

ENVIRONMENTAL POWER CORP

Form S-2

August 23, 2004

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As filed with the Securities and Exchange Commission on August 23, 2004.

Registration No. 333-\_\_\_\_\_

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**FORM S-2**

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## REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

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## ENVIRONMENTAL POWER CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of incorporation or  
organization)

75-3117389  
(I.R.S. Employer Identification No.)

One Cate Street, 4<sup>th</sup> Floor  
Portsmouth, New Hampshire 03801

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(603) 431-1780

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

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Joseph E. Cresci

Chairman

Environmental Power Corporation

One Cate Street, 4<sup>th</sup> Floor

Portsmouth, New Hampshire 03801

(603) 431-1780

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

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*Copies to:*

Scott E. Puschel, Esq.

Pierce Atwood LLP

1 New Hampshire Avenue, Suite 350

Portsmouth, New Hampshire 03801

**Approximate date of commencement of proposed sale to the public:** As soon as practicable following the date on which the Registration Statement becomes effective.

If any of the securities being registered on this form are offered as a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

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If the registrant elects to deliver its latest annual report to security holders, or a complete and legal facsimile thereof pursuant to Item 11(a)(1) of this Form, 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 post-effective amendment filed pursuant to Rule 462(d) 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 delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to Be Registered(1)</b>	<b>Proposed Maximum Offering Price Per Share(4)</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee(5)</b>
Common Stock	7,124,400(2)	\$ 0.995	\$ 7,088,778.00	\$ 899.00
Common Stock Underlying Warrants	4,619,701(3)	\$ 0.995	\$ 4,596,602.50	\$ 583.00
<b>TOTAL</b>	<b>11,744,101</b>	<b>\$ 0.995</b>	<b>\$11,685,380.50</b>	<b>\$1,482.00</b>

- (1) In accordance with Rule 416, there are hereby being registered an indeterminate number of additional shares of common stock which may be issued as a result of the anti-dilution provisions of the warrants.
- (2) Registered for resale by certain securityholders of the Registrant.
- (3) Registered for resale upon exercise of outstanding warrants held by certain securityholders of the Registrant.
- (4) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act and based upon the average of the bid and asked prices of the Registrant's common stock, as reported on the OTC Bulletin Board on August 18, 2004.
- (5) The registration fee was calculated in accordance with Rule 457(c) and is based on the average of the bid and asked prices of the Registrant's common stock, as reported on the OTC Bulletin Board on August 18, 2004.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant 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), may determine.

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

Subject to completion, dated August 23, 2004.

PROSPECTUS

# ENVIRONMENTAL POWER CORPORATION

## 11,744,101 shares of common stock

This prospectus describes the registration of 11,744,101 shares of common stock of Environmental Power Corporation, of which 7,124,400 shares are issued and outstanding and 4,619,701 shares are issuable upon exercise of outstanding warrants. We will be issuing, in private transactions, the shares of common stock issuable upon exercise of the warrants.

We do not know if any or all of the warrants will be exercised. The selling shareholders will have to exercise the warrants in order to sell the underlying shares of common stock that are offered for resale in this prospectus.

Our common stock is quoted for trading on the OTC Bulletin Board under the symbol POWR. The address of our principal executive offices is One Cate Street, 4<sup>th</sup> Floor, Portsmouth, New Hampshire 03801 and our telephone number is (603) 431-1780.

Investing in our common stock involves certain risks. See **Risk Factors** commencing on page 3 of this prospectus.

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 date of this prospectus is August 23, 2004.

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**PROSPECTUS SUMMARY**

*This summary highlights important features of this offering and the information included or incorporated by reference in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors.*

**Environmental Power Corporation**

Our mission is to be a leading company in resource management and energy production technologies that serve multiple socially responsible markets. 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 agricultural 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 seven hydroelectric plants, two municipal waste projects, and three waste coal-fired generating facilities. We sold or transferred all of these projects either in development or after completion. We currently have two principal business units, Buzzard Power Corporation and Microgy Cogeneration Systems, Inc., which are described below.

**Buzzard Power Corporation**, referred to as Buzzard, which since 1994 has owned the leasehold interest in a waste coal-fired facility in Scrubgrass, Pennsylvania, which leasehold interest extends through the year 2016. This facility has yielded over \$50 million in annual revenues to Environmental Power Corporation over each of the last several years.

**Microgy Cogeneration Systems, Inc.**, referred to as Microgy, which is developing and marketing facilities that produce renewable energy from animal wastes and other by-products from the agricultural and food industries, using a proven anaerobic digestion technology which our management believes is superior to competing alternatives. We acquired Microgy in 2001. Microgy has begun construction on its first facilities and is expected to produce its initial revenues in late 2004.

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 1982. EPC Corporation became a publicly traded company in 1986, and its successor, Environmental Power Corporation is currently quoted on the OTC Bulletin Board market (symbol: POWR). The address of our principal executive offices is One Cate Street, 4<sup>th</sup> Floor, Portsmouth, New Hampshire 03801 and our telephone number is (603) 431-1780.

