 |
| Ron Boyer<br>1132 SW 19th Avenue<br>Suite 612<br>Portland, OR 97205  | 375,000 | 2% | 375,000 |
| Robert H. Brackman<br>5309 Crave Avenue E<br>Port Orchard, WA 98366  | 225,000 | 1% | 225,000 |
| Keith Buhrdorf<br>4582 South Vister Street<br>Suite 550<br>Denver, CO 80237  | 375,000 | 2% | 375,000 |
| Jeffrey Davis<br>383 North West 112th Ave<br>Coral Springs, FL 33071   | 187,500 | 1% | 187,500 |
| James Demarco & Rose Demarco<br>JT WROS<br>274 Rose Avenue<br>Staten Island, NY 10306  | 375,000 | 2% | 375,000 |

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|   |           |    |           |
|---|-----------|----|-----------|
| Douglas Dotter<br>3615 West Lawther Drive<br>Dallas, TX 75214   | 112,500   | *  | 112,500   |
| Arun Dua & Satish Dua<br>JT WROS<br>25 W. Houston ST. 28<br>New York, NY 10012  | 75,000    | *  | 75,000    |
| Edward Duffy<br>178 Hanson Lane<br>New Rochelle, NY 10804   | 75,000    | *  | 75,000    |
| Ahsan Farooqi<br>54 Kimberly Court<br>S. Brunswick, NJ 08852  | 187,500   | 1% | 187,500   |
| William L. Fox & Lynne Fox<br>JT WROS<br>450 Music Mountain Rd.<br>Falls Village, CT 06031                                      | 262,500   | 1% | 262,500   |
| Bernie J. Gallas<br>5200 North Diversey Blvd.<br>Suite 204<br>Milwaukee, WI 53217   | 375,000   | 2% | 375,000   |
| Mark T. Hellner<br>900 West Olive<br>Suite A<br>Merced, CA 95348  | 1,500,000 | 6% | 1,500,000 |
| Dr. Paul A. Kaye Family<br>Trust D/T/D 10/06/93<br>Dr. Paul A. Kaye Trustee<br>9 Diamonte Lane<br>Rancho Palos Verdes, CA 90275 | 75,000    | *  | 75,000    |
| Brian J. Keller & Debra M. Keller<br>JT WROS<br>1246 130th Avenue<br>New Richmond, WI 54017                                     | 187,500   | 1% | 187,500   |
| James Kelly<br>1558 E. County Road<br>800 N.<br>Ockans, IN 47452  | 75,000    | *  | 75,000    |
| Christopher Kemp<br>2528 Boulder Lane<br>Auburn Hills, MI 48326   | 75,000    | *  | 75,000    |

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|   |         |    |         |
|---|---------|----|---------|
| Stephen N. Kitchens & Martha M. Kitchens<br>JT WROS<br>28 Fox Vale Lane<br>Nashville, TN 37221                                      | 262,500 | 1% | 262,500 |
| Lester Krasno<br>400 North 2nd Steet<br>Pottsville, PA 17901  | 225,000 | 1% | 225,000 |
| Edwin Kriel<br>2904 Pocock Road<br>Monkton, MD 21111  | 75,000  | *  | 75,000  |
| Daniel J. Lange<br>20800 Hunters Run<br>Brookfield, WI 53045  | 187,500 | 1% | 187,500 |
| Lind Family Investments LP<br>1000 West Washington St.<br>Suite #502<br>Chicago, IL 60607   | 150,000 | 1% | 150,000 |
| Barry Lind Revocable Trust<br>Barry Lind Trustee<br>U/A/D 12/19/1989<br>1000 West Washington St.<br>Suite #502<br>Chicago, IL 60607 | 750,000 | 3% | 750,000 |
| Pershing LLC As Custodian<br>FBO Lance Lindsey IRA<br>7700 Blanding Blvd.<br>Jacksonville, FL 32244                                 | 600,000 | 3% | 600,000 |
| Dwight Long<br>406 Belle Glen Lane<br>Brentwood, TN 37027   | 375,000 | 2% | 375,000 |
| Jeffrey S. McCorstin<br>4750 Blue Mountain<br>Yorba Linda, CA 92887   | 75,000  | *  | 75,000  |
| Glen Miskiewicz<br>Apt. 724<br>48 Par-La-Ville Road<br>Hamilton HM11<br>Bermuda   | 187,500 | 1% | 187,500 |
| Enrico Monaco<br>2230 Ocean Avenue<br>Brooklyn, NY 11229  | 187,500 | 1% | 187,500 |
| Natchez Morice<br>12 A West Bank Expwy<br>Gretna, LA 70056  | 150,000 | 1% | 150,000 |

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|   |         |    |         |
|---|---------|----|---------|
| MSB Family Trust<br>D/T/D 6/25/93<br>Michael Blechman TTEE<br>295 Shadowood Ln.<br>Northfield, IL 60093   | 375,000 | 2% | 375,000 |
| Daniel Navarro Jr. & Richard Navarro<br>JT WROS<br>2036 Highway 35 North<br>South Amboy, NJ 08879         | 75,000  | *  | 75,000  |
| Pershing LLC<br>As Custodian<br>FBO Michael J. Radlove IRA<br>2748 Blackbird Hollow<br>Cincinnati, OH 452 | 375,000 | 2% | 375,000 |
| Prahalathan Rajasekaran<br>1 Grosvenor Place<br>London, England SW1X7JJ                                   | 187,500 | 1% | 187,500 |
| Gretchen Kinstler Reskins<br>49-365 Rio Arenoso<br>La Quinto, CA 92253                                    | 750,000 | 3% | 750,000 |
| Lawrence Silver<br>225 West Hubbard Suite 600<br>Chicago, IL 60610  | 375,000 | 2% | 375,000 |
| Robert A. Snyder & Beverly J. Snyder<br>JT WROS<br>27297 Forest Grove Road<br>Evergreen, CO 80439         | 75,000  | *  | 75,000  |
| Claire Spooner<br>111 Seaview Court<br>Neptune, NJ 07753  | 225,000 | 1% | 225,000 |
| Sharon Fay Strasser(9)<br>1 Hughes Center Drive<br>#1004-N<br>Las Vegas, NV 89109                         | 187,500 | 1% | 187,500 |
| Henry H. Strauss<br>12 Howard Avenue<br>Tappan, NY 10983  | 75,000  | *  | 75,000  |
| David Takacs<br>17073 Snyder Road<br>Bainbridge, OH 44023   | 150,000 | 1% | 150,000 |
| Richard Terranova & Vincent Terranova<br>TEN COM<br>349 Bartlett Avenue<br>Staten Island, NY 10312        | 375,000 | 2% | 375,000 |

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|   |         |    |         |
|---|---------|----|---------|
| William S. Tyrrell<br>2711 Edgehill Avenue<br>Bronx, NY 10463                                       | 262,500 | 1% | 262,500 |
| Herbert Weisberger<br>2904 West Clay Street<br>Richmond, VA 23230                                   | 112,500 | *  | 112,500 |
| Darren R. Williams<br>17280 Timothy Way<br>Gladstone, OR 97027                                      | 75,000  | *  | 75,000  |
| Robert A. Yates<br>Shakespeare No 15-1 Piso<br>Cuydad De Mexico<br>Distrito Federal 11590<br>Mexico | 187,500 | 1% | 187,500 |
| Alan J. Young<br>1750 Braeside Avenue<br>Northbrook, IL 60062                                       | 375,000 | 2% | 375,000 |
| Jan Arnett<br>7 Longwood Road<br>Sandspoint, NY 11050   | 187,500 | 1% | 187,500 |
| Elliot Braun<br>C/O Atlantic Beverage<br>3775 Park Avenue<br>Edison, NJ 08820                       | 187,500 | 1% | 187,500 |
| Larry J. Buck<br>1624 Brandon Drive<br>Hebron, KY 41048   | 187,500 | 1% | 187,500 |
| Keith H. Cooper<br>5840 De Claire Court<br>Atlanta, GA 30328  | 150,000 | 1% | 150,000 |
| Steven Gurewitsch<br>930 5th Avenue<br>Apt. 3-G<br>New York, NY 10021                               | 112,500 | *  | 112,500 |
| Antonio Hernandez<br>1575 Bengal Drive<br>El Paso, TX 79935   | 187,500 | 1% | 187,500 |
| James Herron<br>601 Cleveland Street<br>Suite 950<br>Clearwater, FL 33755                           | 75,000  | *  | 75,000  |
| Robert W. Higginson<br>247-F Rosario Blvd.<br>Santa Fe, NM 87501                                    | 150,000 | 1% | 150,000 |

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|  |         |    |         |
|--|---------|----|---------|
| Don Jackler & Alana Jackler<br>JT WROS<br>246 E. 51st Street Suite 8<br>New York, NY 10022               | 187,500 | 1% | 187,500 |
| Donald Mapes<br>532 Bellepoint Drive<br>St. Pete Beach, FL 33706   | 75,000  | *  | 75,000  |
| Dr. John McPhail<br>603 Beamon Steet<br>Clinton, NC 28328  | 375,000 | 2% | 375,000 |
| Grace Melton<br>1250 S. Beverly Glen Blvd. #311<br>Los Angeles, CA 90024                                 | 375,000 | 2% | 375,000 |
| Larry R. Nichols & Janet B. Nichols<br>JT WROS<br>9348 Burning Tree Dr.<br>Grand Blanc, MI 48439         | 75,000  | *  | 75,000  |
| Pershing LLC As Custodian<br>FBO Michael J. Radlove IRA<br>2748 Blackbird Hollow<br>Cincinnati, OH 45244 | 187,500 | 1% | 187,500 |
| Barry Saxe<br>325 E. 41st Street<br>New York, NY 10017   | 187,500 | 1% | 187,500 |
| Theodore Staahl<br>1329 Spanos Court<br>Modesto, CA 95355  | 375,000 | 2% | 375,000 |
| Randolph Stephenson<br>10316-300 Feld Farm Lane<br>Charlotte, NC 28210                                   | 75,000  | *  | 75,000  |
| Anthony Yodice<br>2443 Benson Avenue<br>Brooklyn, NY 11214   | 375,000 | 2% | 375,000 |
| Lauren Banjany(7)<br>73 Rita Lane<br>Jackson, NJ 08527   | 20,000  | *  | 20,000  |
| Michael Blumer(7)<br>1147 74th Street<br>Brooklyn, NY 11228  | 7,500   | *  | 7,500   |
| Kristina Fasullo(7)<br>77 Claradon Lane<br>Staten Island, NY 10305                                       | 10,000  | *  | 10,000  |

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|  |         |    |         |    |
|--|---------|----|---------|----|
| Deborah Francis(7)<br>28 Monsley Place<br>Staten Island, NY 10305  | 30,000  | *  | 30,000  |    |
| William Christopher Frasco(7)<br>532 Nugent Ave<br>Staten Island, NY 10305                                   | 450,625 | 2% | 660,625 |    |
| Scott Mitchell Gutmanstein(7)<br>19 Pasture Lane<br>Old Bethpage, NY 11804                                   | 2,000   | *  | 2,000   |    |
| Solomon Evan James(7)<br>273 St. Marks Place<br>Apt. 2B<br>Staten Island, NY 10301                           | 18,750  | *% | 18,750  |    |
| Fran Knecht(7)<br>82 Timber Ridge Drive<br>Staten Island, NY 10306   | 10,000  | *  | 10,000  |    |
| Michele Markowitz(7)<br>c/o Joseph Stevens & Co., Inc.<br>59 Maiden Lane<br>32nd Floor<br>New York, NY 10038 | 260,188 | 1% | 390,188 |    |
| Fabio Miggiaccio(7)<br>658 Henry Street<br>Brooklyn, NY 11231  | 99,000  | *  | 114,000 |    |
| Peter Orthos(7)<br>52 Stone Hill Drive S<br>Manhasset, NY 11030  | 50,000  | *  | 50,000  |    |
| Alexandra Orthos and Peter Orthos<br>JT WROS(7)<br>52 Stone Hill Drive S<br>Manhasset, NY 11030              | 91,125  | *  | 116,125 |    |
| Frank Joseph Parascondola(7)<br>496 Elverton Ave<br>Staten Island, NY 10308                                  | 10,000  | *  | 10,000  |    |
| Robert Petrozzo(7)<br>20 Woods Lane<br>East Hampton, NY 11937  | 286,000 | 1% | 330,000 | 0% |
| Charles M Raspa(7)<br>45 Roosevelt Ave<br>Morganville, NJ 07751  | 58,125  | *  | 58,125  |    |
| James Rathgeber(7)<br>14 Richboyne Lane<br>Melville, NY 11747  | 206,250 | 1% | 206,250 |    |

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|   |         |    |         |
|---|---------|----|---------|
| Patricia Sorbara(7)<br>4 Windham Court<br>Muttontown, NY 11545      | 260,188 | 1% | 390,187 |
| Evan S Taub(7)<br>148 Redwood Loop<br>Staten Island, NY 10309       | 214,000 | 1% | 300,000 |
| Scott P Tierney(7)<br>P.O. Box 90333<br>Staten Island, NY 10309     | 31,875  | *  | 31,875  |
| Laurence M Torres(7)<br>348 Simonson Ave<br>Staten Island, NY 10303 | 33,750  | *  | 33,750  |
| Louis John Ventre(7)<br>1339 85th Street<br>Brooklyn, NY 11228      | 450,625 | 2% | 660,625 |

\*

Less than 1%

- (1) All share numbers are based on information that these selling stockholders supplied to us. The term "selling stockholders" also includes any transferees, pledges, donees, or other successors in interest to the selling stockholders named in the table below. To our knowledge, subject to applicable community property laws, each person named in the table has sole voting and investment power with respect to the shares of Common Stock set forth opposite such person's name, unless otherwise indicated below. The inclusion of any shares in this table does not constitute an admission of beneficial ownership by the selling stockholder.
- (2) Indicates a person that has, within the past three years, served as an employee, officer or director of the company.
- (3) Indicates a person that has served as a consultant for the Company for 1 month after his employment with the Company ended.
- (4) Indicates a person that has served as a consultant for the Company for 3 months after his employment with the Company ended.
- (5) Indicates a person that has served as a consultant for the Company for 6 months after his employment with the Company ended.
- (6) Indicates personnel who are employees of Pali Capital, a registered broker dealer. These individuals received these securities in connection with an investment in secured promissory notes and/or in connection with fees related to the issuance of secured promissory notes.
- (7) Indicates personnel who are employees of Joseph Stevens & Co., Inc., a registered broker dealer. These individuals received warrants as part of compensation pursuant to a placement agency agreement between us and Joseph Stevens & Co., Inc. Accordingly, such shares are restricted in accordance with Rule 2710(g)(1) of the NASD Conduct Rules.
- (8) Commerce Energy Group owns over 13% of our stock, and under certain definitions, may be considered an affiliate of our company. Until April 28, 2005, we had an exclusive licensing agreement with Commerce Energy Group for technology we own, as discussed above under "Relationship with Commerce Energy Corporation and Commerce Energy Group."
- (9)



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Sharon Fay Strasser is married to the Company's Chief Executive Officer, Steven Strasser. Mr. Strasser denies beneficial ownership of Mrs. Strasser's shares.

## DESCRIPTION OF STOCK

The following is a summary of the rights of our common and preferred stock and related provisions of our articles of incorporation and our bylaws, as will be in effect upon the closing of this offering. This summary is not complete. For more detailed information, please see our articles of incorporation, bylaws and related agreements, which are filed as exhibits or incorporated by reference to the registration statement of which this prospectus is a part.

### Common Stock

We are authorized to issue up to 100,000,000 shares of Common Stock. As of September 30, 2005, there were 23,439,166 shares of Common Stock issued and outstanding. Each holder of issued and outstanding shares of our Common Stock will be entitled to one vote per share on all matters submitted to a vote of our stockholders. Holders of shares of our Common Stock do not have cumulative voting rights. Therefore, the holders of more than 50% of the shares of our Common Stock will have the ability to elect all of our directors.

