ENVIRONMENTAL POWER CORP
Form S-3/A
September 11, 2007
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As filed with the Securities and Exchange Commission on September 11, 2007

Registration Statement No. 333-145732

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ENVIRONMENTAL POWER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**4991**	**04-782065**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

One Cate Street, 4th Floor

Portsmouth, New Hampshire 03801

(603) 431-1780

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

Richard E. Kessel

President and Chief Executive Officer

One Cate Street, 4th Floor

Portsmouth, New Hampshire 03801

(603) 431-1780

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Fax: (603) 431-2650	**Fax: (603) 433-6372**	**Tel: (617) 570-1000**
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Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

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

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

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

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this form is a post-effective amendment to a registration statement pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

The Company hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Company shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), shall determine.

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The information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated September 11, 2007

4,500,000 Shares

Energy that is Beyond Renewable

Common Stock

We are offering 4,500,000 shares of common stock of Environmental Power Corporation. We are offering all of the shares of common stock offered by this prospectus.

Our common stock is quoted on the American Stock Exchange under the symbol EPG. On September 10, 2007, the last reported sale price of our common stock on the American Stock Exchange was $5.04 per share.

Investing in our common stock involves a high degree of risk. Please see the section entitled Risk Factors beginning on page 5 of this prospectus to read about risks you should consider carefully before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Environmental Power Corporation	$	$

The underwriters may also purchase up to an additional 675,000 shares of our common stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover any over-allotments.

The underwriters expect to deliver the shares on or about , 2007.

Canaccord Adams

Merriman Curhan Ford & Co.

Avondale Partners

The date of this prospectus is , 2007

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You should rely only on the information contained in this prospectus and the documents incorporated by reference in this prospectus or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation of an offer in such jurisdiction. You should not assume that the information contained in this prospectus or any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document. Neither the delivery of this prospectus nor any distribution of securities pursuant to this prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated by reference into this prospectus or in our affairs since the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

The following summary highlights the key information contained elsewhere or incorporated by reference in this prospectus. It does not contain all the information that may be important to you. You should carefully read this entire prospectus, as well as the documents incorporated by reference in this prospectus, especially the discussion of Risk Factors, before deciding to invest in shares of our common stock. In this prospectus, when we use phrases such as we, our and us, we are referring to Environmental Power Corporation and its subsidiaries as a whole, except where it is clear from the context that any of these terms refers only to Environmental Power Corporation or a particular subsidiary.

ENVIRONMENTAL POWER CORPORATION

Company Overview

We are a developer, owner, and operator of renewable energy production facilities. Our goal is to produce energy that is Beyond Renewable , which we define as energy that not only uses waste materials and by-products instead of precious resources, but energy that is also clean, reliable, and cost-effective. Since inception, we have been an independent developer and owner of non-commodity, renewable and alternative energy facilities that produce biofuels or electricity by utilizing fuel derived from our waste management processes or alternative fuel sources such as waste coal. Such fuel sources generally are not subject to the pricing and market fluctuations of commodity fuels and, in some instances, are considered renewable energy fuels. We have developed three anaerobic digesters, seven hydroelectric plants, two municipal waste projects, and three waste coal-fired generating facilities. We sold or transferred all of these facilities either in development or after completion. We have substantially completed construction of the Huckabay Ridge facility in Stephenville, Texas, a large-scale, multi-digester facility for the production of pipeline-grade natural gas which we expect to achieve commercial operation in the second half of 2007. Historically, we have had two principal business units, Buzzard Power Corporation (which is now presented as discontinued operations) and Microgy, Inc., which are described below. We believe that Microgy represents a substantial portion of the future potential growth of Environmental Power Corporation and, as such, we are investing substantially all of our available resources, in terms of both financial and human capital, to take advantage of Microgy s opportunities.

Microgy

Microgy is a developer of renewable energy facilities for the production and commercial application of methane-rich biogas from agricultural and food industry wastes. The biogas can be used to produce renewable, pipeline-grade methane gas (which we refer to as RNG™), marketable biogas, liquefied natural gas (referred to as LNG) renewable electrical energy or thermal energy, as well as other useful by-products. Microgy s systems utilize a proven European biogas production technology that we believe is superior to other such technologies. Microgy owns the exclusive North American license to this technology. In addition, Microgy has developed, for itself, significant engineering, construction and process knowledge regarding these systems.

