

## *Integrity in Everything We Do*

Dear Power Efficiency Employee,

A corporate culture embodies many values and intangible qualities. Personal and corporate integrity are the guiding principles here at Power Efficiency Corporation (Power Efficiency). It's not necessarily a subject people talk about often, but it enters into everything we do. Because integrity is a central part of our daily lives, and because the Power Efficiency team includes people who come from other corporate cultures, we think it's appropriate that all of us talk about integrity openly and in detail. We all need to make sure we understand and agree on what integrity means to us as Power Efficiency employees.

This Code of Conduct is the basis for that conversation. We have all participated under various codes of conduct during the course of our individual life experiences and much of what you read here will, no doubt, strike you as common sense. We believe that what is written here is already second nature to you. The Code simply puts it in writing.

We speak of excellence in everything we do. That includes integrity. We don't believe you can achieve excellence without personal responsibility and integrity. Acting in fairness and honesty in all of our actions is fundamental to how we do business. It extends far beyond simple respect for the laws in all locations where we do business to include how each of us behaves in our daily interactions with others as we do our jobs.

Our good reputation – and our company's future - depend on how we deal with others, both inside and outside of Power Efficiency Corporation. Achieving our business objectives should never demand that we sacrifice either our personal integrity or that of the company.

Where the Code may be especially helpful is to help you to handle ambiguous situations. Frankly, the line between "right and wrong" is not always clear, and it can be difficult to know how to proceed, especially in a highly regulated environment. The Code also provides guidance on how to express any concerns you may have.

Just as integrity is part of who we are as individuals, it is also part of who we all are as Power Efficiency employees. Every one of us is responsible for our company's integrity and reputation. This Code is designed to help each of us meet that responsibility and demonstrate integrity in everything we do.

Sincerely,

*Steven Z. Strasser*

## **POLICY STATEMENT**

This Code of Conduct is a formal statement of our commitment, as a company and as individuals, to conduct our business with integrity at all times. It expresses our common understanding of what we at Power Efficiency mean when we talk about acting with integrity. It means that:

- We respect both the laws of all places where we operate and our own company policies and procedures;
- We are honest and treat people with respect and courtesy; and
- We work hard to make Power Efficiency a great place to work and a company that is respected for the quality of its people and services.

This Code is the cornerstone of the way we conduct business. Each of us on the Power Efficiency team is expected to comply with the spirit as well as the letter of this Code in all of our dealings on Power Efficiency's behalf. Since no code of conduct can anticipate every situation that we may encounter, many of the concepts described in this Code can help us make appropriate decisions and act with integrity when facing challenging situations in the course of performing our jobs.

## **INDIVIDUAL RESPONSIBILITY**

We are all role models. Every one of us can influence and lead our fellow employees when it comes to behaving honorably. Only by working together can we maintain a culture of unshakeable integrity. This means acting with fairness and honesty in all our dealings and exercising sound judgment in performing our jobs. None of us should face challenging situations alone, but should ask questions and seek appropriate input from our supervisors and managers before making decisions or taking actions that might raise legal or ethical issues. We must never take any action that our supervisor or our legal counsel has indicated would be inappropriate or would violate laws or our policies. When confronted with new, unclear, or important situations, we need to consider:

- Should this bother me?
- Who else does this affect?
- What is my role and responsibility?
- What are the integrity and legal concerns? Is the issue addressed in the Code of Conduct?
- Who should I ask for help?
- Am I being true to myself? To Power Efficiency?

## **OBTAINING ADVICE AND REPORTING CONCERNS**

When you are faced with concerns about legal and business integrity issues, discuss the matter with your supervisor and immediately report any business conduct that appears to be illegal or unethical. If reporting such conduct to your supervisor is uncomfortable or seems inappropriate, each of us has a number of alternatives. You may always call the Chief Financial Officer, the Chief Executive Officer, or our legal counsel Ellenoff Grossman & Schole LLP.

It is the responsibility of every director, officer, and employee of Power Efficiency to immediately report, illegal, unethical or other improper conduct of which he or she has knowledge, including any violation of this Code of Conduct, whether the improper conduct was committed by an

employee of the Corporation, an employee or official of any level of government, or any other individual or business entity.

To report a violation, a letter should be sent in care of the Corporation's General Counsel, Barry Grossman at Ellenoff Grossman & Schole LLP, 370 Lexington Avenue, 19th Floor, New York, NY 10017-6503, telephone (212) 370-1300.