Holders of our Common Stock are entitled to share ratably in dividends payable in cash, property or shares of our capital stock, when, as and if declared by our board of directors. We do not currently expect to pay any cash dividends on our Common Stock. Upon our voluntary or involuntary liquidation, dissolution or winding up, any assets remaining after prior payment in full of all of our liabilities and after prior payment in full of the liquidation preference of any preferred stock would be paid ratably to holders of our Common Stock.

### Options to Purchase Common Stock

The following table describes the options to purchase shares of our Common Stock that are outstanding as of September 30, 2005, and that will be outstanding immediately following the offering:

| Description                                 | Total Number of Shares Underlying Options Before this Offering | Weighted Average Exercise Price Per Share Before This Offering | Total Number of Shares Underlying Options After This Offering | Weighted Average Exercise Price For Shares After this Offering |
|---|--|--|---|--|
| 2000 Stock Option and Restricted Stock Plan | 12,404,989   | \$ 0.34  | 12,404,989  | \$ 0.34  |
| 1994 Stock Option Plan                      | 66,232   | \$ 14.00   | 66,232  | \$ 14.00   |
| <b>Total</b>                                | <b>12,471,221</b>  | <b>\$ 0.43</b>   | <b>12,471,221</b>   | <b>\$ 0.43</b>   |

The options also contain provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon exercise of the options in the event of stock dividends, stock splits, reorganization, reclassifications and consolidation.

### Warrants to Purchase Common Stock

The following table describes the warrants to purchase shares of our Common Stock that are outstanding as of September 30, 2005, and that will be outstanding immediately following the offering:

| Warrantholder     | Number of Shares Underlying Warrants Before this Offering | Weighted Average Exercise Price Per Share Before This Offering | Number of Shares Underlying Warrants After This Offering | Weighted Average Exercise Price Per Share After This Offering | Expiration Date |
|-------------------|---|--|--|---|-----------------|
| Raymond Skiptunis | 14,285  | 11.90  | 14,285   | 11.90   | 6/11/07         |
| Lee Greenberg     | 35,714  | 2.17   | 35,714   | 2.17  | 12/31/11        |
| Herbert Soroca    | 122,713   | 0.65   | 122,713  | 0.65  | 10/26/09        |
| Bradley Reifler   | 97,501  | 0.65   | 97,501   | 0.65  | 10/26/09        |

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|                                 |           |      |           |      |          |
|---------------------------------|-----------|------|-----------|------|----------|
| Herman Gross                    | 1,153,850 | 0.65 | 1,153,850 | 0.65 | 10/26/09 |
| Allan Duffy                     | 57,693    | 0.65 | 57,693    | 0.65 | 10/26/09 |
| Danny Guilfoile                 | 27,865    | 0.65 | 27,865    | 0.65 | 10/26/09 |
| Patricia R. Schwartz            | 57,693    | 0.65 | 57,693    | 0.65 | 2/23/10  |
| David H. Schwartz               | 57,693    | 0.65 | 57,693    | 0.65 | 2/23/10  |
| Kevin Fisher                    | 28,847    | 0.65 | 28,847    | 0.65 | 2/23/10  |
| Herbert Soroca                  | 7,067     | 0.65 | 7,067     | 0.65 | 2/23/10  |
| Bradley Reifler                 | 4,327     | 0.65 | 4,327     | 0.65 | 2/23/10  |
| Daniel Guilfoile                | 3,029     | 0.65 | 3,029     | 0.65 | 2/23/10  |
| Abacus Solutions                | 100,000   | 0.65 | 100,000   | 0.65 | 10/4/09  |
| Keith Colin                     | 35,000    | 0.65 | 35,000    | 0.65 | 10/4/09  |
| Charlie Mataya                  | 30,000    | 0.65 | 30,000    | 0.65 | 10/4/09  |
| Justin Bellezza                 | 1,000     | 0.65 | 1,000     | 0.65 | 10/4/09  |
| Steven Sacharoff                | 33,000    | 0.65 | 33,000    | 0.65 | 10/4/09  |
| Bernard Geik                    | 33,000    | 0.65 | 33,000    | 0.65 | 10/4/09  |
| Dominick Rizzitano              | 33,000    | 0.65 | 33,000    | 0.65 | 10/4/09  |
| Nils Weibull                    | 18,000    | 0.65 | 18,000    | 0.65 | 10/4/09  |
| Nick Anderson                   | 66,000    | 0.65 | 66,000    | 0.65 | 10/4/09  |
| Norbert Mayer                   | 15,000    | 0.65 | 15,000    | 0.65 | 10/4/09  |
| Raymond Skiptunis               | 36,000    | 0.65 | 36,000    | 0.65 | 10/4/09  |
| Keith Colin                     | 15,000    | 0.65 | 15,000    | 0.65 | 11/2/09  |
| DB Max                          | 700       | 0.65 | 700       | 0.65 | 11/17/09 |
| Raymond Skiptunis               | 50,000    | 0.65 | 50,000    | 0.65 | 11/17/09 |
| Richard Koch                    | 85,000    | 0.65 | 85,000    | 0.65 | 12/29/09 |
| Reed Smith, LLP                 | 150,000   | 0.65 | 150,000   | 0.65 | 12/29/09 |
| George Boyadjieff               | 50,000    | 0.65 | 50,000    | 0.65 | 4/26/10  |
| Richard Ackner                  | 125,000   | 0.44 | 125,000   | 0.44 | 7/7/10   |
| Daniel Anderson                 | 25,000    | 0.44 | 25,000    | 0.44 | 7/7/10   |
| Bryan Arakelian                 | 50,000    | 0.44 | 50,000    | 0.44 | 7/7/10   |
| Robert and Susan Arnold         |           |      |           |      |          |
| JT WROS                         | 50,000    | 0.44 | 50,000    | 0.44 | 7/7/10   |
| Paul Bargiel                    | 37,500    | 0.44 | 37,500    | 0.44 | 7/7/10   |
| John Bender                     | 100,000   | 0.44 | 100,000   | 0.44 | 7/7/10   |
| Berkowits and Garfinkel DDS, PA |           |      |           |      |          |
| Employees' Pension Plan         | 62,500    | 0.44 | 62,500    | 0.44 | 7/7/10   |
| Lester Boelter                  | 125,000   | 0.44 | 125,000   | 0.44 | 7/7/10   |
| Ron Boyer                       | 125,000   | 0.44 | 125,000   | 0.44 | 7/7/10   |
| Robert Brackman                 | 75,000    | 0.44 | 75,000    | 0.44 | 7/7/10   |
| Keith Buhrdorf                  | 125,000   | 0.44 | 125,000   | 0.44 | 7/7/10   |
| Jeffrey Davis                   | 62,500    | 0.44 | 62,500    | 0.44 | 7/7/10   |
| James and Rose Demarco          |           |      |           |      |          |
| JT WROS                         | 125,000   | 0.44 | 125,000   | 0.44 | 7/7/10   |

Explanation of Responses:

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|                                       |         |      |         |      |        |
|---------------------------------------|---------|------|---------|------|--------|
| Douglas Dotter                        | 37,500  | 0.44 | 37,500  | 0.44 | 7/7/10 |
| Arun Dua and<br>Satish Dua JT<br>WROS | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Edward Duffy                          | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Ahsan Faroqi                          | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| William and<br>Lynne Fox JT<br>WROS   | 87,500  | 0.44 | 87,500  | 0.44 | 7/7/10 |
| Bernie Gallas                         | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10 |
| Mark Hellner                          | 500,000 | 0.44 | 500,000 | 0.44 | 7/7/10 |

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|   |         |      |         |      |        |
|---|---------|------|---------|------|--------|
| Dr. Paul A<br>Kaye Family<br>Trust D/T/D<br>10-6-93         | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Brian and<br>Debra Keller JT<br>WROS                        | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| James Kelly   | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Christopher<br>Kemp   | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Stephen and<br>Martha<br>Kitchens JT<br>WROS                | 87,500  | 0.44 | 87,500  | 0.44 | 7/7/10 |
| Lester Krasno   | 75,000  | 0.44 | 75,000  | 0.44 | 7/7/10 |
| Edwin Kriel   | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Daniel Lange  | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| Lind Family<br>Investments LP                               | 50,000  | 0.44 | 50,000  | 0.44 | 7/7/10 |
| Barry Lind<br>Revocable<br>Trust                            | 250,000 | 0.44 | 250,000 | 0.44 | 7/7/10 |
| Lance Lindsey<br>IRA  | 200,000 | 0.44 | 200,000 | 0.44 | 7/7/10 |
| Dwight Long   | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10 |
| Jeffrey<br>McCorstin  | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Glen<br>Miskiewicz  | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| Enrico Monaco   | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| Natchez Morice  | 50,000  | 0.44 | 50,000  | 0.44 | 7/7/10 |
| MSB Family<br>Trust D/T/D<br>6/25/93                        | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10 |
| Daniel Navarro<br>JR & Richard<br>Navarro JT<br>WROS        | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Michael J.<br>Radlove IRA                                   | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10 |
| Prahalathan<br>Rajasekaran                                  | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| Gretchen<br>Kinstler  | 250,000 | 0.44 | 250,000 | 0.44 | 7/7/10 |
| Lawrence<br>Silver  | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10 |
| Robert and<br>Beverly Snyder<br>JT WROS                     | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| Claire Spooner  | 75,000  | 0.44 | 75,000  | 0.44 | 7/7/10 |
| Sharon Fay<br>Strasser                                      | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10 |
| Henry Strauss   | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10 |
| David Takacs  | 50,000  | 0.44 | 50,000  | 0.44 | 7/7/10 |
| Richard<br>Terranova and<br>Vincent<br>Terranove TEN<br>COM | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10 |
| William Tyrrell   | 87,500  | 0.44 | 87,500  | 0.44 | 7/7/10 |
| Herbert<br>Weisberger                                       | 37,500  | 0.44 | 37,500  | 0.44 | 7/7/10 |

Explanation of Responses:

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|                          |         |      |         |      |         |
|--------------------------|---------|------|---------|------|---------|
| Darren Williams          | 25,000  | 0.44 | 25,000  | 0.44 | 7/7/10  |
| Robert Yates             | 62,500  | 0.44 | 62,500  | 0.44 | 7/7/10  |
| Alan Young               | 125,000 | 0.44 | 125,000 | 0.44 | 7/7/10  |
| Jan Arnett               | 62,500  | 0.44 | 62,500  | 0.44 | 8/30/10 |
| Elliot Braun             | 62,500  | 0.44 | 62,500  | 0.44 | 8/30/10 |
| Larry J. Buck            | 62,500  | 0.44 | 62,500  | 0.44 | 8/30/10 |
| Keith H Cooper           | 50,000  | 0.44 | 50,000  | 0.44 | 8/30/10 |
| Steven Gurewitsch        | 37,500  | 0.44 | 37,500  | 0.44 | 8/30/10 |
| Antonio Hernandez        | 62,500  | 0.44 | 62,500  | 0.44 | 8/30/10 |
| James Herron             | 25,000  | 0.44 | 25,000  | 0.44 | 8/30/10 |
| Robert Higginson         | 50,000  | 0.44 | 50,000  | 0.44 | 8/30/10 |
| Don and Alana Jackler JT |         |      |         |      |         |
| WROS                     | 62,500  | 0.44 | 62,500  | 0.44 | 8/30/10 |

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|                                       |                   |             |                   |             |         |
|---------------------------------------|-------------------|-------------|-------------------|-------------|---------|
| Donald Mapes                          | 25,000            | 0.44        | 25,000            | 0.44        | 8/30/10 |
| Dr. John McPhail                      | 125,000           | 0.44        | 125,000           | 0.44        | 8/30/10 |
| Grace Melton                          | 125,000           | 0.44        | 125,000           | 0.44        | 8/30/10 |
| Larry and Janet Nichols JT<br>WROS    | 25,000            | 0.44        | 25,000            | 0.44        | 8/30/10 |
| Michael Radlove IRA                   | 62,500            | 0.44        | 62,500            | 0.44        | 8/30/10 |
| Barry Saxe                            | 62,500            | 0.44        | 62,500            | 0.44        | 8/30/10 |
| Theodore Staahl                       | 125,000           | 0.44        | 125,000           | 0.44        | 8/30/10 |
| Randolph Stephenson                   | 25,000            | 0.44        | 25,000            | 0.44        | 8/30/10 |
| Anthony Yodice                        | 125,000           | 0.44        | 125,000           | 0.44        | 8/30/10 |
| Lauren Banjamy                        | 20,000            | 0.20        | 20,000            | 0.20        | 8/31/10 |
| Michael Blumer                        | 7,500             | 0.20        | 7,500             | 0.20        | 8/31/10 |
| Kristina Fasullo                      | 10,000            | 0.20        | 10,000            | 0.20        | 8/31/10 |
| Deborah Francis                       | 30,000            | 0.20        | 30,000            | 0.20        | 8/31/10 |
| William Christopher Frasco            | 450,625           | 0.20        | 450,625           | 0.20        | 8/31/10 |
| Scott Mitchell Gutmanstein            | 2,000             | 0.20        | 2,000             | 0.20        | 8/31/10 |
| Solomon Evan James                    | 18,750            | 0.20        | 18,750            | 0.20        | 8/31/10 |
| Fran Knecht                           | 10,000            | 0.20        | 10,000            | 0.20        | 8/31/10 |
| Michele Markowitz                     | 260,188           | 0.20        | 260,188           | 0.20        | 8/31/10 |
| Fabio Migliaccio                      | 99,000            | 0.20        | 99,000            | 0.20        | 8/31/10 |
| Peter Orthos                          | 50,000            | 0.20        | 50,000            | 0.20        | 8/31/10 |
| Alexandra and Peter Orthos JT<br>WROS | 91,125            | 0.20        | 91,125            | 0.20        | 8/31/10 |
| Frank Joseph Parascondola             | 10,000            | 0.20        | 10,000            | 0.20        | 8/31/10 |
| Robert Petrozzo                       | 286,000           | 0.20        | 280,000           | 0.20        | 8/31/10 |
| Charles M Raspa                       | 58,125            | 0.20        | 58,125            | 0.20        | 8/31/10 |
| James Rathgerber                      | 206,250           | 0.20        | 206,250           | 0.20        | 8/31/10 |
| Patricia Sorbara                      | 260,188           | 0.20        | 260,188           | 0.20        | 8/31/10 |
| Evan S. Taub                          | 214,000           | 0.20        | 214,000           | 0.20        | 8/31/10 |
| Scott P. Tierney                      | 31,875            | 0.20        | 31,875            | 0.20        | 8/31/10 |
| Laurence M. Torres                    | 33,750            | 0.20        | 33,750            | 0.20        | 8/31/10 |
| Louis John Ventre                     | 450,625           | 0.20        | 450,625           | 0.20        | 8/31/10 |
| <b>Total</b>                          | <b>10,768,978</b> | <b>0.44</b> | <b>10,768,978</b> | <b>0.44</b> |         |

Certain of the warrants have net exercise provisions under which their respective holders may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of our Common Stock after deduction of the aggregate exercise price. These warrants also contain provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon exercise of the warrants in the event of tock dividends, stock splits, reorganization, reclassifications and consolidations.

**Series A-1 Stock**

We are authorized to issue 10,000,000 shares of preferred stock, \$.001 par value per share, of which 4,714,279 shares of Series A-1 Stock were outstanding prior to the Placement. Each share of Series A-1 Stock is currently convertible into 0.83 shares of Common Stock. The 4,714,279 outstanding shares of Series A-1 Stock were converted into 3,918,848 shares of Common Stock on July 8, 2005 in connection with this Placement. The Series A-1 Stock has certain liquidation and anti-dilution rights that are superior to the Common Stock, as described in "RISK FACTORS" above.