At current rates for conventional energy in many U.S. markets, we believe Microgy s systems can be profitable without the need for subsidies, credits or other enhancements. Nevertheless, we believe that tax credits, renewable energy credits, pollution offset credits and other such incentives may be available to Microgy s facilities, and such incentives would serve to enhance the economics of our facilities. In addition, the energy output from Microgy s facilities may carry a premium price in some areas, as numerous environmentally responsible entities are seeking renewable energy sources. Further, many states have either passed or are considering legislation requiring utilities to obtain a certain percentage of their power from renewable sources.

In addition to the value generated from the production and sale of renewable gas, we believe that our facilities can generate additional environmental benefits with significant economic and social value by providing a valuable waste management solution for farms and other producers of organic wastes and

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by-products, such as those in the food industry. Federal and state agencies either have passed or are considering regulations that require concentrated animal feeding operations, referred to as AFOs, to implement changes to their current waste management practices. We believe that these increasingly stringent environmental regulations will be another significant factor driving adoption of our systems.

We believe that a number of factors, including high energy prices, increasing desire for renewable energy sources and more stringent environmental and waste management requirements, will continue to provide a favorable market environment for our business.

Microgy Holdings, LLC was formed in 2006 as a subsidiary of Environmental Power Corporation in connection with the $60 million tax-exempt debt financing we completed in November 2006 relating to the construction and operation of four RNG facilities in Texas. This entity and its subsidiaries are included in the Microgy segment.

Discontinued Operations

Our discontinued operations are comprised of Buzzard Power Corporation, referred to as Buzzard, and our wholly owned subsidiary, EPC Corporation, the parent of Buzzard. Buzzard leases its generating facility from Scrubgrass Generating Company, L.P. The Scrubgrass plant, referred to as Scrubgrass, located on a 600-acre site in Venango County, Pennsylvania, is an approximate 83 megawatt waste coal-fired electric generating station. We decided to dispose of Buzzard s leasehold interest in the Scrubgrass facility to allow management to focus its attention and resources on the development and growth of Microgy.

On May 31, 2007, our board of directors authorized management to enter into negotiations regarding the disposition of the leasehold interest in the Scrubgrass generating facility held by our subsidiary, Buzzard Power Corporation. The contemplated disposition is expected to have a combined transaction value of approximately $3.0 million, including cash payments to Buzzard to cover expenses, forgiveness of indebtedness of EPC Corporation, and recognition of deferred gain.

Approximately $51.7 million, or 95.9%, of our $53.9 million in total consolidated revenues for the fiscal year ended December 31, 2006 were derived from Buzzard. The disposition of Buzzard s leasehold interest in the Scrubgrass facility will substantially reduce our revenue base and continue our trend of operating losses and uses of cash until the revenue base for Microgy grows to sufficient levels to support our expense base.

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider all of the information included and incorporated by reference in this prospectus. In particular, you should consider carefully the factors discussed under Risk Factors, beginning on page 5 of this prospectus, before deciding to invest in our common stock.

Corporate Information

Environmental Power Corporation was incorporated in May 2003 and is the successor holding company to our subsidiary, EPC Corporation, which was originally incorporated in Delaware in 1986. EPC Corporation became a publicly traded company in 1986, and its successor, Environmental Power Corporation is currently quoted on the American Stock Exchange (symbol: EPG). The address of our principal executive offices is One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801 and our telephone number is (603) 431-1780. Our Internet address is www.environmentalpower.com. The information on our Internet website is not incorporated by reference in this prospectus, and you should not consider it to be a part of this document. Our website address is included as an inactive textual reference only.