## **Our Business Relationships**

### **MARKETING, ADVERTISING AND SALES PRACTICES**

We believe that enduring customer relationships are based on integrity and trust, and that our marketing, advertising, and sales practices must be both legal and ethical. We must work zealously, honestly and in good faith with our customers who entrust themselves to that partnership. We must present information that is truthful, accurate, fully informative and fair. All sales and marketing materials must be pre-approved in accordance with our policies. We do not sacrifice integrity to make or maintain sales. Our marketing and sales activities must not encourage customers, or their representatives, to place their personal interests above those of their employers.

### **USE AND RECEIPT OF GIFTS AND BUSINESS GRATUITIES (MEALS AND ENTERTAINMENT)**

Certain laws and Power Efficiency policies limit the giving and receiving of gifts, payments and business gratuities. Giving or receiving gifts, meals, or entertainment in our internal and external business relationships is prohibited unless they meet all of the following criteria:

- Do not violate applicable law or fail to respect generally accepted ethical standards, including the standards of the recipient's employer, professional accommodation, or organization;
- Have a valid business purpose;
- Are appropriate as to time, place, value (modest; not lavish or extravagant) and type;
- Are infrequent in occurrence; and
- Do not influence or give the appearance of seeking to influence the behavior of the recipient.

We do not give or receive gifts of cash.

### **GIFTS, BRIBERY, AND IMPROPER PAYMENTS TO GOVERNMENT OFFICIALS**

Under federal and many state and local laws, it is unlawful for the Company or any of its employees to give a public official a gift or anything of value to influence the public official to take official action, or in appreciation for any official act that the public official may take.

The following rules should govern the conduct of all employees of Power Efficiency when dealing with any public official.

- No gift of cash money should ever be given to or for the benefit of a public official.

- No gifts, services, special treatment or entertainment shall be given, either directly or indirectly, to any public official to influence or induce the public official to take or refrain from taking an official act.
- No gifts, services, special treatment or entertainment shall be given, directly or indirectly, to any public official in appreciation for official acts the public official has taken or may take in the future on behalf of the Corporation.
- Public officials who, directly or indirectly, demand or request gifts, services, special treatment or entertainment, should be courteously refused. All such demands or requests by a public official should be immediately reported to the Chief Financial Officer, the Chief Executive Officer, or our legal counsel Ellenoff Grossman & Schole LLP.

## **OUR BUSINESS ASSOCIATES**

When engaging business associates (suppliers, contractors, consultants and distributors), remember:

- Give prospective business associates a chance to compete fairly for our business.
- Do not retain a business associate to do anything illegal or improper. What we cannot do directly, we cannot do indirectly by acting through another.
- Consult your senior divisional or executive management before engaging a business associate if a conflict of interest exists or may arise. For additional information, please read the **Duty of Loyalty; Conflict of Interest** section of this Code.
- Choose only business associates who are genuinely qualified and have a good reputation for quality and honesty.
- Make sure all agreements with outside parties are documented in writing that has been reviewed and pre-approved by the Company's senior management and possibly Power Efficiency's outside counsel. Sometimes, if certain requirements are met, a standard form provided can be signed.

## **OUR COMPETITORS**

Power Efficiency is a vigorous competitor in the marketplace. While we seek business-related information about our competitors, we do not do so in an unfair, illegal, or improper manner. That means no one should urge a competitor's former or current employees, customers, or suppliers to disclose a competitor's confidential information. It also means that if someone offers us another person's or company's information that we know we have no right to know, we must decline it. If such information comes into our possession, we will not use it improperly for our own competitive advantage. If you receive such confidential information, immediately contact the Chief Financial Officer or Chief Executive Officer for advice. If we hire someone who worked for a competitor, each of us (including the newly hired employee) must abide by that person's continuing legal and ethical obligations to his or her former employer.

## **COMPLIANCE WITH ANTITRUST, FAIR COMPETITION AND ANTI-MONOPOLY LAWS**

We obtain business because we offer excellent products and services, provide valued education to our customers and act professionally. We have no need or desire to obtain business through illegal or unethical conduct, but support fair and vigorous competition on a level playing field. Antitrust, fair competition and anti-monopoly laws and regulations help preserve fair competition by limiting abusive behavior.

It is important not to discuss sensitive topics with any person or company outside of Power Efficiency including competitors, suppliers, trade associates, or business to business (B2B) exchanges, without first obtaining advice from the Chief Financial Officer or Chief Executive Officer and entering into appropriate confidentially and non-disclosure agreements. "Sensitive topics" include all aspects of non-public pricing, the market(s) for our services, services under development, sales and marketing plans and key costs, such as research and development or labor costs, etc. If a competitor raises a sensitive topic, end the conversation and notify the Chief Financial Officer or Chief Executive Officer.