## Registration Rights

We are obligated to (i) include the Placement Securities in a registration statement to be filed by us with the Commission within 60 days after the final closing date, and (ii) use our best efforts to cause such registration statement to be declared effective by the Commission within 120 days after the final closing date and to remain effective without any lapse of 30 or more consecutive days. The holders of warrants issued in connection with the Senior Secured Notes have similar rights. The filing of this Registration Statement satisfies the first obligation in both cases.

## Certain Statutory and Charter Provisions Relating to a Change of Control

We are subject to the provisions of Section 203 of the DGCL. In general, this provision prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder.

A "business combination" includes a merger, asset sale, or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person, other than the corporation and any direct or indirect wholly-owned subsidiary of the corporation, who together with the affiliates and associates, owns or, as an affiliate or associate, within three years prior, did own 15% or more of the corporation's outstanding voting stock.

This prohibition is lifted if:

prior to such date, the corporation's board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in such person becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding, shares owned by certain directors or certain employee stock plans; or

on or after the date the stockholder became an interested stockholder, the business combination is approved by the corporation's board of directors and authorized by the affirmative vote, and not by written consent, of at least two-thirds of the outstanding voting stock of the corporation excluding that owned by the interested stockholder.

Section 203 expressly exempts from the requirements described above any business combination by a corporation with an interested stockholder who becomes an interested stockholder in a transaction approved by the corporation's board of directors.

## Transfer Agent and Registrar

The transfer agent for our Common Stock is Continental Stock Transfer and Trust, located at 17 Battery Place, New York, New York, 10004.

## Rule 144

All the 30,552,700 shares registered in this offering will be freely tradable without restriction or further registration under the Securities Act. As of September 30, 2005, we also have outstanding an additional 1,886,316 shares of Common Stock that were issued and sold in reliance on exemptions from the registration requirements of the Securities Act. If shares are purchased by our "affiliates" as that term is defined in Rule 144, their sales of shares would be governed by the limitations and restrictions that are described below. The offer and sale of shares held by our "affiliates" Summit, Steven Strasser,



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and Commerce, is not being registered hereunder, and sale of those shares would also be governed by such limitations and restrictions.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned shares of our Common Stock for at least one year, including any person who may be deemed to be an "affiliate" (as the term "affiliate" is defined under the Securities Act), would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

1% of the number of shares of Common Stock then outstanding, which as of September 30, 2005 would equal approximately 50,000 shares; or

the average weekly trading volume of our Common Stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also governed by other requirements regarding the manner of sale, notice of filing and the availability of current public information about us. Under Rule 144, however, a person who is not, and for the three months prior to the sale of such shares has not been, an affiliate of the issuer is free to sell shares that are "restricted securities" which have been held for at least two years without regard to the limitations contained in Rule 144. The selling stockholders will not be governed by the foregoing restrictions when selling their shares pursuant to this prospectus.

### **Rule 144(k)**

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell such shares without complying with the manner of sale, notice filing, volume limitation or notice provisions of Rule 144.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information as to our shares of Common Stock beneficially owned as of September 30, 2005, 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.

| <b>Title of Class</b> | <b>Name and Address of Beneficial Owner(1)</b>              | <b>Shares Owned</b> | <b>Percent of Shares Owned(8)</b> |
|-----------------------|---|---------------------|-----------------------------------|
| Common Stock          | Nicholas Anderson, CTO, Director                            | 789,565(2)          | 1.92%                             |
| Common Stock          | Steven Strasser, CEO, Chairman of the Board                 | 9,658,026(3)        | 23.50%                            |
| Common Stock          | Leonard Bellezza, Director                                  | 97,069(4)           | Less than 1%                      |
| Common Stock          | John (BJ) Lackland, COO, CFO, Director                      | 378,125(5)          | Less than 1%                      |
| Common Stock          | Richard Pulford, Director                                   | 168,551(6)          | Less than 1%                      |
| Common Stock          | Raymond J. Skiptunis, Director                              | 221,369(7)          | Less than 1%                      |
| Common Stock          | Summit Energy Ventures, LLC                                 | 8,803,901           | 21.93%                            |
| Common Stock          | Commerce Energy Corporation                                 | 3,687,288           | 9.18%                             |
| Common Stock          | All Executive Officers and Directors as a Group (6 persons) | 10,586,705          | 26.37%                            |

- (1) Information in this table regarding directors and executive officers is based on information provided by them. Unless otherwise indicated in the footnotes and subject to community property laws where applicable, each of the directors and executive officers has sole voting and/or investment power with respect to such shares. The address for each of the persons reported in the table other than Commerce Energy Corporation is in care of Power Efficiency Corporation at 3900 Paradise Road, Suite 283, Las Vegas, Nevada 89109.
- (2) Includes 531,259 common shares subject to options and warrants exercisable within 60 days of September 30, 2005. Mr. Anderson was also granted an additional 2,225,000 common shares subject to options exercisable after 60 days of September 30, 2005.
- (3) Includes 8,803,901 common shares and common shares subject to options and warrants exercisable within 60 days of September 30, 2005 held by Summit, in which Steven Strasser is one of two members, 854,125 common shares subject to options and warrants exercisable within 60 days of September 30, 2005. Mr. Strasser was also granted an additional 4,359,375 common shares subject to options exercisable after 60 days of September 30, 2005.
- (4) Includes 88,426 common shares subject to options and warrants exercisable within 60 days if September 30, 2005. Mr. Bellezza was also granted 100,000 common shares subject to options exercisable after 60 days of September 30, 2005. Mr. Bellezza was originally granted 500,000 options, but 433,000 options were subsequently cancelled in early 2005.
- (5) Includes 378,125 common shares subject to options exercisable within 60 days of September 30, 2005. Mr. Lackland was also granted an additional 2,209,375 common shares subject to options exercisable after 60 days of September 30, 2005.
- (6) Mr. Pulford owns no shares of the Registrant directly. Mr. Pulford has a 7% profit interest in Percon, LLC which owns 156,051 common shares. This total amount for Mr. Pulford includes 25,000 common shares subject to options exercisable within 60 days of September 30, 2005.
- (7)

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Includes 221,369 common shares subject to options and warrants exercisable within 60 days of September 30, 2005.

- (8) The percentage for Common Stock includes all common shares subject to options and warrants exercisable within 60 days of September 30, 2005.

**PLAN OF DISTRIBUTION**

Our Common Stock is currently traded on the OTC Bulletin Board.

All of the 30,552,700 shares of our Common Stock included in this prospectus are for sale by the selling stockholders. We will not receive any proceeds from the sale by the selling stockholders of the shares of Common Stock pursuant to this prospectus which are already owned by them, or which are to be issued to them upon their conversion of shares of our convertible preferred stock. We will receive cash proceeds from the issuance of shares to selling stockholders on exercise of options or warrants, but not from the resale of any such shares.

The selling stockholders and any of their pledgees, assignees and successors-in-interest, may, from time to time, sell any or all of their shares of our Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

settlement of short sales entered into after the date of this prospectus;

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale;

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144, if available, rather than under this prospectus.

The shares of Common Stock underlying the warrants issued to those selling stockholders who, as indicated in the Selling Stockholder table above, received such warrants as part of compensation pursuant to a placement agency agreement between us and Joseph Stevens & Co. are restricted in accordance with Rule 2710(g)(1) of the NASD Conduct Rules. Accordingly, those selling stockholders shall not directly or indirectly, offer, sell, agree to offer or sell, assign, pledge, hypothecate or subject to hedging, short sale, derivative, put or call transaction such shares for a period of 180 days after the date this registration statement is declared effective by the SEC.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. Each selling stockholder does not expect these commissions and discounts relating to its sales of shares to exceed what is customary in the types of transactions involved.

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In connection with the sale of our Common Stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn

engage in short sales of the Common Stock in the course of hedging the positions they assume. The selling stockholders may, after the date of this prospectus, also sell shares of our Common Stock short and deliver these securities to close out their short positions, or loan or pledge the Common Stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling stockholder has informed us that it does not have any agreement or understanding, directly or indirectly, with any person to distribute our Common Stock. If any of the selling stockholders enter into an agreement with an underwriter to do a firm commitment offering of the shares of our Common Stock offered by such selling stockholder through this prospectus, if we are aware of such underwriting agreement we will file a post-effective amendment to the registration statement of which this prospectus is a part setting forth the material terms of such underwriting agreement. The selling stockholder may not sell any of the shares in such firm underwriting until such post-effective amendment becomes effective.

Because selling stockholders may be deemed to be "underwriters" within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than under this prospectus. Each selling stockholder has advised us that they have not entered into any agreements, understandings or arrangements with any underwriter or broker-dealer regarding the sale of the resale shares. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling stockholders.

The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to our Common Stock for a period of two business days prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of our Common Stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.

We do not know whether any selling stockholder will sell any or all of the shares of Common Stock registered by the registration statement of which this prospectus forms a part.

We will pay all expenses of the registration of the shares of Common Stock offered pursuant to this prospectus including SEC filing fees and expenses of compliance with state securities or "blue sky" laws, except that the selling stockholders will pay any underwriting discounts and selling commissions for the sale of their shares. We expect that our expenses for this offering, consisting primarily of legal, accounting and printing expenses, will be approximately \$59,201.

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We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with registration rights and other agreements entered into by us with the selling stockholders, or the selling stockholders will be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, by any of the selling stockholders, the shares of Common Stock will be freely tradable in the hands of persons other than our affiliates.

### LEGAL MATTERS

Certain legal matters will be passed upon for us by Jones Vargas, Las Vegas, Nevada.

### EXPERTS

The balance sheet as of December 31, 2004 and the related statements of operations, changes in stockholders' equity and cash flows for each of the years ended December 31, 2004 and 2003 included in this Prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to the Company's ability to continue as a going concern as described in Note 3 to the financial statements) of Sobel & Co., LLC, independent registered public accounting firm, given the authority of said firm as experts in auditing and accounting.

### WHERE YOU CAN FIND MORE INFORMATION

This prospectus is a part of the registration statement that we filed on Form SB-2 with the SEC. The registration statement contains more information about us and our Common Stock than this prospectus, including exhibits and schedules. You should refer to the registration statement for additional information about us and our Common Stock being offered in this prospectus. Statements contained in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract is an exhibit to the registration statement, each statement is qualified in all respects by reference to the exhibit to which the reference relates.

We are subject to the information and reporting requirements of the Exchange Act and, in accordance therewith, file reports and other information with the SEC. You may read and copy any document that we file at the SEC's public reference facilities at 450 Fifth Street N.W., Room 1024, Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 for more information about its public reference facilities. Our SEC filings are also available to you free of charge at the SEC's web site at <http://www.sec.gov>. Information about us may be obtained from our website [www.powerefficiencycorp.com](http://www.powerefficiencycorp.com). Copies of our SEC filings are available free of charge on the website as soon as they are filed with the SEC through a link to the SEC's EDGAR reporting system. Simply select the "Investors" menu item, then click on the "SEC Filings" link.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
Power Efficiency Corporation  
Las Vegas, Nevada

We have audited the accompanying balance sheet of Power Efficiency Corporation, (a Delaware corporation) (the "Company") as of December 31, 2004, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years ended December 31, 2004 and 2003. 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 audit 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 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, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 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 3 to the financial statements, the Company has suffered recurring losses from operations, the Company has experienced a deficiency of cash from operations and lacks sufficient liquidity to continue its operations. These matters raise substantial doubt as to the Company's ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 3. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Sobel & Co., LLC

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Certified Public Accountants

March 29, 2005  
Livingston, New Jersey

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## POWER EFFICIENCY CORPORATION

## BALANCE SHEET

DECEMBER 31, 2004

| <b>ASSETS</b>   |                     |
|---|---------------------|
| <b>CURRENT ASSETS:</b>  |                     |
| Cash  | \$ 392,471          |
| Accounts receivable, net of reserve and allowance of \$21,229   | 31,533              |
| Inventories, net  | 187,817             |
| Prepaid expenses and other current assets   | 235,102             |
| <b>Total Current Assets</b>   | <b>846,923</b>      |
| <b>PROPERTY AND EQUIPMENT, Net</b>  | <b>26,320</b>       |
| <b>OTHER ASSETS:</b>  |                     |
| Patents, net  | 6,504               |
| Goodwill  | 1,929,963           |
| Website, net  | 9,775               |
| Deferred financing costs, net   | 98,718              |
|   | <b>2,044,960</b>    |
|   | <b>\$ 2,918,203</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |
| <b>CURRENT LIABILITIES:</b>   |                     |
| Accounts payable and accrued expenses   | \$ 639,266          |
| Accrued salaries and payroll taxes  | 128,467             |
| Notes payable Pali Capital, Net   | 981,806             |
| Notes payable former officers   | 73,889              |
| <b>Total Current Liabilities</b>  | <b>1,823,428</b>    |
| <b>LONG-TERM LIABILITIES:</b>   |                     |
| Note payable former officer   | 26,445              |
| <b>Total Liabilities</b>  | <b>1,849,873</b>    |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                     |
| <b>STOCKHOLDERS' EQUITY:</b>  |                     |
| Series A-1 convertible preferred stock, \$.001 par value, 10,000,000 shares authorized, 3,328,737 shares issued and outstanding | 3,329               |
| Common Stock, \$.001 par value, 7,142,857 shares Authorized, 5,020,477 shares issued and outstanding                            | 5,020               |
| Additional paid-in capital  | 16,386,612          |
| Accumulated deficit   | (15,326,631)        |
| <b>Total Stockholders' Equity</b>   | <b>1,068,330</b>    |
|   | <b>\$ 2,918,203</b> |

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*See report of independent registered public accounting firm and notes to financial statements.*

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## POWER EFFICIENCY CORPORATION

## STATEMENTS OF OPERATIONS

|   | Year Ended December 31, |                |
|---|-------------------------|----------------|
|   | 2004                    | 2003           |
| REVENUES                                      | \$ 284,373              | \$ 397,673     |
| COMPONENTS OF COST OF SALES:                  |                         |                |
| Material, labor and overhead                  | 228,651                 | 260,972        |
| Inventory obsolescence                        | 29,484                  | 100,000        |
| Total Cost of Sales                           | 258,135                 | 360,972        |
| GROSS MARGIN                                  | 26,238                  | 36,701         |
| COSTS AND EXPENSES:                           |                         |                |
| Research and development                      | 327,202                 | 420,376        |
| Selling, general and administrative           | 1,886,132               | 2,392,754      |
| Depreciation and amortization                 | 84,504                  | 120,700        |
| Total Costs and Expenses                      | 2,297,838               | 2,933,830      |
| LOSS FROM OPERATIONS                          | (2,271,600)             | (2,897,129)    |
| OTHER INCOME (EXPENSE):                       |                         |                |
| Interest income                               |                         | 380            |
| Interest expense                              | (156,559)               | (115,468)      |
| Loss on disposition of fixed assets           | (31,036)                |                |
| Total Other Expenses, Net                     | (187,595)               | (115,088)      |
| LOSS BEFORE PROVISION FOR TAXES               | (2,459,195)             | (3,012,717)    |
| PROVISION FOR TAXES                           | (6,436)                 | (4,500)        |
| NET LOSS                                      | \$ (2,465,631)          | \$ (3,016,717) |
| BASIC AND FULLY DILUTED LOSS PER COMMON SHARE | \$ (0.53)               | \$ (2.48)      |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING    |                         |                |
| BASIC   | 4,613,726               | 1,215,682      |
| FULLY DILUTED                                 | 10,362,520              | 3,389,557      |

*See report of independent registered public accounting firm and notes to financial statements.*

