ENVIRONMENTAL POWER CORP
Form 424B4
November 16, 2005
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Registration No. 333-128863

PROSPECTUS

Energy that is Beyond Renewable

2,000,000 shares of common stock

We are offering 2,000,000 shares of our common stock. Our common stock is listed for trading on the American Stock Exchange under the symbol EPG. The last reported sale price of our common stock on the American Stock Exchange on November 15, 2005 was $7.49 per share.

Investing in our common stock involves certain risks. See Risk Factors commencing on page 7 of this prospectus.

	Per Share	Total
Public Offering Price	$ 7.00	$ 14,000,000
Underwriting Discounts and Commissions	$ 0.49	$ 980,000
Proceeds to us, before expenses	$ 6.51	$ 13,020,000

The underwriter has a 30-day option to purchase up to an additional 300,000 shares of common stock from us to cover over-allotments.

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.

The underwriters expect to deliver the shares to purchasers on November 21, 2005.

MDB CAPITAL GROUP LLC

November 15, 2005.

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Our website is located at *www.environmentalpower.com*. We have not incorporated by reference into this prospectus the information on our website and you should not consider it to be a part of this document. Our website address is included as an inactive textual reference only.

You should rely only on the information contained or incorporated by reference to this prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference to this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus.

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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 read this entire prospectus carefully, especially the discussion of Risk Factors and our selected consolidated financial statements and related notes, 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. Unless otherwise indicated, the information in this prospectus assumes that the underwriter does not exercise its over-allotment option. Unless otherwise noted, all share amounts, share price information and the exercise prices of outstanding options and warrants set forth in this prospectus have been adjusted to give effect to a 1-for-7 reverse split of our common stock that occurred on November 30, 2004.

Environmental Power Corporation

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 instead of precious resources, but energy that is also clean, reliable and cost-effective. We believe that there are several factors that are positively impacting our business and will enhance the profitability of our projects:

- Constraints on supplies of fossil fuels, increasing worldwide demand for energy and the resulting increase of energy prices;
- Advances in technology that have enabled renewable energy technologies to generate power economically;
- Increasing governmental regulation and incentives that favor renewable energy technologies; and
- Increasing governmental regulation and pressure on waste producers to manage their waste streams to minimize the harmful effects on the environment.

Today, we have two operating subsidiaries, Microgy, Inc., which constructs and will own and operate facilities that utilize animal and food industry wastes to produce biogas, and Buzzard Power Corporation, which owns a leasehold interest in an approximately 83 megawatt waste coal electrical generation facility, referred to as Scrubgrass.

Our principal operating subsidiary, Microgy, Inc., referred to as Microgy, holds an exclusive license in North America for the development and deployment of a proprietary anaerobic digestion technology for the extraction of methane gas from animal wastes. Microgy develops, sells and will own and operate renewable gas facilities based on its anaerobic digestion technology, with the ability to capitalize on the value of the biogas produced by these facilities in a number of ways, including the direct sale of biogas or pipeline-grade methane, the use of gas to generate electricity or the use of gas to generate thermal energy for use in a variety of industrial and agricultural processes.

Microgy s goal is to apply its technology to the development of projects that can generate profitable quantities of marketable, renewable gas from the great volume of animal and food wastes produced at or near large animal feeding operations, or AFOs, which consist primarily of cattle, dairy and swine farms. We license our anaerobic digestion technology from Danish Biogas Technology A/S, referred to as DBT, which has been a leader in the development of this technology, having constructed 28 anaerobic digester facilities in Europe over the past 15 years. We believe that the increasingly stringent environmental regulations concerning the handling of animal waste will significantly increase the demand for anaerobic digesters similar to Microgy s on AFO sites.

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Microgy has executed agreements with affiliates of several farms pursuant to its relationship with Dairyland Power Cooperative, referred to as Dairyland, one of the largest power generation and transmission cooperatives in the Midwest. These dairy farms have agreed to purchase a Microgy digester system to process animal waste produced by their dairy farm operations in Wisconsin and Minnesota, and to supply biogas to Dairyland for use in the generation of electricity using equipment sold to it by Microgy. To date, Microgy has completed construction on two of these projects, and is nearing the completion of construction on a third. In addition, Microgy has begun construction, along with its partner, South-Tex Treaters, Inc., on the Huckabay Ridge project, a multi-digester biogas production and gas conditioning facility located in Erath County, Texas that is intended to produce and deliver for sale pipeline-grade methane directly into the local natural gas pipeline. Furthermore, Microgy is seeking required permits for its Gallo-Columbard project, a multi-digester facility that will produce biogas for sale to Joseph Gallo Farms as a substitute for propane that is currently used by Joseph Gallo Farms in its cheese producing operations. In addition, we continue to explore additional project development opportunities, and have signed memoranda of understanding or development agreements with several parties to develop projects based on Microgy s proprietary anaerobic digestion technology. Each of these agreements is non-binding, and the actual completion of any projects under these agreements may not occur.