## **RESPECT FOR PATENTS, TRADE SECRETS, TRADEMARKS, COPYRIGHTS AND OTHER INTELLECTUAL PROPERTY**

We vigorously develop, secure, maintain and protect our intellectual property rights – patents, trade names, trademarks, copyrights, and trade secrets. We also pursue intellectual property in conjunction with our alliance partners; we respect the intellectual property rights of others and do not use them improperly. We must not violate intellectual property licensing arrangements by using the licensed property in an unauthorized manner, for example, unauthorized copying of software. Remember to mark corporate publications (sales and marketing materials, presentations, or articles, for example) with appropriate intellectual property notices. If you learn of another person's or company's intellectual property that we may infringe, let the Chief Executive Officer know immediately. Likewise, immediately call the Chief Executive Officer if you learn of another person's or company's activities that may infringe our intellectual property.

Power Efficiency has a strict policy against any installation and/or use of unauthorized software on the company's network or individual computers. Any such installation must be authorized by the Chief Financial Officer.

## **Our Work and Our Work Environment**

### **TREATING PEOPLE WITH RESPECT, COURTESY, FAIRNESS AND DIGNITY**

A fundamental part of how we operate includes treating each other and our customers with respect, courtesy and fairness. Being considerate of and recognizing the dignity of all people is central to how we define ourselves. How we act in this regard extends from maintaining the confidentiality of personal information to handling customer requests promptly and courteously.

It also extends to acting professionally in any job-related activity, including Power Efficiency sponsored off-site events and social gatherings. We all know and honor the fact that it is unacceptable to steal or damage the property of customers, co-workers, or the company. Similarly, we do not create safety or health hazards, verbally or physically mistreat others, or

engage in offensive behavior. This is a broad-ranging statement that includes far more than open violence, fighting, or disorderly conduct. It encompasses harassing, abusive, or intimidating treatment of any kind and the use of language or gestures that are inappropriate, harassing, or abusive in nature. It also includes interfering with a co-worker's job performance, using illegal drugs, or misusing or abusing alcohol or prescription drugs. All of us, as members of the Power Efficiency team, are expected to abide by all applicable policies regarding employee conduct.

## **FAIR EMPLOYMENT PRACTICES; NON-HARASSING ENVIRONMENT**

We are committed to following fair employment practices that provide equal opportunities to all employees. We do not discriminate against or harass another person on the basis of his or her race, color, religion, disability, gender, national origin, sexual orientation, age, or other legally protected status. This applies to all business and employment-related activities.

## **DUTY OF LOYALTY; CONFLICT OF INTEREST**

We owe a duty of loyalty to Power Efficiency; this simply means that we must put our best efforts toward Power Efficiency's continued success. For example, if you learn of business opportunities that could benefit Power Efficiency, you need to disclose them to your company. During our scheduled work hours, we must use our best efforts to perform our jobs well. We are free to participate in outside activities, but it is important not to engage in any activity that is or could appear to be a conflict between our personal interests and Power Efficiency's best interests. We each have the responsibility to make sure that our outside activities do not involve the use of Power Efficiency's property or reputation. Examples of conflicts of interest include:

- Giving Power Efficiency business to another company (or allowing another company to bid on Power Efficiency's business) because a family member or personal friend works for that company.
- Outside activities that could influence our on-the-job ability to make objective decisions that are in Power Efficiency's best interests.
- Hiring or having a reporting relationship with a relative.

With appropriate guidance from the Chief Financial Officer or the Chief Executive Officer, we must disclose in advance all relevant facts about all possible conflicts of interest to senior management. Each possible conflict will be reviewed to determine whether the potential arrangement is fair and in Power Efficiency's best interests. If it is, then the arrangements may be approved. In appropriate instances, safeguards against conflicts of interest may be required.

## **ENVIRONMENT, HEALTH, SAFETY, AND SECURITY**

We believe that sound environmental, health, and safety performance contributes to our competitive strength and benefits our customers, shareholders and employees. All of us are responsible for helping to maintain a safe and healthy workplace, respecting the environment and striving to conserve natural resources in operating our business. Translated into day-to-day activities, that means reporting unsafe working conditions to our supervisors, using resources efficiently, recycling as appropriate, handling bio-hazardous materials properly and disposing of all waste according to applicable laws and our policies. Maintaining a secure workplace safeguards our people, information and property.

## **POLITICAL ACTIVITIES AND CONTRIBUTIONS**

All of us are free to participate as individuals in the political process, but in doing so, we cannot create the impression of speaking or acting on Power Efficiency 's behalf. It is up to each of us to abide by all laws relating to political contributions, and to make such contributions as individuals, not as Power Efficiency representatives. We cannot contribute any of the Company's money, property, time, or services (directly or indirectly) to any political candidate or political party.