## POWER EFFICIENCY CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2004 AND 2003

|  | Common Stock |          | Preferred Stock |          | Subscription<br>Receivable | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|--|--------------|----------|-----------------|----------|----------------------------|----------------------------------|------------------------|----------------------------------|
|  | Shares       | Amount   | Shares          | Amount   |                            |                                  |                        |                                  |
| Balance, January 1, 2003   | 940,088      | \$ 940   | 2,346,233       | \$ 2,346 | \$                         | 11,749,702                       | \$ (9,844,283)         | \$ 1,908,705                     |
| Issuance of common stock   | 684,765      | 685      |                 |          | (181,045)                  | 1,228,037                        |                        | 1,047,677                        |
| Exercise of warrants   | 50,100       | 51       |                 |          |                            | 84,237                           |                        | 84,288                           |
| Conversion of Summit<br>debt to Preferred stock  |              |          | 982,504         | 983      |                            | 1,045,913                        |                        | 1,046,896                        |
| Common stock issued for<br>settlement of<br>compensation and other<br>accrued expenses   | 172,582      | 173      |                 |          |                            | 1,034,800                        |                        | 1,034,973                        |
| Non-qualified stock<br>options issued below<br>market  |              |          |                 |          |                            | 77,158                           |                        | 77,158                           |
| Net loss 2003  |              |          |                 |          |                            |                                  | (3,016,717)            | (3,016,717)                      |
| Balance, December 31,<br>2003  | 1,847,535    | \$ 1,849 | 3,328,737       | \$ 3,329 | \$ (181,045)               | \$ 15,219,847                    | \$ (12,861,000)        | \$ 2,182,980                     |
| Summit exercising all<br>outstanding Warrants  | 3,134,102    | 3,134    |                 |          |                            |                                  |                        | 3,134                            |
| Fractional shares<br>one-for-seven reverse split   | 25,260       | 24       |                 |          |                            |                                  |                        | 24                               |
| Common stock issued for<br>services Rendered   | 13,580       | 13       |                 |          |                            | 35,796                           |                        | 35,809                           |
| Common stock issued in<br>exchange for subscriptions<br>receivable   |              |          |                 |          | 181,045                    |                                  |                        | 181,045                          |
| Warrants issued in<br>connection with issuance<br>of Notes Payable Pali<br>Capital   |              |          |                 |          |                            | 580,000                          |                        | 580,000                          |
| Options and Warrants<br>issued in connection with<br>settlements and services<br>from consultants and<br>vendors, the forgiveness<br>of indebtedness and the<br>issuance of debt |              |          |                 |          |                            | 550,969                          |                        | 550,969                          |
| Net loss 2004  |              |          |                 |          |                            |                                  | (2,465,631)            | (2,465,631)                      |
| Balance, December 31,<br>2004  | 5,020,477    | \$ 5,020 | 3,328,737       | \$ 3,329 | \$                         | \$ 16,386,612                    | \$ (15,325,631)        | \$ 1,068,330                     |

See report of independent registered public accounting firm and notes to financial statements.

## POWER EFFICIENCY CORPORATION

## STATEMENTS OF CASH FLOWS

|   | Year Ended December 31, |                    |
|---|-------------------------|--------------------|
|   | 2004                    | 2003               |
| <b>CASH FLOWS PROVIDED BY (USED FOR):</b>   |                         |                    |
| <b>OPERATING ACTIVITIES:</b>  |                         |                    |
| Net loss  | \$ (2,465,631)          | \$ (3,016,717)     |
| Adjustments to reconcile net loss to net cash used for operating activities:  |                         |                    |
| Bad debt expense  | 5,493                   | 17,000             |
| Inventory obsolescence reserve  | 29,484                  | 100,000            |
| Impairment of customer contracts  | 20,141                  | 40,948             |
| Depreciation and amortization   | 116,294                 | 120,700            |
| Loss on disposition of fixed assets   | 31,036                  |                    |
| Debt discount related to issuance of debt securities  | 97,000                  |                    |
| Warrants and options issued in connection with settlements, services from consultants and vendors, the forgiveness of indebtedness and the issuance of debt | 550,969                 |                    |
| Issuance of stock options below market value  |                         | 77,158             |
| Common stock issued for services  | 34,819                  | 614,991            |
| Accrued interest on converted debt  |                         | 46,896             |
| Changes in certain assets and liabilities:  |                         |                    |
| (Increase) decrease in:   |                         |                    |
| Accounts receivable   | 1,701                   | 31,511             |
| Inventory   | 143,369                 | 43,353             |
| Prepaid expenses and other  | 13,079                  | (18,832)           |
| Restricted cash related to payment of indebtedness  | (219,721)               |                    |
| Deposits  | 18,146                  | (2,646)            |
| Increase (decrease) in:   |                         |                    |
| Accounts payable and accrued expenses   | 142,830                 | (63,866)           |
| Accrued salaries and payroll taxes  | 84,841                  | (19,294)           |
| <b>Net Cash Used for Operating Activities</b>   | <b>(1,396,150)</b>      | <b>(2,028,798)</b> |
| <b>INVESTING ACTIVITIES:</b>  |                         |                    |
| Purchase of property, equipment and other assets  | (14,657)                | (42,617)           |
| Proceeds from the sale of property, equipment and other assets  | 4,470                   |                    |
| <b>Net Cash Used for Investing Activities</b>   | <b>(10,187)</b>         | <b>(42,617)</b>    |
| <b>FINANCING ACTIVITIES:</b>  |                         |                    |
| Deferred financing costs  | (117,885)               | (32,750)           |
| Proceeds from issuance of equity securities, net of costs   | 181,045                 | 1,131,965          |
| Proceeds from issuance of debt securities, net of costs   | 1,464,806               |                    |
| Advances from line of credit agreement  |                         | 1,000,000          |
| Loans from stockholders, officers, and former officers  | 25,334                  |                    |
| Payments on loans to stockholders, officers and former officers   | (40,000)                |                    |
| <b>Net Cash Provided by Financing Activities</b>  | <b>1,513,300</b>        | <b>2,099,215</b>   |
| <b>INCREASE IN CASH</b>   | <b>106,963</b>          | <b>27,800</b>      |
| <b>CASH</b>   |                         |                    |
| Beginning of year   | 285,508                 | 257,708            |

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Year Ended December 31,

|             |    |         |    |         |
|-------------|----|---------|----|---------|
| End of year | \$ | 392,471 | \$ | 285,508 |
|-------------|----|---------|----|---------|

*See report of independent registered public accounting firm and notes to financial statements.*

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**POWER EFFICIENCY CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2004 AND 2003**

**NOTE 1 NATURE OF BUSINESS:**

Power Efficiency Corporation ("Power Efficiency" and/or the "Company"), was incorporated in Delaware on October 19, 1994. Power Efficiency designs, develops, markets and sells proprietary solid state electrical devices designed to effectively reduce energy consumption in alternating current induction motors. Alternating current induction motors are commonly found in industrial and commercial facilities throughout the world. The Company currently has two principal and proprietary products: the Three Phase *Power Commander*®, which is used in industrial applications, and the Single Phase *Power Commander*®, which is used in consumer applications. The Company also engages in research and development of new, related energy saving products.

The Company's primary customers have been original equipment manufacturers (OEM's) and commercial accounts located throughout the United States of America, Mexico, China, and Canada. Since the third quarter of 2003, the Company began to actively market to international distributors and directly to large national accounts.

On September 15, 2003, Power Efficiency formed Design Efficient Energy Services, LLC, a Delaware limited liability company. This entity will primarily be used in the future to obtain energy grants and rebates for customers of the Company from state governmental bodies. Design Efficient Energy Services, LLC has been inactive since inception.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Significant estimates have been made by management in several areas, including the allowance for bad debts, inventories and the valuation of goodwill. Actual results could differ materially from these estimates, making it reasonably possible that a change in these estimates could occur in the near term.

**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.

**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.

**Research and Development:**

Research and development expenditures are charged to expense as incurred.



**Property, Equipment and Depreciation:**

Property and equipment are stated at cost. Maintenance and repairs are expensed as incurred, while betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years.

**Website and Amortization:**

Website is stated at cost. Website costs capitalized include application and infrastructure development stage costs and graphics. Amortization is computed on a straight line basis, based upon the estimated useful life of the website which is three years. Website maintenance and hosting costs are charged to expense as incurred.

**Shipping and Handling Costs:**

The Company bills customers for freight. Actual costs for shipping and handling are included as a component of cost of sales.

**Deferred Financing Costs:**

Expenditures incurred in conjunction with debt or equity capital issuances are deferred as other assets. Such costs will be offset against equity proceeds, amortized on a straight line basis, over the life of the debt, or expensed if the offering is not completed.

**Patents:**

Costs associated with applying for U.S. patents based upon technology developed by the Company are capitalized. At the time the patent is awarded, the asset will be amortized on a straight line basis, over the remaining term of the patent. If no patent is issued, these costs will be expensed in the period when it is determined that no patent will be issued.

**Revenue Recognition:**

Revenue from product sales to OEM's and distributors is recognized at the time of shipment to the OEM's and distributors when all services are complete. Returns and other sales adjustments (discounts and shipping credits) are provided for in the same period the related sales are recorded.

**Loss Per Common Share:**

Loss per common share is determined by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is not presented since giving effect to potential common shares would be anti-dilutive.

**Accounting for Stock Based Compensation:**

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB25). If the option price under the Stock Option Plans equals or exceeds the fair market value of the common shares on the date of grant, no compensation cost is

recognized under the provisions of APB25 for stock options. If the option price under the Stock Option Plans is less than the fair market value of the common stock on the date of grant, compensation cost is recognized for the difference. The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," for stock options issued. Under SFAS No. 123, compensation cost is measured at the grant date based on the value of award and is recognized over the service (or vesting period). SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure", amended the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results.

The Company utilizes SFAS 123 for accounting for nonemployee stock based compensation. The Company recognized expense based on fair value on the date of grant of awards consistent with the provisions on SFAS 123 as amended by SFAS 148.

**Product Warranties:**

The Company warrants its products for eighteen months. During the warranty period, the Company's policy is to replace the defective product. The Company has been providing for warranty costs as they are incurred. The Company periodically reviews warranty claims and will establish a reserve for warranty claims when such amount is determinable and necessary based on historical information.

**Provision for Income Taxes:**

The Company utilizes the asset and liability method of accounting for income taxes pursuant to SFAS No. 109, Accounting for Income Taxes". SFAS No. 109 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. SFAS No. 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The provision for taxes represents state franchise taxes.

**Goodwill:**

The Company previously adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 requires that goodwill shall no longer be amortized. There was no goodwill amortization during 2004 or 2003. Goodwill shall be tested for impairment on an annual basis and between annual tests in certain circumstances.

**Advertising:**

Advertising costs are expensed as incurred. Advertising expenses were \$21,202 and \$4,463 for the years ended December 31, 2004 and 2003, respectively.

**New Accounting Pronouncements:**

The Financial Accounting Standards Board (FASB) has issued several new standards during 2004. In November 2004, the FASB issued SFAS No. 151, "Inventory Costs -an amendment of ARB No. 43." SFAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The Company is evaluating the impact of this pronouncement on its financial statements. In December 2004, FASB issued SFAS 123(R), "Share-Based Payment," which revises SFAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires fair value recognition of stock option grants in the income statement as an expense and is effective for the first annual reporting period that begins after December 15, 2005. This pronouncement may have a material impact on the Company's operating results. The Company is in the process of evaluating the impact of this pronouncement on its financial statements.

**Financial Statement Reclassifications:**

Certain reclassifications have been made to the 2003 financial statements in order for them to conform to the 2004 financial statement presentation.

**NOTE 3 GOING CONCERN:**

The accompanying financial statements have been prepared assuming the Company is a going concern, which assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has suffered recurring losses from operations, the Company experienced a \$1,400,000 deficiency of cash from operations in 2004 and lacks sufficient liquidity to continue its operations.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of liabilities that might be necessary should the Company be unable to continue in existence.

Continuation of the Company as a going concern is dependent upon achieving profitable operations. Management's plans to achieve profitability include developing new products, obtaining new customers and increasing sales to existing customers. Management is seeking to raise additional capital through equity issuance, debt financing or other types of financing. (See Note 22). However, there are no assurances that sufficient capital will be raised.

**NOTE 4 PREPAID EXPENSES AND OTHER CURRENT ASSETS:**

At December 31, 2004, prepaid expenses and other current assets is comprised as follows:

|   |            |
|---|------------|
| Restricted cash                           | \$ 219,721 |
| Prepaid expenses                          | 15,381     |
|   | <hr/>      |
| Prepaid expenses and other current assets | \$ 235,102 |
|   | <hr/>      |

In connection with the issuance of certain senior, secured notes (See Note 13), the Company is required by the Note Placement Agent, to restrict an amount of cash, in an escrow account, equal to the annual interest payments on those senior, secured notes. The annual interest rate is 15%, and as of December 31, 2004, the Company had \$219,720 in restricted cash, which was transferred to as separate bank account in March 2005.

**NOTE 5 PROPERTY AND EQUIPMENT:**

At December 31, 2004, property and equipment is comprised as follows:

|                                |           |
|--------------------------------|-----------|
| Machinery and equipment        | \$ 14,819 |
| Office furniture and equipment | 42,089    |
|                                | <hr/>     |
|                                | 56,908    |
| Less: Accumulated depreciation | 30,588    |
|                                | <hr/>     |
| Property and Equipment, Net    | \$ 26,320 |
|                                | <hr/>     |

Depreciation for the years ended December 31, 2004 and 2003 amounted to \$43,254 and \$46,445, respectively.

On November 1, 2004, the Company formally moved the Company's headquarters to Las Vegas, Nevada from Livonia, Michigan and its research and development facilities to Carlstadt, New Jersey. (See Note 20). In connection with this move, the Company incurred losses on disposition of fixed assets of \$31,036.

**NOTE 6 GOODWILL:**

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", previously recognized intangible assets deemed to have indefinite useful lives were tested by management for impairment during fiscal 2004. An annual goodwill impairment test was performed by management in addition to quarterly goodwill impairment tests. The impairment tests consisted of a comparison of the fair value of the intangible asset with its carrying amount. Since the carrying amount of the intangible asset did not exceed its fair value, management concluded no impairment loss was required to be recognized.

**NOTE 7 INTANGIBLE ASSETS:**

Intangible assets subject to amortization consists of the following for the year ended December 31, 2004:

|                                |                  |
|--------------------------------|------------------|
| Patents                        | \$ 19,844        |
| Website                        | 19,550           |
|                                | <u>39,394</u>    |
| Less: Accumulated amortization | 23,115           |
|                                | <u>16,279</u>    |
| Intangible Assets, Net         | <u>\$ 16,279</u> |

Amortization expense in 2004 and 2003 amounted to \$41,250 and \$74,255, respectively.

Amortization expense expected in the succeeding five years is as follows:

|            |                  |
|------------|------------------|
| 2005       | \$ 7,014         |
| 2006       | 3,757            |
| 2007       | 498              |
| 2008       | 498              |
| 2009       | 498              |
| Thereafter | 4,014            |
|            | <u>16,279</u>    |
|            | <u>\$ 16,279</u> |

**NOTE 8 CONCENTRATIONS OF CREDIT RISKS:**

Financial instruments which potentially subject the Company to concentrations of credit risk, consist primarily of cash and temporary cash investments and accounts receivables.

The Company maintains cash balances at a single financial institution. Amounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Company may from time to time maintain balances in excess of the insured limits.

Sales and accounts receivable currently are from a relatively small number of customers of the Company's products. The Company closely monitors extensions of credit.

Four customers accounted for approximately 60% of 2004 sales and 30% of accounts receivable at December 31, 2004. Three customers accounted for approximately 69% of 2003 sales.