The information on our Internet website is not incorporated by reference in this prospectus. Unless the context otherwise requires references in this prospectus to Environmental Power we, us, and our refer to Environmental Power Corporation and its subsidiaries.

**We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.**

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**THE OFFERING**

Common stock offered by selling stockholders	11,744,101 shares
Use of proceeds	Environmental Power Corporation will not receive any proceeds from the sale of shares in this offering.
OTC Bulletin Board Trading Symbol	POWR



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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.*

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

Our subsidiary, Microgy Cogeneration Systems, 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 bio-energy 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.

*Microgy has experienced losses to date and we anticipate it will continue to experience losses in 2004.*

Microgy had accumulated losses due primarily to expenses of business development of approximately \$6,000,000 through December 31, 2003. 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 would adversely affect our financial condition into 2004.

*The marketplace for Microgy's anaerobic digester technology is complex, still developing and subject to change and, therefore, we cannot predict how all projects will be developed, what Microgy's costs will be or, consequently, Microgy's outlook for profitability.*

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. These determinations are expected to be made on a case-by-case basis. As a result, despite the revenue potential, we are unable to project with certainty Microgy's organizational, structural, staffing or other overhead costs, 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 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 close 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.

*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 may constrain our market share to a degree that we are not 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.

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***We currently rely on the Scrubgrass plant for all of our operating revenues.***

We own a 22-year leasehold interest that commenced in 1994 in our Scrubgrass plant, a waste coal fired electric generating facility in Pennsylvania. Because all of our operating revenue currently results from the Scrubgrass plant, we are dependent on its successful and continued operations. Increased working capital requirements of the Scrubgrass plant, significant unscheduled shutdowns or large increases in interest rates at Scrubgrass would reduce our cash flow. This may necessitate a substantial curtailment of our operations and require the termination of any anaerobic digester projects and would have an adverse effect on our results of operations.

On September 4, 2003, we entered into a Note Purchase Agreement with Crystal Creek Coalpower Funding, LLC, an affiliate of ArcLight Energy Partners Fund I, L.P., referred to as ArcLight, pursuant to which our subsidiary, EPC Corporation, which holds as its sole asset the stock of Buzzard, agreed to issue and sell to ArcLight up to \$5,400,000 original principal amount of its 20.0% Senior Secured Notes due December 31, 2012, consisting of Note A in the original principal amount of \$3,700,000 and Note B in the original principal amount of \$1,700,000. ArcLight purchased Note A on September 4, 2003, as a result of which EPC Corporation received gross proceeds of \$3.7 million. We do not expect to satisfy the conditions to the purchase of Note B. The aggregate minimum principal and interest to be paid by EPC Corporation on Note A over the term of Note A is \$4.8 million. We do not receive any distribution until Note A is paid off, thereafter we will receive the next \$1.4 million of distributions. Thereafter, future distributions will be shared equally through December 31, 2012.

***If we default in our obligations under our loan agreement with ArcLight, we will lose ownership of our subsidiary, EPC Corporation, and, thereby, the leasehold interest in the Scrubgrass facility.***

Our loan from ArcLight is secured by a pledge of all of the outstanding stock of our subsidiary, EPC Corporation, which in turns holds our interest in Buzzard Power Corporation as its sole asset, the entity that maintains the Scrubgrass facility. If we were to default in our obligations under our agreements with ArcLight, ArcLight would have the right to foreclose on this pledge and take ownership of EPC Corporation, as a result of which we would lose our interest in the Scrubgrass facility, which is currently our most significant operating asset and revenue source.

The events of default are narrowly defined. The most significant would be related to non-payment. We are only required to make payments when there is a distribution from Scrubgrass. Nevertheless, if we do not make any payments in a 24-month period, it would trigger a default.

***We do not control the management of the Scrubgrass plant, our primary revenue-generating asset.***

We have a management services agreement with PG&E National Energy Group to manage the Scrubgrass plant and a 15-year operation and maintenance agreement with PG&E Operating Services to operate the facility. These agreements contain provisions that limit our participation in the management and operation of the Scrubgrass plant. Because we do not exercise control over the operation or management of the Scrubgrass plant, decisions may be made, notwithstanding our opposition that may have an adverse effect on our business.

***Our current power generation revenue is derived from only one customer, the loss of which would severely harm our financial condition and the value of your investment.***

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Our current Scrubgrass plant power generation revenue is earned under a long-term power purchase agreement for all output with one customer, Pennsylvania Electric Company, or Penelec, a subsidiary of FirstEnergy Corporation. This concentration of our revenue with this customer will continue for the foreseeable future. If this customer goes out of business or defaults on its payments to us, our financial condition will be adversely affected.

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*A large increase in interest rates may adversely affect our operating results.*

Our Buzzard subsidiary is leveraged with mostly variable rate and some fixed rate debt obligations. Should market interest rates rise significantly, our operating results will be adversely impacted.