We believe that Microgy s anaerobic digestion facilities provide AFOs with a potentially profitable means of mitigating an existing waste management problem that significantly affects both water and air quality. In addition to providing an animal waste disposal solution to farmers, Microgy s anaerobic digester facilities also provide a renewable source of methane-rich biogas that can be used in a number of ways, including: the direct sale of biogas produced, either as is or refined to pipeline-grade methane; the generation of electricity; or the production of thermal energy for use in a variety of industrial or agricultural processes. We believe that the increased interest in renewable energy sources, or green energy, as well as a desire to mitigate the economic effects of fluctuating commodity energy prices, will continue to drive demand for the multiple uses of the biogas produced by Microgy s facilities.

Our objective is to become a leader in the production and marketing of renewable energy that meets our Beyond Renewable criteria. Today, through Microgy, we are focused on the development and marketing of biogas and biogas resources. Key elements of our strategy include:

- Developing larger-scale multi-digester facilities, to capitalize on attractive economies of scale under a project ownership model, thereby developing and growing the biogas reserves under our management;

- Capitalizing on the increasingly attractive gas market dynamics by providing off-take customers with stable, long-term supplies of renewable gas that are not subject to price fluctuation;

- Aggressively marketing our anaerobic digester facilities, which are a cost-effective tool to assist AFOs in complying with new and more stringent environmental regulations;

- Leveraging the value of our proven anaerobic digester technology, which we believe is superior to competing technologies; and

- Pursuing the advantages of our business model, in which we create and manage profitable renewable energy opportunities while alleviating the environmental pressures facing AFOs.

Our other operating subsidiary, Buzzard Power Corporation, referred to as Buzzard, is the owner of a leasehold interest, which extends through 2016, in an approximately 83 megawatt electrical generating facility, referred to as Scrubgrass. This facility generates electricity from coal mining wastes and has yielded over $50,000,000 in annual revenues to us over each of the last several years. On September 4, 2003, we entered into a financial arrangement with an affiliate of ArcLight Energy Partners Fund I, L.P., referred to as ArcLight, pursuant to which we borrowed $3,700,000, which is repaid from Scrubgrass cash flow. While Buzzard has historically provided us with a reliable source of revenue, we have monetized much of Buzzard s future net cash flows through the transaction with ArcLight. We are currently focusing most of our corporate resources on advancing Microgy s business.

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Risk Factors

Investing in our common stock involves risks. You should carefully consider all of the information in this prospectus. In particular, you should consider carefully the factors discussed under Risk Factors, beginning on page 7, before deciding to invest in our common stock.

Corporate Information

We are a Delaware corporation, incorporated in May 2003, as the successor holding company to our subsidiary, EPC Corporation, which was originally incorporated in Delaware in 1982. EPC Corporation became a publicly traded company in 1986. Our common stock is currently listed on the American Stock Exchange under the symbol EPG. Our principal executive offices are located at One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801 and our telephone number is (603) 431-1780.

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THE OFFERING

Common stock offered by us	2,000,000 shares (2,300,000 shares if the over-allotment option granted to the underwriter is exercised in full).
Common stock to be outstanding after this offering	9,418,632 shares (9,718,632 shares if the over-allotment option granted to the underwriter is exercised in full).
Use of proceeds	Working capital and general corporate purposes, including capital investment in multi-digester projects to be owned and operated by Microgy.
American Stock Exchange Trading 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 September 30, 2005 and excludes (a) options to purchase 2,554,585 shares of common stock outstanding as of September 30, 2005, (b) 723,284 additional shares of common stock available for future issuance under our stock option plans and (c) outstanding warrants to purchase 759,976 shares of common stock.