International sales as a percentage of total revenues for the years ended December 31, 2004 and 2003 are as follows:

| Country | 2004 | 2003 |
|---------|------|------|
| Canada  | 12%  |      |
| Sweden  | 12%  |      |

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**NOTE 9 INVENTORIES:**

Inventories at December 31, 2004 consist of the following:

|                |                   |
|----------------|-------------------|
| Finished goods | \$ 59,397         |
| Raw materials  | 128,420           |
|                | <u>187,817</u>    |
|                | <u>\$ 187,817</u> |

**NOTE 10 PROVISION FOR TAXES:**

As of December 31, 2004 and 2003, the Company has available, on a federal tax basis, net operating loss carryforwards of approximately \$8,300,000 and \$6,200,000, respectively. These net operating losses expire at varying amounts through 2024. The net operating loss carryforwards result in deferred tax assets of approximately \$2,800,000 and \$2,100,000 at December 31, 2004 and 2003; however, a valuation reserve has been recorded for the full amount due to the uncertainty of realization of the deferred tax assets.

A reconciliation of the statutory tax rates for the years ended December 31, 2004 and 2003 is as follows:

|                             | <u>2004</u>  | <u>2003</u>  |
|-----------------------------|--------------|--------------|
| Statutory rate              | (34)%        | (34)%        |
| State income tax all states | (6)%         | (6)%         |
|                             | <u>(40)%</u> | <u>(40)%</u> |
| Change in valuation         | (40)%        | (40)%        |
| Valuation allowance         | 40%          | 40%          |
|                             | <u>0%</u>    | <u>0%</u>    |
| Benefit for income taxes    | 0%           | 0%           |

**NOTE 11 WARRANTS:**

Warrant activity during the years ended December 31, 2004 and 2003 follows:

|   | <u>Warrants</u>  | <u>Average<br/>Exercise<br/>Price</u> |
|---|------------------|---------------------------------------|
| Warrants outstanding at January 1, 2003   | 135,571          | \$ 19.32                              |
| Issued during 2003                        | 43,669           | 0.00                                  |
| Exercised during 2003                     | (50,100)         | 1.34                                  |
| Expired during 2003                       | (54,143)         | 3.92                                  |
|   | <u>74,997</u>    | <u>25.30</u>                          |
| Warrants outstanding at December 31, 2003 | 74,997           | 25.30                                 |
| Issued during 2004                        | 2,559,275        | 0.67                                  |
| Expired during 2004                       | (53,570)         | 30.38                                 |
|   | <u>2,580,702</u> | <u>\$ 0.77</u>                        |
| Warrants outstanding at December 31, 2004 | 2,580,702        | \$ 0.77                               |

During 2004, in connection with the Company's settlement agreements with former employees, consultants and vendors, the Company issued 700,700 warrants to settle these outstanding liabilities.

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During 2004, in connection with the Company's issuance of debt, the Company issued 132,693 warrants for commissions, and 1,725,882 warrants to noteholders. Such warrants to noteholders were valued at \$580,000 which was recorded as note discount on the Company's balance sheet. Such warrants issued in connection with the issuance of debt, commissions and settlements were valued at \$230,000 and expensed and included in selling, general and administrative expenses.

During 2003, in connection with the Company's sale of common stock under Regulation S, the Company issued 32,958 warrants for commissions. During 2003, 32,958 warrants were exercised in conjunction with the sale of common stock under Regulation S. 17,143 placement warrants were exercised in connection with the May 16, 2000 Private Placement Memorandum pursuant to Rule 506.

### NOTE 12 STOCK OPTION PLAN:

Stock Option Plan activity during the years ended December 31, 2004 and 2003 follows:

|  | Shares    | Average<br>Exercise<br>Price |
|--|-----------|------------------------------|
| Options outstanding and exercisable at January 1, 2003   | 419,092   | \$ 14.00                     |
| Granted during 2003                                      | 336,929   | 6.37                         |
| Cancelled during 2003                                    | (57,143)  | 14.00                        |
| Expired during 2003                                      | (75,843)  | 8.33                         |
|  | 623,035   | \$ 11.69                     |
| Options outstanding and exercisable at December 31, 2003 | 623,035   | \$ 11.69                     |
| Granted during 2004                                      | 2,900,500 | 0.65                         |
| Cancelled during 2004                                    | (109,155) | 9.76                         |
| Expired during 2004                                      | (241,648) | 7.28                         |
|  | 3,172,732 | \$ 2.00                      |
| Options outstanding and exercisable at December 31, 2004 | 3,172,732 | \$ 2.00                      |

Weighted average remaining contractual life at December 31, 2004, for all options is 9.2 years.

In 2000, the Company adopted the 2000 Stock Option and Restricted Stock Plan (the "2000 Plan"). On September 8, 2003, the 2000 Plan was amended and restated. The 2000 Plan, as restated and amended, provides for the granting of options to purchase up to 5,000,000 shares of common stock. This was conditional upon consent of the majority of the Series A Preferred stock. This consent was attained on October 11, 2004. No options have been exercised to date.

During 2004, the Company granted 2,461,500 stock options to officers and employees at exercise prices approximating fair market value of the stock on that day. The Company issued 439,000 options during 2004 to consultants for services rendered. Such issuances to consultants were valued at approximately \$110,000, utilizing similar factors as described below, which was expensed and is included in selling, general and administrative expenses.

During 2003, the Company granted 336,929 stock options to officers and employees at exercise prices approximating fair market value of the stock on that day. Where the exercise prices approximated the fair market value of the stock; the Company was not required to recognize compensation expense. In connection with the employment agreements of the President and Chief

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Executive Officer and the Vice President of Governmental Operations, the Company recognized additional compensation expense of approximately \$77,000. This additional compensation expense is included in selling, general and administrative expenses.

In 1994, the Company adopted a Stock Option Plan (the "1994 Plan"). The 1994 Plan provides for the granting of options to purchase up to 71,429 shares of common stock. No options have been exercised to date. There are 66,232 options outstanding under the 1994 Plan.

There are 3,106,500 options outstanding under the 2000 Plan.

### SFAS No. 123 Disclosures:

During the year ended December 31, 2004, the Board of Directors authorized the net issuance of 2,461,500 to officers and employees. During the year ended December 31, 2003, the Board of Directors authorized the net issuance of 294,071 (net of 42,858 options that were both issued and cancelled during the year). The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: expected volatility of 100%; risk-free interest rate of 4%; and expected lives of approximately 10.0 years.

Had compensation cost for the Company's stock option plan been recognized based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's net loss and loss per share for the years ended December 31, 2004 and 2003, would have been as follows.

|                                   | <b>2004</b>    | <b>2003</b>    |
|-----------------------------------|----------------|----------------|
| Net loss as reported              | \$ (2,465,631) | \$ (3,016,717) |
| Required adjustment to net loss   | (359,256)      | (451,467)      |
| Net loss pro forma                | (2,824,887)    | (3,468,184)    |
| Loss per common share as reported | (0.53)         | (2.48)         |
| Loss per common share pro forma   | (0.61)         | (2.85)         |

### NOTE 13 COMMITMENTS AND CONTINGENCIES:

#### Leases:

The Company leases office, warehouse and research facilities under an operating lease. On October 5, 2004, the Company's board of directors formally approved moving the Company's headquarters from Livonia, Michigan to Las Vegas, Nevada and as of November 1, 2004, the Company's facility in Livonia was vacated entirely and all administrative functions have moved to Las Vegas. The Las Vegas, Nevada lease was entered into on July 1, 2004 and extends to June 30, 2007 (see Note 14). The Livonia, Michigan lease was entered into on November 1, 2003 and extends to December 31, 2008. The Ann Arbor, Michigan lease was terminated effective December 15, 2003. The New Hyde Park, New York lease was terminated June 30, 2003. The Company plans on leasing additional office space and facilities in Las Vegas, Nevada and Floral Park, New York in early 2005. (See Note 22).



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Minimum future rentals are as follows:

| Year |            |
|------|------------|
| 2005 | \$ 72,731  |
| 2006 | 69,419     |
| 2007 | 25,091     |
|      | <hr/>      |
|      | \$ 167,241 |

Rent expense, including base rent and additional charges, for the year ended December 31, 2004 and 2003 was \$81,943 and \$123,833, respectively.

During 2004, the Company temporarily occupied facilities in Carlstadt, New Jersey, for which the Company issued 100,000 stock warrants for payment. (See Note 11). The Company occupied the space on October 15, 2004 and plans to vacate the space in early 2005.

During 2003, the Company also leased office space in Palm Desert, California on a month to month basis from one of the Company's shareholders. Rent expense for this space for the year ended December 31, 2003 was \$18,680.

### Patent License Agreements:

During 2004, the Company transferred a patent for single phase technology to one of its shareholders, in exchange for an exclusive licensing agreement and for exchanging a \$300,000 short term note for a one year note. The licensing agreement is for ten years with a three year extension, provides the Company an opportunity to buyout the license in the future for the amount of funds invested by the shareholder if the shareholder has not successfully marketed the product utilizing the patented technology, and provides the Company a royalty equivalent to 5% of the net profits from the shareholder's sales of products utilizing the transferred patented technology.

During 2004, the Company wrote off the costs associated with obtaining the patent originally transferred.

### Litigation:

The Company is currently in litigation with the owners of the Livonia, Michigan property that the Company vacated in 2004. The Company's legal counsel has advised that it is premature to determine the likelihood and extent of any damages. The Company has accrued a reserve for the estimated loss in relation to the settlement of the litigation.

**Subcontractors:**

Power Efficiency currently utilizes three subcontractors to manufacture the Company's controller boards. These subcontractors provide facilities, equipment, supervision and labor required to assemble; wire; check; test; package; and ship the controller boards. These subcontractors are hired on an as needed basis to produce a minimum number of units via a purchase order. Power Efficiency does not incur any liabilities to subcontractors until purchase orders are issued. No purchase orders were issued or outstanding to subcontractors at December 31, 2004. The Company plans to have manufacturing done by turn-key providers and as of December 31, 2004 was in the process of qualifying vendors.

**Investment Advisory Agreements:**

The Company entered into an investment consulting agreement with the former Chief Financial Officer on September 22, 2003. This agreement provides for the former officer to provide consulting services. The Company shall pay (i) the amount of \$4,000 per month, half payable on the 15 day and half payable on the last day of each month, (ii) \$7,000 per month accrued and payable at the rate of 5% of all cash raised through the issuance of debt or equity, and (iii) \$2,000 per month to assist in negotiations with creditors. In addition, the Company will reimburse all reasonable and necessary expenses incurred by the consultant. The agreement contains confidentiality and non-competition provisions. This agreement can be terminated in 30 days by either party by written notices. At December 31, 2004, the Company paid \$25,000 and issued 36,000 warrants, valued at approximately \$9,000, to satisfy this agreement in full.

The Company entered into an agreement with a registered securities broker dealer in February, 2004. In accordance with this agreement, the registered securities broker dealer serves as the Company's Note Placement Agent for the issuance of \$1,464,806 in senior, secured notes. The notes bear interest at 15% per annum and mature on October 27, 2005, and are presented net of unamortized discount of \$483,000 at December 31, 2004. The Company paid \$115,000 and issued 132,693 warrants as commissions to the registered securities broker dealer. Should the Company issue more notes under the same offering, the registered securities broker dealer has a right to receive 10% of the gross proceeds of the notes issued and an amount of warrants equal to 10% of the warrants issued to investors in the notes. However, there will be no fees on notes and warrants issued to any persons or entities that are the Company's directors, affiliates, officers or employees.

The Company entered into a consulting agreement with an investment advisor on December 1, 2004. The agreement calls for the investment advisor to assist the Company in devising financial and marketing strategies, and also to assist the Company in raising funds on a non-exclusive basis through the offering of debt and/or equity securities. The company shall pay the investment advisor the amount of \$3,000 per month, plus expenses approved by the Company, and issued 300,000 options, which resulted in an expense of approximately \$75,000. The sum of \$3,000 per month will be adjusted to \$5,000 per month once the Board of Directors and the Company agree to adjust the salaries of the Chief Executive Officer, Chief Financial Officer and the General Manager. The agreement contains confidentiality and non-competition provisions. The term of the agreement is 12 months and can be terminated by either party on a 90 day notice in writing.

**NOTE 14 RELATED PARTY TRANSACTIONS:**

During the years ended December 31, 2004 and 2003, consulting fees of \$31,000 and \$27,456 were paid to officers/directors/stockholders of the Company, respectively. These amounts are included in research and development and in selling, general and administrative expenses. On February 25, 2004, the Company released a strategic advisor from an agreement the Company's board of directors ratified on May 23, 2003. In connection with the release agreement, the strategic advisor was issued 35,714 warrants, valued at approximately \$9,000, to satisfy all remaining obligations in full.

In 2003, the Company incurred costs of \$19,550 for the development of their website. This work was performed by a relative of the Company's former President and Chief Executive Officer. On December 22, 2004, the Company entered into a settlement agreement with the relative of the Company's former President and Chief Executive Officer to pay \$375 and issue 39,000, valued at approximately \$10,000, options as payment for the costs incurred. As of December 31, 2004, this agreement was satisfied in full.

During 2003, the Company incurred legal fees of \$79,185 to a law firm, in which a partner in that firm and the firm are currently stockholders of the Company.

At December 31, 2004, the Company owes this law firm approximately \$40,000. Of this \$40,000, \$15,000 is to be paid shortly after December 31, 2004, and the remaining \$25,000 is to be paid when the Company raises financing of over \$1,000,000. Such amount is included on the balance sheet in accounts payable and accrued expenses.

On November 18, 2004, the Company's board of directors ratified an agreement with a management company, wholly owned by the current Chief Executive Officer of the company. The agreement is cancelable upon 30 days written notice by either party and calls for the Company to pay the management company a fee of \$20,000 per month. The Company also subleases office space in Las Vegas, Nevada from the management company under this agreement. The Company pays for 80% of the rent, general office expenses and utilities for the space, all of which is included in the monthly fee. Also included in the monthly fee are the salaries and benefits for the Chief Executive Officer, Chief Financial Officer and Administrator of the Company. As of December 31, 2004, management fees of \$40,000 was paid by the company.

**NOTE 15 SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:**

Cash paid during the year ended December 31, for:

|              | <u>2004</u> | <u>2003</u> |
|--------------|-------------|-------------|
| Interest     | \$ 2,237    | \$ 3,028    |
| Income Taxes | \$          | \$          |

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### NON-CASH INVESTING AND FINANCING ACTIVITIES:

|  |            |              |
|--|------------|--------------|
| Common stock issued in conjunction with the settlement of accounts payable, accrued expenses and the conversion of stockholders note payable | \$ 37,400  | \$ 466,875   |
| Warrants issued in connection with issuance of debt securities   | \$ 580,000 | \$           |
| Common stock issued for services rendered, deferred compensation and options issued below market value                                       | \$         | \$ 206,756   |
| Common stock issued related to an officer's employment contract  | \$         | \$ 418,500   |
| Preferred stock issued for conversion of debt to equity  | \$         | \$ 1,046,896 |

### NOTE 16 NOTES PAYABLE FORMER OFFICERS:

On September 15, 2003, the Company issued a \$115,000 promissory note payable to a former officer at the prime rate (5.25% at December 31, 2004). The note calls for monthly payments of \$5,000, principal and interest, which began on April 15, 2004 and matures on February 15, 2006. During the year ended December 31, 2004, the Company paid \$40,000 in principal.

On December 15, 2004, the Company issued a \$25,334 promissory note payable to a former officer, in connection with a settlement agreement (See Note 17), at 15%. The note calls for monthly payments of \$1,580, principal and interest, beginning January 2005 and matures on June 15, 2006.

### NOTE 17 EMPLOYMENT AND CONSULTING AGREEMENTS:

On October 20, 2004, the Company's Chief Technology Officer signed a salary reduction agreement, which supersedes an employment agreement the Company's board of directors ratified on May 23, 2001. The agreement provides for a salary of \$60,000 per year until such time that the company can reasonably afford to fund its business plan and pay executives higher salaries.

The agreement also provides for severance payments equal to the greater of (i) \$468,000 or (ii) the executive's base salary for the preceding three years, in the event that at any time during the employment term the agreement is terminated by the Company (a) without cause, (b) for disability, or (c) for death, or if the executive terminates the agreement for cause. The agreement also provides for a payment to the executive upon a change in control equal to the product of the executive's base salary in the year of the change in control times 2.99.