## **Company Information and Company Property**

### **COMPANY INFORMATION; PROTECTION OF OURS AND PROPER RECEIPT OF OTHERS' INFORMATION**

Company information is a very valuable asset. It encompasses all proprietary information that is not generally available to or known by the public, and it includes information in any format; written, electronic, visual, or verbal. It also may include information that we develop, purchase, or license, and information we receive from others. Of course, each of us may use company information to the extent needed to perform our jobs properly, but we need to remember that we are responsible for safeguarding that information (and information provided to Power Efficiency by another person or company) from theft or misuse. Accordingly, we cannot, directly or indirectly:

- Disclose any company information to others, including other employees, unless they have a legitimate need to know it to perform their jobs and, if they are not Power Efficiency employees, have agreed to maintain its confidentiality;
- Use company information for any purpose other than its intended use;
- Copy any documents containing company information, or remove any documents or other records or copies from our work area, except as required for us to perform our jobs properly; or
- Dispose of company information inappropriately.

All company documents, e-mail and other materials containing company information (and all materials prepared from those documents) are Power Efficiency's property. If the company requests, or when our employment ends, these documents must be returned to the company.

Many of us regularly disclose company information to others and/ or receive information from others for legitimate business reasons. Before disclosing or receiving such information, we must enter into an agreement that describes how the parties can use and must protect the information. Each agreement must be pre-approved by the Chief Financial Officer or Chief Executive Officer; sometimes, if certain requirements are met, a standard form provided by the Chief Financial Officer or Chief Executive Officer can be signed. In all cases, a copy of all signed agreements must be provided to the Chief Financial Officer or Chief Executive Officer.

It is also important to contact the Chief Executive Officer before presenting or publishing any research results; that way, we can confirm that all appropriate confidentiality agreements have been signed and any patent filings or copyright filings necessary to protect our interests in the information have been made. Contact the Chief Executive Officer as well if you learn of an outside person who plans to present or publish research that may contain confidential company information or affect our intellectual property rights. These obligations continue even after your employment terminates.

## **MEDIA/ PUBLIC/ ATTORNEY CONTACTS**

Press releases and contact with news media, securities analysts, or investment bankers must be made only through or at the direction of the Chief Executive Officer, Chief Financial Officer, or a member of the Board of Directors.

- If a reporter or other member of the news media contacts you, refer him or her to the Chief Financial Officer or Chief Executive Officer immediately. Never comment on, confirm, or deny anything relating to Company business, including rumors.
- If an attorney, whether representing a person, another company or the government, contacts you, refer him or her to the Chief Financial Officer or Chief Executive Officer.
- If you receive a summons, legal complaint, subpoena, or other similar legal document, immediately consult with the Chief Financial Officer or Chief Executive Officer.

## **ACCURACY, RETENTION AND DISPOSAL OF RECORDS**

Each of us is responsible for maintaining accurate and reasonably detailed documents, reports and other records. No one may falsify or improperly alter any information contained in Power Efficiency records.

Good business practice requires that we retain certain Power Efficiency records for various time periods. Often, these are required by law, and it's up to us to see that they are retained in compliance with applicable document retention policies. Documents that need not be kept should be disposed of in compliance with our company policies. Where litigation or a government investigation is likely or ongoing, records may not be destroyed until legal counsel and the Chief Financial Officer advise that the matter has been concluded.

For questions about document retention, contact the Chief Financial Officer, particularly if any litigation, investigation, or administrative action is (or may be) pending.

## **FINANCIAL REPORTING AND RECORDS**

In addition to the general guidelines described in the **Accuracy, Retention and Disposal of Records** section above, all books, financial records and tax records must disclose fully the nature of Power Efficiency's transactions and accounts accurately and honestly for Power Efficiency's assets and liabilities. All transactions must be recorded in accordance with generally accepted accounting principles. All revenue must be recorded and recognized only when it is realized or realizable, earned, and collectibility reasonably assured in accordance with generally accepted accounting principles. For questions about revenue recognition, contact the Chief Financial Officer or the Policy and Procedures Manual. No undisclosed or unrecorded fund may be established for any purpose, particularly accounts established to facilitate or disguise questionable or illegal payments. False entries must never be made and permanent entries must never be altered. An adequate system of internal accounting controls must be maintained.

Payments for goods and services provided to Power Efficiency must be payable to the person or company legally entitled to receive payment. All invoices must accurately reflect the items and

services being purchased or sold and the prices being paid. Generally, discounts must be included in the price or otherwise stated on the invoice.