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SUMMARY FINANCIAL DATA

The following table sets forth summary financial data for our business for the fiscal years ended December 31, 2002, 2003 and 2004, the nine months ended September 30, 2005 and the three months ended September 30, 2005. The financial data for the nine months and three months ended September 30, 2005 have not been audited. You should read this information together with the financial statements and the related notes appearing at the end of this prospectus, as well as the information in the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended 12/31/2002	Year Ended 12/31/2003	Year Ended 12/31/2004	Nine Months Ended 9/30/2005	Three Months Ended 9/30/2005
			(in thousands)		
Results of Operations Data:					
Revenues	$ 54,984	$ 53,365	$ 59,790	$ 45,896	$ 15,872
Costs and expenses					
Operating expenses	$ 24,140	$ 25,124	$ 28,625	$ 20,682	$ 8,186
Lease expenses	25,291	22,382	22,066	16,113	4,807
Cost of goods sold			3,736	5,126	1,656
General and administrative expenses	5,605	5,644	6,211	6,984	2,112
Non-cash compensation	50	713	2,320	1,897	2,259
Depreciation and amortization	545	495	472	360	121
Total costs and expenses	$ 55,631	$ 54,358	$ 63,430	$ 51,162	$ 19,141
Operating income (loss)	$ (647)	$ (993)	$ (3,640)	$ (5,266)	$ (3,269)
Other income and expense					
Interest income	$ 48	$ 31	$ 45	$ 176	$ 78
Interest expense	(142)	(352)	(755)	(378)	(115)
Sale of NOx emission credits	2,428			231	77
Amortization of deferred gain	308	308	308	53	25
Other income		2			
Total income (expense)	$ 2,643	$ (11)	$ (402)	$ 82	$ 65
Income (loss) before income taxes	$ 1,995	$ (1,004)	$ (4,042)	$ (5,184)	$ (3,204)
Income tax expense (benefit)	857	(26)	(84)	147	49
Net income (loss)	$ 1,138	$ (978)	$ (3,958)	$ (5,331)	$ (3,253)
Share Data: (1)					
Basic earnings (loss) per common share	$ 0.38	$ (0.29)	$ (0.86)	$ (0.76)	$ (0.44)
Diluted earnings (loss) per common share	$ 0.38	$ (0.29)	$ (0.86)	$ (0.76)	$ (0.44)
Weighted average number of common shares outstanding on a diluted basis (000s)	2,973	3,376	4,583	7,066	7,418
Balance Sheet Data:					
Total assets	$ 92,958	$ 103,154	$ 108,948	$ 115,553	$ 115,553
Working capital	(585)	3,876	5,907	11,938	11,938
Deferred gain	4,164	3,855	3,547	3,315	3,315
Long-term obligations	71,244	79,814	80,410	80,264	80,264
Shareholders equity	6,186	6,620	10,218	19,337	19,337

(1) The share data has been restated to reflect the 1-for-7 reverse stock split that was effective on November 30, 2004.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995, referred to as the PSLRA, provides a safe harbor for forward-looking statements. Certain statements contained in this prospectus and the documents incorporated by reference herein, such as statements concerning planned manure-to-energy systems, our sales pipeline, our backlog, our projected sales and financial performance, statements containing the words may, assumes, forecasts, positions, predicts, strategy, will, expects, estimates, anticipates, believes, projects, intends, plans, continue and variations thereof, and other statements contained in this prospectus and the documents incorporated by reference herein regarding matters that are not historical facts are forward-looking statements as such term is defined in the PSLRA. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to:

- uncertainties involving development-stage companies,
- uncertainties regarding project financing,
- the lack of binding commitments and the need to negotiate and execute definitive agreements for the construction and financing of projects,
- the lack of binding commitments for the purchase of gas produced by certain projects,
- the lack of binding commitments for supplies of substrate,
- financing and cash flow requirements and uncertainties,
- difficulties involved in developing and executing a business plan,
- difficulties and uncertainties regarding acquisitions, including risks relating to managing and integrating acquired businesses,
- technological uncertainties, including those relating to competing products and technologies,
- unpredictable developments, including plant outages and repair requirements,
- commodity price volatility, particularly with respect to the price of natural gas,
- the difficulty of estimating construction, development, repair, maintenance and operating costs and timeframes,
- the uncertainties involved in estimating insurance and implied warranty recoveries, if any,

- the inability to predict the course or outcome of any negotiations with parties involved with our projects,

- uncertainties relating to general economic and industry conditions, and the amount and rate of growth in expenses,

- uncertainties relating to government and regulatory policies, the legal environment, intellectual property issues, the competitive environment in which Environmental Power Corporation and its subsidiaries operate,

and other factors, including those described in this prospectus under the heading Risk Factors, as well as other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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RISK FACTORS

An investment in our common stock is speculative and involves a high degree of risk. You should purchase the common stock only if you are sophisticated in financial matters and business investments. You should carefully consider the following factors before purchasing our common stock.