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

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On June 12, 2003, the Company entered into an employment agreement with a new Chief Executive Officer. In addition to a base salary, this individual also received 142,857 stock options, which will vest over a five-year period.

On August 27, 2004 this Chief Executive Officer resigned from the Company and the Company reached a settlement agreement that included the payment of some accrued wages and vacation in cash, some payment over time through an unsecured note with a principal balance of \$25,334, and the issuance of 85,000 warrants, valued at approximately \$22,000, for the purchase of the Company's common stock in lieu of cash payment. The warrants expire five years from the date of issuance.

On September 15, 2003, the Company entered into an employment agreement with a new Chief Financial Officer.

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

In September 2004 the Company hired its current Chief Executive Officer and Interim Chief Financial Officer. Their compensation and certain expenses are reimbursed pursuant to an agreement with a management company wholly owned by the Chief Executive Officer. (See Note 14).

### **NOTE 18 TRANSACTIONS WITH CURRENT AND FORMER OFFICERS:**

On September 30, 2003, the Company sold 76,663 shares of common stock to the chief technology officer of the Company, for \$466,875. The purchase price for the shares was paid for by canceling \$466,875 in debt owed by the Company to the officer. Additionally, the Company issued 32,143 shares of common stock to the officer as part of a settlement related to a change of control provision in his employment contract. The individual is an officer of the Company and the issuance of shares was exempt from registration under the Securities Act of 1933, as amended, pursuant to Regulation D. The common stock issued related to the change in control provision resulted in a non-recurring selling, general and administration expense of approximately \$196,000.

On October 16, 2003, the Company settled a dispute with its former president and chief executive officer regarding the early termination of his employment contract. According to the terms of the settlement, the former officer has released the Company from any claims he has against the Company in exchange for (i) an immediate payment of \$25,000; (ii) a promissory note for \$115,000 that is to be paid off over a two and one half year period; and (iii) 32,143 shares of the Company's common stock. The former officer is an accredited investor and the issuance of shares was exempt from registration under the Securities Act of 1933, as amended, pursuant to Regulation D. The Company had recorded an estimated settlement amount of approximately \$135,000 for this claim. Therefore, the settlement resulted in a non-recurring selling, general and administrative expense of approximately \$229,000.

### **NOTE 19 ISSUANCE OF SERIES A-1 CONVERTIBLE PREFERRED STOCK:**

Pursuant to the original issuance of Series A-1 Convertible Preferred Stock in June 2002, the Company has asked for and received on October 11, 2004, a waiver of certain anti-dilution rights so

that the issuance of up to a specific number of options and warrants with exercise prices of no less than \$0.65 per share will not trigger these anti-dilution rights. Had the waiver not been received, in the event that the Company issues shares at a price less than \$1.281 per share, the conversion rights of the Series A-1 Convertible Preferred Stock would have been adjusted so that the Series A-1 Convertible Preferred Stock can convert into such number of shares that Summit would have received had it bought common stock at such lower price. Furthermore, the conversion rights of the Series A-1 Convertible Preferred Stock would also have been adjusted in the event that any shares, warrants, options or promissory note is issued with a price or conversion price less than \$1.281 per share.

In the event of a Liquidation Event, the holders of the Series A-1 Convertible Preferred Stock are entitled to two times the price paid by Summit for such stock. Thereafter, the remaining corporate assets would be distributed among the holders of common stock and Series A-1 Convertible Preferred Stock on a pro rata basis. The existence of the Series A-1 Convertible Preferred Stock's anti-dilution provisions may reduce the percentage of common stock held by the public stockholders. Furthermore, the terms on which the Company could obtain additional capital may be adversely affected by the Series A-1 Convertible Preferred Stock's anti-dilution provisions and superior liquidation preference.

On June 7, 2004, Summit Energy Ventures notified the Company that it had transferred 1,747,587 of the Company's Series A-1 Convertible Preferred Stock and 1,645,404 of the Company's common stock to Commonwealth Energy Corporation, a former member of Summit Energy Ventures LLC. This transfer makes Commonwealth Energy Corporation the Company's single largest shareholder.

**NOTE 20 STOCKHOLDERS' EQUITY:**

During 2004, the Company issued 700,700 warrants to settle outstanding liabilities with former employees, consultants and vendors, 132,693 warrants for commissions related to the issuance of debt, and 1,752,882 warrants to noteholders. (See Note 11).

On February 26, 2004, the Company announced a 1 to 7 reverse stock split to be effective to stockholders of record as of March 1, 2004. All common stock share amounts and information related to the issuance of warrants and options and Per Share amounts have been restated to reflect this reverse stock split.

On December 31, 2003, the Company issued 24,805 shares of common stock for the settlement related to deferred compensation.

On November 6, 2003, the Company issued 982,504 shares of Series A-1 Convertible Preferred Stock for the conversion of \$1,046,896 of debt owed to Summit.

On October 16, 2003, the Company issued 64,286 shares of common stock related to the settlement requirements of a former officer's employment contract.

On September 30, 2003, the Company issued 76,663 shares of common stock to pay for amounts owed to an officer of the Company for notes payable, accounts payable and accrued salaries.

During 2003, the Company issued 40,357 shares of common stock related to the exercising of warrants. At various dates during 2003, the Company issued 665,803 shares of common stock related to the sale of the Company's common stock.

**NOTE 21 FAIR VALUE OF FINANCIAL INSTRUMENTS:**

SFAS No. 107 "Disclosure About the Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments. The carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of their short term nature. The carrying amounts of notes payable and longer term debt approximates fair value because those financial instruments bear interest at rates that approximate current market rates for loans with similar maturities and credit quality. None of these financial instruments are held for trading purposes.

**NOTE 22 SUBSEQUENT EVENTS (UNAUDITED):**

In February 2005, the Company began moving out of its temporary office space located in Carlstadt, New Jersey. The items in this office, including inventory, tools and standard office equipment and furniture, is being sent to three different places. These places include a new office space in Las Vegas, Nevada, a new office space in Floral Park, New York, and a contract manufacturer engaged by the Company to store and produce the Company's product.

In March 2005, the Company will begin subleasing space from Famair, Inc. in Floral Park, New York. The sublease gives the Company space primarily for research, development and technical support activities. The sublease costs the Company \$1,000 per month, which includes all utilities, cleaning, phone and internet, and the term is month-to-month.

On April 11, 2005, the Company will begin leasing roughly 1,500 square feet of office space Las Vegas, Nevada. The lease is between Glenborough IX LLC and a management company owned by the current Chief Executive Officer and was signed on February 7, 2005. On February 10, 2005, the Company's board of directors voted to assume all payments under this lease and indemnify the Chief Executive Officer's management company for all payments and obligations for the lease. The lease includes a payment of \$2,728 per month, which includes all cleaning and utilities, except phone and internet service. The term of the lease is one year.

On February 24, 2005, the Company entered into a financing transaction in which the Company issued \$125,000 in senior, secured notes under the same offering through which the Company issued \$1,464,806 in notes as described in Note 13. This offering was originally intended to close on December 31, 2004 but the Note Placement Agent and the Company agreed to keep the offering open past the original closing date. After the February 24 closing the offering was terminated.

The holders of the Notes will promptly be issued 115,385 warrants for every \$100,000 Note. With its issuance of \$125,000 in Notes, the Company will issue, in aggregate, 144,232 warrants. The Company paid the Note Placement Agent a commission of \$12,500 and 14,423 warrants with the same rights and provisions as the Warrants issued to the holders of the Notes.

On March 28, 2005 the Company extended by one year the maturity dates of secured debts that were issued on October 27, 2004 and February 24, 2005. The extended notes have a total principal value of \$1,514,806. \$1,414,806 in principal value will now mature on October 26, 2006, and \$100,000 in principal value will now mature on February 23, 2007. No other provisions of the secured notes have changed. Interest on the notes of 15% per year will be paid quarterly until maturity.

## POWER EFFICIENCY CORPORATION

## CONDENSED BALANCE SHEET

Unaudited

September 30,  
2005

## ASSETS

## CURRENT ASSETS:

|   |    |                  |
|---|----|------------------|
| Cash                                      | \$ | 1,626,826        |
| Accounts receivable, net                  |    | 92,172           |
| Inventory, net of reserve                 |    | 162,444          |
| Prepaid expenses and other current assets |    | 90,602           |
| <b>Total Current Assets</b>               |    | <b>1,972,044</b> |

## PROPERTY AND EQUIPMENT, Net

15,845

## OTHER ASSETS:

|                               |  |                  |
|-------------------------------|--|------------------|
| Patents, net                  |  | 12,221           |
| Goodwill                      |  | 1,929,963        |
| Website, net                  |  | 4,887            |
| Deferred financing costs, net |  | 98,193           |
| <b>Total Other Assets</b>     |  | <b>2,045,264</b> |

## Total Assets

\$ 4,033,153

## LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES:

|                                       |    |                |
|---------------------------------------|----|----------------|
| Accounts payable and accrued expenses | \$ | 456,623        |
| Accrued salaries and payroll taxes    |    | 65,574         |
| Notes payable                         |    | 79,236         |
| Notes payable former officers         |    | 43,918         |
| <b>Total Current Liabilities</b>      |    | <b>645,351</b> |

## LONG TERM LIABILITIES

|                                    |  |                  |
|------------------------------------|--|------------------|
| Notes payable Pali Capital, net    |  | 1,288,532        |
| Notes payable                      |  | 14,617           |
| <b>Total Long Term Liabilities</b> |  | <b>1,303,149</b> |

## Total Liabilities

1,948,500

## COMMITMENTS AND CONTINGENCIES



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September 30,  
2005

STOCKHOLDERS' EQUITY:

|   |              |
|---|--------------|
| Series A-1 Convertible Preferred Stock, \$.001 par value, 10,000,000 shares authorized, none issued and outstanding |              |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 23,439,266 issued and outstanding                    | 23,439       |
| Additional paid-in capital  | 19,146,792   |
| Accumulated deficit   | (17,085,578) |
|   | <hr/>        |
| Total Stockholders' Equity  | 2,084,653    |
|   | <hr/>        |
| Total Liabilities and Stockholders' Equity  | \$ 4,033,153 |
|   | <hr/>        |

Accompanying notes are an integral part of the financial statements

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## POWER EFFICIENCY CORPORATION

## CONDENSED STATEMENTS OF OPERATIONS

## Unaudited

|  | For the three months ended Sept 30, |                     | For the nine months ended Sept 30, |                       |
|--|-------------------------------------|---------------------|------------------------------------|-----------------------|
|  | 2005                                | 2004                | 2005                               | 2004                  |
| <b>REVENUES</b>                                      |                                     |                     |                                    |                       |
| Product, net   | \$ 75,952                           | \$ 46,585           | \$ 221,737                         | \$ 188,005            |
| Miscellaneous  |                                     | 18,130              |                                    | 30,855                |
| <b>Total Revenues</b>                                | <b>75,952</b>                       | <b>64,715</b>       | <b>221,737</b>                     | <b>218,860</b>        |
| <b>COMPONENTS OF COST OF PRODUCT REVENUES:</b>       |                                     |                     |                                    |                       |
| Material and labor                                   | 56,092                              | 20,712              | 167,924                            | 88,505                |
| Allocated costs                                      | 4,353                               | 5,285               | 19,059                             | 41,815                |
| Inventory obsolescence and other write-offs          |                                     |                     |                                    | 29,484                |
| <b>Total Cost of Product Revenues</b>                | <b>60,445</b>                       | <b>25,997</b>       | <b>186,983</b>                     | <b>159,804</b>        |
| <b>GROSS MARGIN</b>                                  | <b>15,507</b>                       | <b>38,718</b>       | <b>34,754</b>                      | <b>59,056</b>         |
| <b>COSTS AND EXPENSES:</b>                           |                                     |                     |                                    |                       |
| Research and development                             | 186,668                             | 82,469              | 313,318                            | 290,766               |
| Selling, general and administration                  | 461,317                             | 378,030             | 1,073,528                          | 1,288,327             |
| Depreciation and amortization                        | 5,032                               | 18,007              | 17,360                             | 55,510                |
| <b>Total Costs and Expenses</b>                      | <b>653,017</b>                      | <b>478,506</b>      | <b>1,404,206</b>                   | <b>1,634,603</b>      |
| <b>LOSS FROM OPERATIONS</b>                          | <b>(637,510)</b>                    | <b>(439,788)</b>    | <b>(1,369,452)</b>                 | <b>(1,575,547)</b>    |
| <b>OTHER (EXPENSE) INCOME</b>                        |                                     |                     |                                    |                       |
| Interest (expense) income net                        | (130,217)                           | (8,858)             | (391,398)                          | (16,454)              |
| <b>Total Other (Expense) Income</b>                  | <b>(130,217)</b>                    | <b>(8,858)</b>      | <b>(391,398)</b>                   | <b>(16,454)</b>       |
| <b>NET LOSS</b>                                      | <b>\$ (767,727)</b>                 | <b>\$ (448,646)</b> | <b>\$ (1,760,850)</b>              | <b>\$ (1,592,001)</b> |
| <b>BASIC AND FULLY DILUTED LOSS PER COMMON SHARE</b> |                                     |                     |                                    |                       |
|  | \$ (.03)                            | \$ (.09)            | \$ (.16)                           | \$ (.36)              |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>    |                                     |                     |                                    |                       |
|  | 23,258,497                          | 5,020,447           | 11,122,128                         | 4,426,976             |

Accompanying notes are an integral part of the financial statements

**POWER EFFICIENCY CORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOWS**

**Unaudited**

|  | For the nine months ended Sept 30, |                  |
|--|------------------------------------|------------------|
|  | 2005                               | 2004             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                    |                  |
| Net loss   | \$ (1,760,850)                     | \$ (1,592,001)   |
| Adjustments to reconcile net loss to net cash used for operating activities:   |                                    |                  |
| Depreciation and amortization  | 17,360                             | 55,510           |
| Amortization of deferred financing costs   | 63,982                             |                  |
| Bad debt expense   | 4,530                              | 5,493            |
| Inventory obsolescence reserve and other write-offs  |                                    | 29,484           |
| Loss on sale of fixed assets   |                                    | 31,226           |
| Debt discount related to issuance of debt securities   | 181,726                            |                  |
| Settlement of litigation   | 93,853                             |                  |
| Warrants and options issued in connection with the issuance of debt securities, employment agreements, and consulting fees | 27,549                             |                  |
| Changes in assets and liabilities:   |                                    |                  |
| (Increase) Decrease in:  |                                    |                  |
| Accounts receivable  | (65,165)                           | 14,010           |
| Inventory  | 25,373                             | 40,518           |
| Prepaid expenses and other current assets  | (20,916)                           | (13,481)         |
| Restricted cash for interest escrow  | 165,416                            |                  |
| Increase(Decrease) in:   |                                    |                  |
| Accounts payable and accrued expenses  | (180,742)                          | 298,236          |
| Customer deposits  |                                    | 6,983            |
| Accrued salaries and payroll taxes   | (62,893)                           | 386,383          |
| <b>Net Cash Used for Operating Activities</b>  | <b>(1,510,777)</b>                 | <b>(737,639)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                    |                  |
| Purchase of property and equipment   | (1,373)                            | (21,576)         |
| <b>Net Cash Used for Investing Activities</b>  | <b>(1,373)</b>                     | <b>(21,576)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                    |                  |
| Deferred financing costs   | (63,457)                           |                  |
| Proceeds from line of credit related party   | 300,000                            | 300,000          |
| Proceeds from issuance of equity securities  | 2,741,378                          | 184,800          |
| Proceeds from issuance of debt securities  | 125,000                            |                  |
| Payments on line of credit related party   | (300,000)                          |                  |
| Payments to former officers  | (56,416)                           | (10,000)         |
| <b>Net Cash Provided by Financing Activities</b>   | <b>2,746,505</b>                   | <b>474,800</b>   |
| Increase(Decrease) in cash   | 1,234,355                          | (284,415)        |
| Cash at beginning of period  | 392,471                            | 285,508          |
| Cash at end of period  | \$ 1,626,826                       | \$ 1,093         |

Explanation of Responses:

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For the nine months ended Sept 30,

|  |    |    |        |
|--|----|----|--------|
| NON-CASH FINANCING TRANSACTIONS Common stock issued in conjunction with the settlement of accounts payable and accrued salaries\ payroll\ other expenses | \$ | \$ | 37,400 |
|--|----|----|--------|

Accompanying notes are an integral part of the financial statements

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**NOTE 1 BASIS OF PRESENTATION**

The accompanying financial statements have been prepared by the Company, without an audit. In the opinion of management, all adjustments have been made, which include normal recurring adjustments necessary to present fairly the condensed financial statements. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the operating results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The Company believes that the disclosures provided are adequate to make the information presented not misleading. Certain amounts in the financial statements have been reclassified from prior period presentations. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report for the year ended December 31, 2004 on Form 10-KSB, Form 10-KSB/A 1, Form 10-KSB/A 2 and SB-2.