THE OFFERING

Common stock we are offering	4,500,000 shares (5,175,000 shares if the underwriters over-allotment option is exercised in full).
Common stock to be outstanding after this offering	14,622,491 shares (15,297,491 shares if the underwriters over-allotment option is exercised in full).
Net proceeds	We estimate that the net proceeds from this offering will be approximately $20,869,200 ($24,067,080 if the underwriters over-allotment option is exercised in full), assuming a public offering price of $5.04 per share and after deducting estimated underwriting discounts, commissions and offering expenses payable by us.
Use of proceeds	We expect to use the net proceeds from this offering for capital investment in multi-digester projects to be owned and operated by Microgy, working capital needs, and general corporate purposes.
American Stock Exchange symbol	EPG

The number of shares of our common stock to be outstanding after this offering is based on the number of shares outstanding as of June 30, 2007 and excludes 8,170,415 shares, as of such date, consisting of:

- outstanding options to purchase 2,939,213 shares of common stock;
- 301,000 additional shares of common stock available for future issuance under our stock option plans;
- shares we may issue in respect of outstanding stock appreciation rights based upon the increase in value of an aggregate of 245,500 shares of common stock, which stock appreciation rights may be settled in cash, shares of common stock or a combination of the foregoing, at our election;
- 2,812,410 shares of common stock issuable upon conversion of 281,241 outstanding shares of our series A 9% cumulative convertible preferred stock; and
- outstanding warrants to purchase 1,872,292 shares of common stock, including warrants to purchase 175,912 shares of our common stock issuable to Cargill, Incorporated pursuant to our business development agreement with Cargill. Cargill has the right to acquire additional warrants which, when added to these warrants, could equal up to an aggregate of 4.99% of our outstanding common stock on a fully diluted basis.

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SUMMARY PRO FORMA CONSOLIDATED FINANCIAL DATA

The following table provides selected pro forma financial data, adjusted for the impact of discontinued operations, for each of the fiscal years ended December 31, 2006, 2005 and 2004 and for the six and three months ended June 30, 2007 and 2006. This financial data has not been audited. Please see Note C to our unaudited consolidated financial statements included in our Quarterly Report on Form 10-Q filed for the period ended June 30, 2007 for further discussion of the accounting treatment of discontinued operations. The financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference in this prospectus, have not been restated to give effect to the discontinued operations.

	12 Months Ended			6 Months Ended		3 Months Ended	
	12/31/2006	12/31/2005	12/31/2004	6/30/2007	6/30/2006	6/30/2007	6/30/2006
Revenues	2,216,216	4,088,428	3,736,427	542,222	1,173,271	326,949	289,865
Costs and Expenses							
Costs of Goods Sold	2,099,420	6,116,487	3,736,427	461,060	1,109,872	243,739	336,833
General and Administrative Expenses	11,228,982	6,809,687	5,238,541	6,001,054	4,311,659	3,655,597	2,483,388
Depreciation and Amortization	298,774	250,271	214,514	148,165	141,637	77,303	74,852
Total Costs and Expenses	13,627,176	13,176,445	9,189,482	6,610,279	5,563,168	3,976,639	2,895,073
Operating Loss	(11,410,960)	(9,088,017)	(5,453,055)	(6,068,057)	(4,389,897)	(3,649,690)	(2,605,208)
Other Income (Expense)							
Interest Income	447,854	232,692	23,645	290,777	283,199	132,240	182,635
Interest Expense	(8,919)	(6,066)	(15,900)	(6,202)	(6,738)	(2,283)	(2,269)
Other income	300	33,071		583,117			
Total Other Income (Expense)	439,235	259,697	7,745	867,692	276,461	129,957	180,366
(Loss) Income Before Income Taxes	(10,971,725)	(8,828,320)	(5,445,310)	(5,200,365)	(4,113,436)	(3,519,733)	(2,424,842)
Income Tax Expense (Benefit)	427,127	11,450	(84,045)	800	800	400	400
(Loss) Income from Continuing Operations	(11,398,852)	(8,839,770)	(5,361,265)	(5,201,165)	(4,114,236)	(3,520,133)	(2,425,242)
(Loss) Income from Discontinued Operations	(2,716,405)	(2,573,850)	1,403,084	(2,900,473)	(231,466)	(3,235,321)	(495,051)
Net(loss) income	(14,115,257)	(11,413,620)	(3,958,181)	(8,101,638)	(4,345,702)	(6,755,454)	(2,920,293)
Preferred Securities Dividend Requirements	(197,715)	(5,000)	(5,000)	(669,790)	(2,500)	(333,922)	(1,250)
Beneficial Conversion Feature of Preferred Stock	(4,131,022)						
Loss Available to Common Shareholders	(18,443,994)	(11,418,620)	(3,963,181)	(8,771,428)	(4,348,202)	(7,089,376)	(2,921,543)
Weighted Average Common Shares Outstanding (Diluted)	9,634,824	7,384,458	4,583,335	9,867,253	9,619,481	10,026,848	9,645,754
Diluted Earnings (Loss) Per Common Share							
From Continuing Operations	$ (1.63)	$ (1.20)	$ (1.17)	$ (0.60)	$ (0.43)	$ (0.39)	$ (0.25)
From Discontinued Operations	$ (0.28)	$ (0.35)	$ 0.31	$ (0.29)	$ (0.02)	$ (0.32)	$ (0.05)
From Continuing and Discontinued Operations	$ (1.91)	$ (1.55)	$ (0.86)	$ (0.89)	$ (0.45)	$ (0.71)	$ (0.30)
Balance Sheet Data from Continuing Operations							
Total Assets	93,051,167	27,705,360	11,314,064	91,604,352	24,392,199	91,604,352	24,392,199
Working Capital	64,261,047	14,176,156	1,013,518	54,365,647	7,919,232	54,365,647	7,919,232
Long Term Obligations	62,904,550	2,927,765	2,490,420	63,119,621	2,898,614	63,119,621	2,898,614
Shareholders Equity	18,520,812	25,697,272	10,218,328	14,864,535	22,719,072	14,864,535	22,719,072