Risks Relating to Microgy

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

Our subsidiary, Microgy, Inc., referred to as Microgy, was formed in 1999 and is still in the development stage. Microgy intends to develop facilities that use environmentally friendly anaerobic digestion and other technologies to produce biogas from animal and organic wastes. Because a large part of our future business is expected to involve Microgy s anaerobic digester projects and Microgy is an unproven enterprise with very little operating history, we are unable to determine whether our investment in Microgy will prove to be profitable. If our investment in Microgy is not profitable, your investment in our common stock will be adversely affected.

Microgy has experienced losses to date and we anticipate it will continue to experience losses into 2006.

We expect our Microgy subsidiary 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 into 2006, which could have a material adverse effect on the value of your investment in our common stock.

Microgy has little experience in project development, and the marketplace for Microgy s anaerobic digester technology is complex, still developing and subject to change; therefore, we cannot predict how all projects will be developed, what Microgy s costs will be or, consequently, whether Microgy or any project undertaken by Microgy will be profitable.

Microgy has very limited experience in project development, including project assessment, construction and operation. In addition, Microgy markets its anaerobic digester technology in a complicated and changing environment. Due to the many possible applications for Microgy s technology, and the many possible ways in which projects deploying Microgy s technology might be structured, Microgy may decide to develop and own facilities, sell and operate facilities or some combination of the foregoing, either alone or in conjunction with others. We expect to make these determinations on a case-by-case basis. As a result of Microgy s inexperience and the dynamic nature of its market, we are unable to project with certainty Microgy s organizational, structural, staffing or other overhead costs, the construction or operating costs associated with any project, or whether any facility, or Microgy as a whole, will generate a profit. If Microgy fails to generate a profit, your investment in our common stock will be materially adversely affected.

If we are unable to obtain needed financing for Microgy s anaerobic digester projects, the value of our Microgy investment may be reduced significantly.

We are seeking and will require corporate, project or group financing to fund the cost of any development we may decide to pursue for our anaerobic digester projects. This financing may be difficult or impossible for us to obtain. If we are unable to obtain such financing, the value of our Microgy investment may be reduced significantly, and we may be required to substantially curtail our business or completely cease construction or operation of any anaerobic digester projects. This financing will depend on prospective lenders or investors review of our financial capabilities as well as specific projects and other factors, including assessment of our ability to successfully construct and manage each project. If we are unable to obtain the required financing, your investment in our common stock will be materially adversely affected.

The market for anaerobic digester technology is crowded, and our market share may not be sufficient to be profitable.

There are many companies that offer anaerobic digester systems. We believe that at least 60 companies offer complete systems or components to these systems in the U.S. market. Competition from these companies

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may constrain our market share to a degree that will not allow us to be profitable. Although we are unaware of any competitors pursuing a business strategy similar to Microgy s, a number of competitors have more mature businesses and have successfully installed anaerobic digester systems. Competition from any of these sources could harm our business.

We are a small company and the entrance of large companies into the alternative fuels and renewable energy business will likely harm our business.

Competition in the traditional energy business from electric utilities and other energy companies is well established, with many substantial entities having multi-billion dollar, multi-national operations. Competition in the alternative fuels and renewable energy business is expanding with the growth of the industry and the advent of many new technologies. Larger companies, due to their better capitalization, will be better positioned to develop new technologies and to install existing or more advanced renewable energy generators, which could harm our market share and business.

As Microgy focuses a significant portion of its development efforts on projects devoted to the sale of gas as a commodity, we will be increasingly exposed to volatility in the commodity price of natural gas, which could have a material adverse impact on our profitability.

As Microgy begins to focus a significant portion of its development efforts on multi-digester projects for the production of gas for sale as a commodity, we will become increasingly exposed to market risk with respect to the commodity pricing applicable to our gas production. Realized commodity prices received for such production are expected to be primarily driven by spot prices applicable to natural gas. Historically, natural gas prices have been volatile, and we expect such volatility to continue. Fluctuations in the commodity price of natural gas may have a materially adverse impact on the profitability of some of our projects, particularly where we do not have a long-term contract for the sale of the project s output at a fixed or predictable price. At such time as Microgy s projects begin to produce commercial quantities of gas for sale as a commodity, we intend to explore various strategies, including hedging transactions and long-term sale agreements, in order to mitigate the associated commodity price risk. However, we cannot assure you that any such risk management strategies will be successful. As a result, many of Microgy s projects may become unprofitable, which would have a negative impact on your investment in our common stock.