The preparation of condensed financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 GOING CONCERN:**

The accompanying financial statements have been prepared assuming the Company is a going concern, which assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company suffered recurring losses from operations, a recurring deficiency of cash from operations, including a cash deficiency of approximately \$1,510,000 from operations for the nine months ended September 30, 2005, and lacks sufficient liquidity to continue its operations.

On July 8, 2005 and on August 31, 2005, the Company closed a private offering of Common Stock which grossed \$2,900,000, and produced net proceeds of \$2,232,750, from which the Company will use to fund its operations (see Note 5). It is anticipated that such net proceeds will last for up to 15 months. When our operations require additional financing, if we are unable to obtain it on reasonable terms, we would be forced to restructure, file for bankruptcy or cease operations.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount of liabilities that might be necessary should the Company be unable to continue in existence. Continuation of the Company as a going concern is dependent upon achieving profitable operations in the long-term and raising additional capital to support existing operations for at least the next twelve months. Management's plans to achieve profitability include developing new products, obtaining new customers and increasing sales to existing customers.

**NOTE 3 NOTES PAYABLE**

On February 24, 2005, the Company entered into a financing transaction in which the Company issued \$125,000 in senior secured notes under the same offering through which the Company issued \$1,464,806 in senior secured notes in October 2004. This offering was originally intended to close on December 31, 2004, however, the placement agent and the Company agreed to keep the offering open past the original closing date. After the February 24 closing the offering was terminated. Under the original terms, all of the senior secured notes were to become due one year after issuance, but on March 28, 2005, the Company received consent, from all of the senior secured note holders of the first

and secondary offering, to extend the maturity date for an additional year. Accordingly, these notes will now mature in October 2006 and February 2007, respectively.

The holders of the \$125,000 in notes issued in February were issued 144,232 warrants, with an exercise price of \$0.65 per share. The value of such warrants approximates \$24,000 and was reflected as debt discount which is being amortized to interest expense over the term of the notes. The Company paid a placement agent a commission of \$12,500 and 14,423 warrants which are being amortized over the life of the notes, with the same rights and provisions as the warrants issued to the holders of the notes.

#### **NOTE 4 RELATED PARTY TRANSACTIONS**

On June 9, 2005 and on June 16, 2005, the Company entered into financing transactions in which the Company issued a \$200,000 convertible, unsecured note, and a \$100,000 convertible, unsecured note respectively (collectively, the "Bridge Notes") to Summit Energy Ventures LLC, an entity owned entirely by the Company's current Chief Executive Officer, and Chief Operating Officer and Chief Financial Officer that is also one of the Company's principal stockholders. The Notes bear interest of 10% per annum. The Bridge Notes' accrued interest and principal were due on July 23, 2005. The Bridge Notes were converted into equity on July 8, 2005 (see Note 5).

#### **NOTE 5 STOCKHOLDERS' EQUITY**

On July 8, 2005 the Company completed the first closing of private offering of Common Stock (the "Offering") for \$2,430,000, which netted approximately \$1.8 million. On August 31, 2005 the Company completed the second and final closing under the Offering for \$470,000, which netted approximately \$400,000. In this offering, the Company issued a total of 14,500,000 shares of Common Stock and 7,250,000 Common Stock Warrants (the "Investor Warrants"). The per share purchase price of the Common Stock was \$0.20 (the "Common Stock Purchase Price"). The Investor Warrants have a per share exercise price of \$0.44 and expire 5 years from the date of issuance. The value of the Investor Warrants was approximately \$990,000.

Joseph Stevens & Company, Inc. (the "Placement Agent"), a registered broker dealer, acted as the sole placement agent for the Offering. For its services, the Placement Agent received commissions and non-accountable fees totaling \$237,900 and 3,450,000 warrants (the "Placement Agent Warrants"). The Placement Agent Warrants have a per share exercise price of \$0.20 and expire five years from the date of issuance. The value of the Placement Agent Warrants was approximately \$832,000.

Two convertible notes (the "Bridge Notes") issued by the Company, to Summit Energy Ventures, LLC, on June 9, 2005 and June 16, 2005, in the aggregate principal amount of \$300,000, were converted into 1,500,000 shares of common stock and 750,000 Investor Warrants on the same terms as those offered to investors in the Offering and no commissions, fees or securities were issued to the Placement Agent in connection with such conversion.

On July 8, 2005, the Company's 4,714,279 shares of outstanding Series A-1 Preferred Stock were converted into 3,918,848 shares of common stock.

In conjunction with the Offering, the Company entered into an agreement with the Placement Agent (the "Placement Agency Agreement"). The Placement Agency Agreement requires, among other things, the Company to pay certain fees related to the Offering; provides the Placement Agent a right of first refusal to manage any private or public offering of equity securities of the Company, under certain defined conditions, for a period of one year after the Offering; requires the Company to enter Lock-Up Agreements (as defined below) with all of the Company's directors, officers and significant shareholders; grants the investors in the Offering and the Placement Agent certain registration rights,

which require the Company to register their common stock as well as the common stock underlying the Investor Warrants and Placement Agent Warrants through filing a registration statement within sixty (60) days of closing the Offering, and make the registration statement effective (the "Effective Date") within one hundred and twenty days (120) of closing the Offering; and grants the common stock, Investor Warrants and Placement Agent Warrants issued through the Offering "weighted average" anti-dilution protection for subsequent issuances of common stock (or securities convertible into common stock) at less than the Common Stock Purchase Price.

On various dates preceding July 8, 2005, the Company entered into lock-up agreements (the "Lock-Up Agreements") with all of the Company's officers, members of the board of directors and shareholders that held, prior to the Offering, more than 5% of the outstanding shares of the Company's common stock. Specifically, the persons entering Lock-Up Agreements with the Company included: Nicholas Anderson, Leonard Bellezza, John (BJ) Lackland, Rick Pulford, Raymond Skiptunis, Steven Strasser, Commerce Energy Group, and Summit Energy Ventures LLC. The Lock-Up Agreements restrict all of these Persons from selling any shares of common stock for a period of twelve months from the Effective Date (the "Lock-Up Period"); provided, however, that the Lock-Up Period shall terminate if at any time after the date which is ninety days after the Effective Date, the 20-day average of the closing bid price of the shares of common stock on the OTC Bulletin Board exceeds two hundred percent of the Common Stock Purchase Price of \$0.20, or \$0.40.

#### **NOTE 6 SUBSEQUENT EVENTS**

On September 15, 2005, the Board of Directors of the Company unanimously voted to recommend to the shareholders that the Articles of Incorporation be amended to increase the Company's authorized shares of Common Stock from 50,000,000 shares to 100,000,000 shares. On October 13, 2005, a majority of the shareholders voted to amend the Articles of Incorporation to increase the Company's authorized shares.

On October 17, 2005, the Company settled litigation with the owner of the former office space in Livonia, Michigan. The Company vacated these facilities in 2004. Under the settlement the Company paid its former landlord \$50,000 in cash on October 17, 2005, and will pay the former landlord an additional \$50,000 in 18 monthly installments of \$2,778. After application of the Company's accrued loss contingency reserve, it recognized a loss of approximately \$65,000 on its September 30, 2005 financial statements.

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 24. Indemnification of Directors and Officers**

The Registrant's certificate of incorporation provides that the personal liability of the directors of the Registrant 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 the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that the certificate of incorporation does not eliminate the liability of a director for (1) any breach of the director's duty of loyalty to the Registrant or its stockholders; (2) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (3) acts or omissions in respect of certain unlawful dividend payments or stock redemptions or repurchases; or (4) any transaction from which such director derives an improper personal benefit. The effect of this provision is to eliminate the rights of the Registrant and its stockholders 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 (1) through (4) above. The limitations summarized above, however, do not affect the ability of the Registrant or its stockholders to seek nonmonetary remedies, such as an injunction or rescission, against a director for breach of her or his fiduciary duty.

In addition, the certificate of incorporation provides that the Registrant shall, to the fullest extent permitted by Section 145 of the DGCL, indemnify all persons whom it may indemnify pursuant to Section 145 of the DGCL. In general, Section 145 of the DGCL permits the Registrant to indemnify a director, officer, employee or agent of the Registrant or, when so serving at the Registrant's request, another company who was or is a party or is threatened to be made a party to any proceedings because of his or her position, if he or she acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal action or proceeding, has no reasonable cause to believe his or her conduct was unlawful.

The Registrant maintains a directors' and officers' liability insurance policy covering certain liabilities that may be incurred by any director or officer in connection with the performance of his or her duties and certain liabilities that may be incurred by the Registrant, including the indemnification payable to any director or officer. The entire premium for such insurance is paid by the Registrant.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers, or persons controlling the Company pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

**Item 25. Other Expenses of Issuance and Distribution**

The following table sets forth the fees and expenses, other than any underwriting discounts and commissions incurred by us in connection with the issue and distribution of our common stock being registered. All amounts are estimates except the SEC registration fee.

|                      |           |
|----------------------|-----------|
| SEC Registration Fee | \$ 2,201  |
| Legal Fees           | 40,000    |
| Accounting Fees      | 10,000    |
| Printing Fees        | 6,000     |
| Miscellaneous        | 1,000     |
|                      | <hr/>     |
|                      | \$ 59,201 |

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**Item 26. Recent Sales of Unregistered Securities**

During the last three years, we have issued unregistered securities as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, except as specified below, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder. All recipients had adequate access, through their relationships with us, to information about us.

*Sales Made to Summit and Commonwealth Energy Corporation and Affiliates*

The following details several different sales of unregistered securities the Registrant made to Summit Ventures, LLC, a private equity firm specializing in energy related technologies ("Summit"). All of the sales were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act.

In June 2002, the Registrant issued 2,346,233 shares of Series A-1 Convertible Preferred Stock to Summit for a purchase price of \$2,380,000 (net of issuance costs of \$120,000). In October 2003, the Registrant issued an additional 982,504 shares of Series A-1 Convertible Preferred Stock to Summit when Summit converted principal and interest of \$1,046,896 that was outstanding under a convertible note the Registrant issued to Summit in May 2003.

The Series A-1 Convertible Preferred Stock provides the holders of the Series A-1 Convertible Preferred Stock with protection against dilution. In the event that the Registrant issues shares at a price less than \$1.281 per share, the conversion rights of the Series A-1 Convertible Preferred Stock will be adjusted so that the Series A-1 Convertible Preferred Stock can convert into such number of shares that Summit would have received had it bought common stock at such lower price. Furthermore, the conversion rights of the Series A-1 Convertible Preferred Stock will also be adjusted in the event that any shares, warrants, options or promissory note is issued with a price or conversion price less than \$1.281 per share. The Registrant has asked for and received on October 11, 2004, a waiver of these anti-dilution rights so that the issuance of up to a specific number of options and warrants with exercise prices of no less than \$0.65 per share will not trigger these anti-dilution rights. Currently the conversion rights of the Series A-1 Convertible Preferred Stock entitle the holder to receive 0.83 shares of common stock for each share of Series A-1 Convertible Preferred Stock. On April 28, 2005, the Registrant issued 1,204,819 shares of Series A-1 Convertible Preferred Stock, convertible into 1,000,000 shares of Common Stock, and Warrants to purchase 500,000 shares of Common Stock to Summit for an aggregate purchase price of \$200,000 in cash. The requisite percentage of the current holders of the Series A-1 Convertible Preferred Stock consented to such issuance and waived the applicability of the anti-dilution provisions of the Series A-1 Stock to it. In the event of a Liquidation Event, the holders of the Series A-1 Convertible Preferred Stock are entitled to two times the price paid by Summit for such stock. Thereafter, the remaining corporate assets would be distributed among the holders of common stock and Series A-1 Convertible Preferred Stock on a pro rata basis. The existence of the Series A-1 Convertible Preferred Stock's anti-dilution provisions may reduce the percentage of common stock held by the public stockholders. Furthermore, the terms on which the Company could obtain additional capital may be adversely affected by the Series A-1 Convertible Preferred Stock's anti-dilution provisions and superior liquidation preference.

On June 7, 2004, Summit notified the Registrant that it had transferred 1,747,587 of the Registrant's Series A-1 Convertible Preferred Stock and 1,645,404 of the Registrant's common stock to Commonwealth Energy Corporation, a former member of Summit. This transfer made Commonwealth Energy Corporation the Registrant's single largest shareholder.

On April 28, 2005, the Registrant issued 180,723 shares of Series A-1 stock, convertible into 150,000 shares of Common Stock, and Warrants to purchase 75,000 shares of Common Stock, to Commerce Energy Group, Inc., an affiliate of Commerce Energy Corporation, in consideration of

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Commerce Energy Group's cancellation of a license agreement with the Registrant. The requisite percentage of current holders consented and waived the anti-dilution provisions.

### *Sales Made to Purchasers Other than Summit and Commonwealth Energy Corporation and Affiliates*

On April 18, 2005, the Registrant entered into a letter of intent with Joseph Stevens & Company, Inc. ("JS"), providing for the private offering (on a "best efforts" basis) by JS to accredited investors of a minimum of \$1,000,000 to a maximum of \$3,000,000 in value of Common Stock, together with Warrants to purchase shares of Common Stock equal to 50% of the shares sold in the offering in a transaction intended to be exempt from registration under the Securities Act pursuant to Rule 506 promulgated under Regulation D.

On various dates from February 2004 to June 2004, the Registrant issued 13,580 shares of common stock to Richard Koch, the former President and Chief Executive Officer of the Registrant. These shares were issued in conjunction with the settlement of certain accounts payable and accrued expenses related to his employment agreement.

On various dates from May 2003 to February 2004, the Registrant issued 682,156 shares of common stock to Starz Investments Limited, a Belize company. The Registrant received \$1,423,760 for these shares and paid \$88,276 in commissions to Burnham Securities. Additionally, the Registrant also issued Burnham Securities 48,303 common stock purchase warrants as compensation related to these transactions. The warrants had strike prices that varied from approximately \$1.40 to \$1.75. These warrants were exercised cashlessly resulting in 32,958 shares being issued at an effective strike price of zero. The sales of stock to Starz Investments Limited were exempt from registration under the Securities Act pursuant to Regulation S promulgated under the Securities Act. The issuance of the warrants to Burnham Securities was exempt from registration under the Securities Act pursuant to section 4(2) of the Securities Act. Burnham Securities cashlessly exercised the warrants on various dates and received 33,673 shares.

On February 26, 2004, the Registrant issued 174 shares of common stock to Leonard Bellezza. The shares were issued in exchange for the cancellation of debt owed to Mr. Bellezza in the amount of \$800. The issuance was exempt from registration under the Securities Act pursuant to Regulation D. Mr. Bellezza is a director of the Registrant.