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before purchasing our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties may also impair our business operations and adversely affect our prospects. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of the money you paid to buy our common stock.

Risks Relating to Our Business

We have experienced losses to date, and we anticipate we will continue to experience losses through at least 2008.

We have a history of losses. For the six months ended June 30, 2007, we incurred a net loss of $5.2 million from continuing operations. For the years ended December 31, 2006, 2005 and 2004, we incurred net losses of $11.4 million, $8.8 million and $5.4 million, respectively, from continuing operations. We expect to continue to incur losses, reduce our earnings or, as the case may be, add to our earnings deficit as we seek to further develop its business. These ongoing losses will adversely affect our financial condition through at least 2008. As a result of these losses, we anticipate that we will, in all likelihood, have to rely on external financing for most of our capital and operational requirements. Future losses are likely to continue unless we successfully implement our business plan. If we are not successful in reaching and maintaining profitable operations, we may not be able to attract sufficient capital to continue our operations. Our inability to obtain adequate financing would likely result in the need to curtail or cease our business operations and, consequently, a much lower price for our common stock.

Our principal operating business, Microgy, has very little operating history from which to evaluate its business and products.

Our principal operating business, Microgy, was formed in 1999 and remains in the early stages of its development. Microgy is developing facilities that use environmentally friendly anaerobic digestion and other technologies to produce biogas from animal and organic wastes. Although Microgy has developed and is operating three single digester facilities in Wisconsin, Microgy has limited experience in the construction and operation of multiple digester facilities such as those Microgy is currently constructing or intends to construct, and limited experience in gas conditioning or the sale of gas as a commodity. While Microgy has substantially completed construction on the multi-digester Huckabay Ridge facility, this facility has not yet achieved commercial operations, and Microgy has experienced difficulties with the start-up and commissioning process. Because of Microgy s limited experience, Microgy may never be profitable.

Microgy cannot predict when any facility will be completed, what Microgy s costs will be or, consequently, whether Microgy or any facility developed by Microgy will be profitable.

Development of Microgy s facilities is an inherently risky activity, subject to significant uncertainties and a lengthy development cycle. Uncertainties and risks include those relating to costs and availability of supplies and labor, costs and quality of facility components and installation services, fluctuations in the prices available for the sale of facility output and timing of completion of construction and commencement of commercial operations. For instance, Microgy has encountered problems with the quality of the gas conditioning and compression equipment supplied to it for the Huckabay Ridge facility. Furthermore, obtaining the large number of agreements, permits and approvals necessary to develop, install, operate and manage any of Microgy s facilities, as well as to market the energy and other co-products and to provide necessary related resources and services, involves a long development cycle and decision-making process. Microgy is required to enter into or obtain some or all of the following in connection with the development of its facilities:

- Site agreements;
- Supply contracts;

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Design/build or other construction-related agreements;

Off-take agreements for gas produced;

Power sales contracts for facilities dedicated to the generation of electricity;

Agreements for the sale of carbon credits or other tradeable environmental attributes;

Various co-product sales agreements;

Waste disposal agreements;