## **USE OF COMPANY PROPERTY**

When we use company property, it must be for valid corporate purposes and exclusively for Power Efficiency's benefit. It is also our responsibility to protect that property. Company property may not be used for the personal gain of employees or others. None of us may transfer any company property to other persons, except in the ordinary course of business with appropriate authority.

Company property includes far more than many people realize. In addition to physical plants, equipment, computers, software, inventory, company vehicles, corporate funds and office supplies, company property includes our technologies, concepts, intellectual property, service development strategies and projects, business strategies and plans, customer lists, personnel data, marketing and sales plans, company phone books, organization charts, service cost data, service pricing, financial data and all other proprietary information about our business, customers and employees.

All of Power Efficiency's information systems, including communications systems, magnetic media, email, voice mail, and Intranet, Extranet and Internet access systems, are Power Efficiency's property and generally must be used only for business activities. Incidental personal use is permissible as long as it does not consume more than a trivial amount of resources, does not interfere with productivity, does not preempt any business activity, is otherwise appropriate and reasonable and is consistent with our business values. Power Efficiency reserves the right periodically to access, read, monitor, inspect and disclose the contents of, postings to and downloads from all of Power Efficiency's information systems.

No one may use Power Efficiency's information systems at work to access, view, post, store, transmit, download, or distribute any profane, obscene, derogatory, harassing, offensive, or inappropriate materials. Additionally, none of us may use these systems to send company information or copyrighted documents that are not authorized for transmittal or reproduction.

You should be aware that e-mails and other data on your Power Efficiency computer is NOT private or confidential and the Company is entitled, and reserves the right, to access such electronic data and messages.

## **TRADING IN COMPANY STOCK BY EMPLOYEES**

General Restrictions against insider trading: No employee, officer or director, shall purchase or sell Power Efficiency's stock or exercise company options while in possession of material, non-public information (MNPI) concerning the Corporation. In general, information will be considered "material" if a reasonable investor would consider it relevant in making his or her investment decision. Such information would include, for example, earnings results, acquisitions, divestitures, or pending changes in management or control.

Blackout periods: In addition to the general prohibition against trading in company stock and options while in the possessions of MNPI, the Corporation has a policy prohibiting all employees, officers and directors from buying or selling stock or exercising company options, during company "black-out" periods. Please refer to the Insider Trading Policy.

## **WRITTEN CERTIFICATIONS**

The Code of Conduct applies to each and every one of us. Accordingly, all Power Efficiency employees must read the Code of Conduct.

Each of us must certify that he or she has received a copy of this Code and understands that abiding by the Code is a mandatory part of being a Power Efficiency employee. It is not voluntary. Similar certifications will be required after completing any other required training module.

In addition, each salaried employee and certain other employees in sensitive jobs will be required to certify periodically that he or she has reported all suspected or known violations of this Code.

## **CONFIDENTIALITY OF INVESTIGATIONS**

Every concern and/or inquiry and every allegation of wrongdoing made will be reviewed, evaluated and responded to in a timely and impartial manner that respects the rights of all parties concerned, and will be kept confidential to the extent possible in the circumstances. All of us must fully cooperate with investigation efforts.

## **NO RETALIATION POLICY**

Power Efficiency will not tolerate any form of retaliation against an individual because he or she made a good-faith report, or assisted with or cooperated in an investigation of a report. Power Efficiency will also not tolerate any form of retaliation that is prohibited by applicable law.

## **MONITORING, AUDITING, CORRECTIVE ACTION AND DISCIPLINE**

As Power Efficiency employees, we are responsible for cooperating with all Corporate Integrity Program monitoring and auditing activities. Any violation of this Code will be taken very seriously. When a violation is identified, prompt and appropriate corrective action will be taken to respond to the violation. This may include making appropriate notifications and implementing changes to prevent further similar violations. Failure to comply with the spirit as well as the letter of this Code and to participate in training and Program-related activities including monitoring and auditing activities and investigations will be considered in employment-related decisions. It also may result in disciplinary action, up to and including termination from employment. Discipline imposed will vary on the nature, severity and frequency of the violation.

## **CONCLUSION**

Due to the complexity of our business and the competitive realities of the marketplace, we must be clear about our corporate values and maintain a solemn commitment to acting with integrity. We must work zealously, honestly and in good faith. We must demonstrate integrity in everything we do.

**CERTIFICATION**

I have received and reviewed a copy of the Power Efficiency Corporation Code of Conduct and understand that I am required to abide by the Code of Conduct.

Date: \_\_\_\_\_

Name (please print)\_\_\_\_\_

Signature: \_\_\_\_\_