On January 8, 2004, the Registrant issued 15,397 shares of common stock to Raymond Skiptunis. The shares were issued in exchange for the cancellation of debt owed to Mr. Skiptunis in the amount of \$71,130. The issuance was exempt from registration under the Securities Act pursuant to Regulation D. Mr. Skiptunis is a director of the Registrant.

On various dates from December 2003 to February 27, 2004, the Registrant issued 15,103 shares of common stock to Richard Koch. The shares were issued in exchange for the cancellation of debt owed to Mr. Koch in the amount of \$60,866. The issuances were exempt from registration under the Securities Act pursuant to Regulation D. At the time, Mr. Koch was the Chief Executive Officer and a director of the Registrant.

On October 3, 2003, the Registrant issued 32,145 shares of common stock to its former Chief Executive Officer, Stephen Shulman. The shares were issued in connection with the settlement of a claim Mr. Shulman made against the Registrant pursuant to a change of control provision in his employment agreement. The issuance was exempt from registration under the Securities Act pursuant to Regulation D. Mr. Shulman is an accredited investor.

On September 30, 2003, the Registrant issued 76,663 shares of common stock to Nicholas Anderson. The shares were issued in exchange for the cancellation of debt owed to Mr. Anderson in the amount of \$466,875. The issuance was exempt from registration under the Securities Act pursuant to Regulation D. Mr. Anderson is the Chief Technology Officer and a director of the Registrant.

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On September 30, 2003, the Registrant issued 32,143 shares of common stock to Nicholas Anderson. The shares were issued in connection with the settlement of a potential claim Mr. Anderson had against the Registrant pursuant to a change of control provision in his employment agreement. The issuance was exempt from registration under the Securities Act pursuant to Regulation D. Mr. Anderson is the Chief Technology Officer and a director of the Registrant.

On various dates during the first half of 2003, the Registrant issued 40,357 shares of common stock to various accredited investors in connection with a private placement pursuant to section 4(2) of the Securities Act. The shares were issued for an aggregate consideration of \$158,200. The issuance was exempt from registration under the Securities Act pursuant to Regulation D. The investors were all accredited investors.

In early 2003, the Registrant issued 13,889 shares of common stock to an investment banker for advisory and consulting services. The issuance was exempt from registration under the Securities Act pursuant to Regulation D.

In June, July and August of 2005, we conducted a private offering of our Common Stock and Placement Warrants, for the issuance of our Common Stock (the "Placement Securities"). We offered up to 50 Units, at \$50,000 each, to individuals or entities who qualified as "accredited investors" as defined in Rule 501 of Regulation D promulgated under the Securities Act. Each Unit consists of (a) a number of shares of Common Stock which is determined by dividing \$50,000 by a price equal to 50% of the 5-day average of the closing bid price of the shares of Common Stock on the OTC Bulletin Board on the last trading day immediately prior to the closing of the Placement, with a floor on the purchase price of \$0.20 and a ceiling on the purchase price of \$0.325; and (b) a warrant (each a "Placement Warrant" and, collectively, the "Placement Warrants") to purchase prior to the fifth (5th) anniversary following the closing a number of shares of Common Stock equal to 50% of the number of shares of Common Stock included within each Unit, at a price which is equal to 200% of the 5-day average of the closing sales price of the shares of Common Stock on the OTC Bulletin Board prior to the closing, per share of Common Stock. The Placement closed on August 31, 2005 and resulted in gross proceeds of \$2,900,000. The Placement requires us (a) to file this Registration Statement with the SEC within 60 days following the final closing of the offering and (b) to use our reasonable best efforts to have such declared effective within 120 days from the final closing of the offering. As part of this Registration Statement, and Placement Securities stemming from the Placement, we are registering 14,500,000 of shares of our Common Stock and 10,700,000 shares of Common Stock reserved for issuance upon exercise of the Placement Warrants.

### Item 27. Exhibits and Financial Statement Schedules

(a)

Exhibits

See Exhibit Index at page II-9.

(b)

Financial Statement Schedules

All such schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

### Item 28. Undertakings

The undersigned small business issuer hereby undertakes to:

(1) For determining any liability under the Securities Act, treat the information omitted from this form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small business issuer under Rule 424(b)(1), or (4) or 497(h) under the Securities Act of 1933 as part of this registration statement as of the time the Securities and Exchange Commission declared it effective.

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(2) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in this registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

The undersigned small business issuer hereby undertakes with respect to the securities being offered and sold in this offering:

- (1) To file, during any period in which it offers or sells securities, a post-effective amendment to this Registration Statement to:
  - (a) Include any prospectus required by Section 10(a)(3) of the Securities Act;
  - (b) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
  - (c) Include any additional or changed material information on the plan of distribution.
- (2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.
- (3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

Insofar as indemnification by the undersigned small business issuer for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable.

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### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned in the City of Las Vegas, State of Nevada on December 14, 2005.

POWER EFFICIENCY CORPORATION

By:                   /s/ STEVEN S. STRASSER

Steven S. Strasser

*Chairman and Chief Executive Officer*

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steven S. Strasser and John (BJ) Lackland as their true and lawful attorneys-in-fact and agents, with full power of substitution, with power to act alone, to sign (1) any and all amendments (including post-effective amendments) to this Registration Statement and (2) any registration statement or post-effective amendment thereto to be filed with the Securities and Exchange Commission pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this Registration Statement was signed by the following persons in the capacities and on the dates stated:

| <u>Name</u>   | <u>Title</u>   | <u>Date</u>      |
|---|--|------------------|
| <u>                  /s/ STEVEN S.<br/>STRASSER</u> | Chairman and Chief Executive Officer (Principal Executive Officer)                               | December 7, 2005 |
| Steven S. Strasser                                  |  |                  |
| <u>                  /s/ JOHN (BJ)<br/>LACKLAND</u> | Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer) | December 7, 2005 |
| John (BJ) Lackland                                  |  |                  |
| <u>                  /s/ NICHOLAS<br/>ANDERSON</u>  | Director   | December 7, 2005 |
| Nicholas Anderson                                   |  |                  |
| <u>                  /s/ GARY RADO</u>              | Director   | December 7, 2005 |
| Gary Rado   |  |                  |
| <u>                  /s/ ERIC NAROIAN</u>           | Director   | December 7, 2005 |
| Eric Naroian  |  |                  |
| <u>                  /s/ LEONARD<br/>BELLEZZA</u>   | Director   | December 7, 2005 |
| Leonard Bellezza                                    |  |                  |

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| Name                        | Title    | Date             |
|-----------------------------|----------|------------------|
| /s/ RICHARD D.<br>PULFORD   | Director | December 7, 2005 |
| Richard D. Pulford          |          |                  |
| /s/ RAYMOND J.<br>SKIPTUNIS | Director | December 7, 2005 |
| Raymond J. Skiptunis        |          |                  |

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## EXHIBIT INDEX

### Description of Document

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | Certificate of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-SB filed on October 20, 2000.  |
| 3.2                   | Amendment to the Certificate of Incorporation of the Registrant dated June 5, 2002, incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on June 18, 2002.  |
| 3.3                   | Amendment to the Certificate of Incorporation of the Registrant dated July 6, 2005, incorporated by reference to Exhibit 3.3 to Registrant's Form SB-2 Registration Statement filed October 25, 2005.  |
| 3.4                   | Amendment to the Certificate of Incorporation of the Registrant dated October 13, 2005, incorporated by reference to Exhibit 3.4 to Registrant'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 Registrant's Quarterly Report on Form 10-QSB filed on May 14, 2004.  |
| 4.1                   | Stock Purchase Agreement dated June 14, 2002, incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed on June 18, 2002.  |
| 4.2                   | Registration Rights Agreement dated June 14, 2002, incorporated by reference to Exhibit 4.4 to Registrant's Current Report on Form 8-K filed on June 18, 2002.   |
| 4.3                   | Certificate of Designation dated June 13, 2002, incorporated by reference to Exhibit 4.5 to Registrant's Current Report on Form 8-K filed on June 18, 2002.  |
| 4.4                   | 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 Registrant's Current Report on Form 8-K filed on May 25, 2003.   |
| 4.5                   | Specimen common stock Certificate of the Registrant; incorporated by reference to Exhibit 4.5 to the Registrant's Form SB-2/A Registration Statement filed December 8, 2005.   |
| 4.6                   | Agreement dated April 22, 2005, between the Registrant and Summit Energy Ventures, LLC, for the issuance of preferred stock and warrants, incorporated by reference to Exhibit 4.6 to Registrant's Form SB-2 Registration Statement filed October 25, 2005.                            |
| 4.7                   | Agreement dated April 22, 2005, between the Registrant and Commerce Energy Group, Inc., for the issuance of preferred stock and warrants, incorporated by reference to Exhibit 4.7 to Registrant's Form SB-2 Registration Statement filed October 25, 2005.                            |
| 4.8                   | Letter of Intent dated April 18, 2005, between the Registrant and Joseph Stevens & Company, Inc., with respect to the private offering of common stock and warrants, incorporated by reference to Exhibit 4.8 to Registrant's Form SB-2 Registration Statement filed October 25, 2005. |
| 5.1                   | Opinion of Jones Vargas as to the legality of the Registrant's common stock; incorporated by reference to Exhibit 5.1 to the Registrant's Form SB-2/A Registration Statement filed December 8, 2005.   |

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- 10.1 Lease Agreement for Registrant's Ann Arbor, Michigan facility dated February 16, 1996, incorporated by reference to Exhibit 10(c) to Registrant's Annual Report on Form 10-SB filed on October 20, 2000.
- 10.2 Stock Purchase Warrant dated June 14, 2002, incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K filed on June 18, 2002.
- 10.3 Amended and Restated Stockholders' Agreement dated June 14, 2002, incorporated by reference to Exhibit 4.3 to Registrant's Current Report on Form 8-K filed on June 18, 2002.
- 10.4 United States Patent #5,821,726, incorporated by reference to Exhibit 10(g) to Registrant's Annual Report on Form 10-SB filed on October 20, 2000.
- 10.5 1994 Stock Option Plan, incorporated by reference to Exhibit 10(i) to Registrant's Annual Report on Form 10-SB filed on October 20, 2000.
- 10.6 Patent License Agreement (DN-858) with NASA, incorporated by reference to Exhibit 10.10 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.7 Patent License Agreement (DE-256) with NASA incorporated by reference to Exhibit 10.11 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.8 Settlement and Release Agreement with NASA incorporated by reference to Exhibit 10.12 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.9 Modification No. 1 to Patent License Agreement (DE-256) with NASA, incorporated by reference to Exhibit 10.13 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.10 Product Warranty, incorporated by reference to Exhibit 10.16 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.11 Test Report from Medsker Electric, Inc., incorporated by reference to Exhibit 10.17 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.12 Test Report from Oak Ridge National Laboratory, incorporated by reference to Exhibit 10.18 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.13 Test Report from Oregon State University The Motor Systems Resource Facility, incorporated by reference to Exhibit 10.19 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.14 Test Report from Otis Elevator Co., incorporated by reference to Exhibit 10.20 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.15 Employment Agreement with Stephen Shulman, incorporated by reference to Exhibit 10.23 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.16 Employment Agreement with Nicholas Anderson, incorporated by reference to Exhibit 10.24 to Registrant's Amended Annual Report on Form 10-SB/A filed on October 26 2001.
- 10.17 Employment Agreement with Raymond J. Skiptunis, incorporated by reference to Exhibit 10.24 to Registrant's Annual Report on Form 10-KSB filed on March 31, 2003.
- 10.18 Revolving Credit Note dated May 8, 2003, incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed May 25, 2003.



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- 10.19 Security Agreement dated May, 2003, incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed May 25, 2003.
- 10.20 Certificate of Amendment of Warrant, incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed May 25, 2003.
- 10.21 Employment Agreement with Richard Koch dated June 9, 2003, incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed June 20, 2003.
- 10.22 Settlement and Release Agreement with Raymond J. Skiptunis dated June 9, 2003, incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed June 20, 2003.
- 10.23 Employment Agreement with Raymond J. Skiptunis dated June 9, 2003 incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed June 20, 2003.
- 10.24 Employment Agreement with Keith Collin dated November 13, 2003, incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.25 Employment Agreement with Thomas Mills dated October 6, 2003, incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.26 Subscription Agreement with Nicholas Anderson dated September 30, 2003, incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.27 Settlement Agreement with Nicholas Anderson dated September 30, 2003, incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.28 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 Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.29 Promissory Note granted to Stephen Shulman dated September 15, 2003 incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.30 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 Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.31 Regulation S Stock Purchase Agreement with Starz Investments Limited dated April 23, 2003, incorporated by reference to Exhibit 10.9 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.32 Addendum to the Regulation S Stock Purchase Agreement dated June 13, 2003 incorporated by reference to Exhibit 10.10 to Registrant's Quarterly Report on Form 10-QSB filed November 14, 2003.
- 10.33 Warrant Agreement with Summit Energy Ventures, LLC dated February 26, 2004, incorporated by reference to Exhibit 10.33 to Registrant's Current Report on Form 8-K filed February 27, 2004.

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- 10.34 Consulting Agreement with Raymond Skiptunis dated September 22, 2003, incorporated by reference to Exhibit 10.35 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.35 Business Property Lease with Arens Investment Company dated November 1, 2003, incorporated by reference to Exhibit 10.36 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.36 Subscription Agreement with Richard Koch dated December 23, 2003, incorporated by reference to Exhibit 10.37 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.37 Subscription Agreement with Raymond Skiptunis dated January 8, 2004, incorporated by reference to Exhibit 10.38 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.38 Subscription Agreement with Leonard Bellezza dated February 16, 2004, incorporated by reference to Exhibit 10.39 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.39 Letter agreement with Pali Capital, Inc. dated February 25, 2004, incorporated by reference to Exhibit 10.40 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.40 Amended and Restated 2000 Stock Option and Restricted Stock Plan dated February 23, 2004, incorporated by reference to Exhibit 10.41 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.41 Amended and Restated 1994 Stock Option Plan, incorporated by reference to Exhibit 10.42 to Registrant's Annual Report on Form 10-KSB filed March 10, 2004.
- 10.42 Line of Credit Agreement with Summit Energy Ventures, LLC, incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed May 5, 2004.
- 10.43 Single Phase Licensing Agreement with Commerce Energy Group, incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-QSB filed November 15, 2004.
- 10.44 Settlement and Consulting Agreement with Ray Skiptunis dated September 27, 2004, incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.45 Settlement Agreement with Richard Koch dated December 15, 2004, incorporated by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.46 Management Agreement with Northwest Power Management, Inc. dated November 18, 2004, incorporated by reference to Exhibit 10.47 to the Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.47 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 Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.48 Settlement and Consulting Agreement with Keith Collin dated September 27, 2004, incorporated by reference to Exhibit 10.49 to the Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.

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- 10.49 Settlement Agreement with Tom Mills dated December 21, 2004, incorporated by reference to Exhibit 10.50 to the Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.50 Business Property Sublease with Famair, Inc. dated February 11, 2005, incorporated by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-KSB filed on March 31, 2005.
- 10.51 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 Registrant's Form SB-2 Registration Statement filed October 25, 2005.
- 10.53 Form of Investor Warrant; incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-k filed on July 15, 2005
- 13.1 Annual Report on Form 10-KSB for the year ended December 31, 2004, incorporated by reference filed on March 31, 2005.
- 13.2 Amended Annual Report on Form 10-KSB/A for the year ended December 31, 2004, incorporated by reference filed on September 21, 2005.
- 13.3 Quarterly Report on Form 10-QSB for the three and six months ended June 30, 2005, incorporated by reference filed on August 15, 2005.
- 23.1 Consent of Sobel & Co., LLC, Certified Public Accountants; filed herewith.
- 23.2 Consent of Jones Vargas (included in Exhibit 5.1).
- 24.1 Power of Attorney (included in signature page).

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