Our projects involve long development cycles that result in high costs and uncertainty.

The negotiation of the large number of agreements necessary to sell, develop, install, operate and manage any of our 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. Delays in the parties decision-making process are outside of our control and may have a negative impact on our development costs, cost of sales, receipt of revenue and sales projections. We expect that, in some cases, it may take a year or more to obtain decisions and to negotiate and close these complex agreements. Such delays could harm our operating results and financial condition.

Because the market for renewable energy and waste management is unproven, it is possible that we may expend large sums of money to bring our offerings to market and the revenue that we derive may be insufficient to fund our operations.

Our business approach to the renewable energy and waste management industry may not produce results as anticipated, be profitable or be readily accepted by the marketplace. We cannot estimate whether demand for facilities based on our technology, or the gas produced by such facilities, will materialize at anticipated prices, or whether satisfactory profit margins will be achieved. If such pricing levels are not achieved or sustained, or if our technologies and business approach to our markets do not achieve or sustain broad acceptance, our business, operating results and financial condition will be materially and negatively impacted.

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If we are unable to obtain sufficient waste resources for our Microgy renewable energy technologies, Microgy will not likely operate profitably.

The performance of our renewable energy technologies is dependent on the availability of animal and other organic waste resources to produce raw energy and meet performance standards in the generation of power or biogas. In many cases, we do not have binding agreements for the supply of some or all of these resources. Lack of these waste resources or adverse changes in the nature, quality or cost of such waste resources would seriously affect our ability to develop and finance projects and to operate efficiently and generate income. As a result, our revenue and financial condition would be materially and negatively affected. We cannot assure you that waste resources will be available in the future for free or at a price that makes them affordable for our waste-to-energy technologies.

Because we have not filed patents to protect Microgy s intellectual property, we might not be able to prevent others from employing competing products. Conversely, others who have filed for patent or other protection might be able to prevent us from employing our products.

Neither we nor, we believe, our licensor have filed any patent applications on the intellectual property Microgy plans to use. Should we or our licensor decide to file patent applications, we cannot assure you that any patent applications relating to our existing or future products or technologies will result in patents being issued, that any issued patents will afford adequate protection to us, or that such patents will not be challenged, invalidated, infringed or circumvented. Furthermore, we cannot assure you that others have not developed, or will not develop, similar products or technologies that will compete with our products without infringing upon, or which do not infringe upon, our intellectual property rights or those of our licensor.

Third parties, including potential competitors, may already have filed patent applications relating to the subject matter of our current or future products. In the event that any such patents are issued to such parties, such patents may preclude our licensors from obtaining patent protection for their technologies, products or processes. In addition, such patents may hinder or prevent us from commercializing our products and could require us to enter into licenses with such parties. We cannot assure you that any required licenses would be available to us on acceptable terms, or at all.

We rely heavily on confidentiality agreements and licensing agreements to maintain the proprietary nature of our base of technologies relating to currently licensed technologies. To compete effectively, we may have to defend the rights to our intellectual property from time to time. Such defense costs may be significant. As a result, we may lack the financial resources to adequately defend our intellectual property.

If our relationship with the licensor of our technology were terminated for any reason or such licensor ceased doing business, our Microgy subsidiary would be negatively impacted.

Microgy licenses its anaerobic digester technology from Danish Biogas Technology, A.S., referred to as DBT, a Danish company. The license agreement grants to Microgy a perpetual, exclusive license to develop projects based on this technology in North America. Pursuant to the license agreement, Microgy is required to pay one-time licensing fee per project and engineering and design fees to DBT in connection with the development of projects. Microgy relies upon DBT for technical advice and engineering assistance. Therefore, if DBT were to cease doing business, Microgy s business may be negatively impacted.

The large number of tasks that need to be accomplished for the development of projects based on our anaerobic digester technology increases the possibility that such projects will incur costly delays.

In our development of projects based on our anaerobic digester technology for ourselves or on behalf of our customers, we are required to enter into or obtain some or all of the following:

Site agreements;