*Our Scrubgrass plant's long-term power purchase agreement is subject to a change in rates in 2005 and market conditions in its later years that may affect our profitability.*

The Scrubgrass plant generates electricity that is sold at rates established under a long-term power purchase agreement with Penelec, approved by the Pennsylvania Public Utility Commission. For years 2005 through 2012, the agreement provides for a rate determined based on a scheduled rate adjusted for actual inflation during prior contract years compared to the automatic 5% adjustment in such prior years. Contracted rates in the later years of the agreement are determined with reference to then existing market conditions. Therefore, the existence of inflation less than 5% in years prior to 2005 will negatively impact our revenue. Low wholesale energy rates during the later years of the power purchase agreement would also negatively impact our profitability and could adversely affect our financial position.

*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 growth of the industry and 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.

*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 or other organic waste resources to produce the raw energy and meet performance standards in the generation of power or bio-fuel. Lack of these waste resources or adverse changes in the nature or quality 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.*

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Neither we nor, it is believed, 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.

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.

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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.

*We rely on a third party license for our technology and continued support.*

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 the license agreement, Microgy is required to pay royalties 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 materially and negatively impacted. Microgy entered into an amendment to the license agreement with DBT for modifications deemed favorable to Microgy. However, in order to maintain these more favorable provisions, Microgy must initiate construction on at least five facilities prior to April 14, 2005. While Microgy expects to be able to satisfy this condition this year, if it were unable to do so, its business would be materially adversely affected.

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

In our development of power projects and other 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;

Supply contracts;

Design/build or other construction related agreements;

Power sales contracts;

Various co-product sales agreements;

Waste disposal agreements;

Licenses;

Environmental and other permits;

Local government approvals; and

Financing commitments required for the successful completion of development projects.

Our failure to accomplish any of these objectives could materially increase the cost or prevent the successful completion of development projects and incur the loss of any investment made. These events could adversely affect our business and results of operations.

*We rely on third party subcontractors to build significant portions of our facilities.*

Microgy intends to rely on third party subcontractors to construct significant portions of its anaerobic digester facilities. The failure of these subcontractors to complete their work in a timely fashion, and any errors or omissions in such work, could result in significant additional costs or delays or liability to Microgy, which could have a material adverse effect on Microgy's business.

*Poor fuel and other materials quality may expose us to environmental liability and reduce our operating results.*

For our Scrubgrass facility, we obtain waste coal primarily from coal mining companies on a long-term basis because waste coal is plentiful and generally creates environmental hazards, such as acid drainage, when not disposed of properly. The waste coal is burned in the Scrubgrass facility using a circulating fluidized bed combustion system. During the circulating fluidized bed combustion process, the waste coal



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is treated with other substances such as limestone. Depending on the quality of the waste coal and the limestone, the facility operator may need to add additional waste coal or other substances to create the appropriate balance of substances which would result in the best fuel or sorbent consistency for power generation and compliance with air quality standards. Therefore, the cost of generating power is directly impacted by the quality of the waste coal, which supplies the Scrubgrass power generation facility. Certain conditions, such as poor weather, can create situations where the facility operator has less control over the quality of the waste coal. Poor fuel quality may impact our future operating results.

*The composition of effluents from our anaerobic digester facilities is not certain and may expose us to liability.*

In some cases, we may be responsible for handling the wastes that will be produced by some of our anaerobic digester facilities. We do not have experience in handling or disposing of such wastes. Handling and disposing of such wastes could result in unpredictable regulatory compliance costs, related liabilities and unwanted materials in waste effluents and co-products, all of which could harm our financial condition.

*Our products and services involve long sales 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 sales 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 cost of sales, receipt of revenue and sales projections. We expect that, in some cases, it may take nine months to a year or more to obtain decisions and to negotiate and close these complex agreements.

*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 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 does not achieve or sustain broad acceptance, our business, operating results and financial condition will be materially and negatively impacted.

*If we violate performance guarantees granted to Penelec we will be required to provide them with an incentive payment.*

Our agreement for the sale of power to Penelec contains a provision that requires our Scrubgrass facility to provide Penelec with a minimum output of 85% based on a rolling 3-year average. If we do not comply with this performance guarantee, we will be required to compensate Penelec with an incentive payment. The payment of an incentive payment would have an adverse effect on our financial condition.

*Our products and services may be subject to numerous governmental regulations.*

We expect to provide services that may be subject to various government regulations, including regulations covering air and water quality and related pollution issues. These regulations are mandated by the United States Environmental Protection Agency and various state and local governments and are usually implemented through a permitting process, with ongoing compliance requirements thereafter. In addition, our activities will fall under a number of health and safety regulations and laws and regulations relating to farms and zoning. Compliance with these regulations could be costly and harm our financial condition.

*Our power producing activities could be subject to costly regulations and tariffs.*

Our Scrubgrass facility produces power for sale to the local electrical grid, as will many of our planned bio-energy projects. The sale of this power may come under the regulations of various state public utility

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commissions, although such sales are currently exempt. These commissions set the price tariffs under which energy can be sold or purchased and they set the design standards for the interconnection of power producing equipment with the electrical power grid. Many of our power projects where electricity is sold to the grid may come under regulation by these commissions. These regulations may impede or delay the process of approving and implementing our projects. Substantial delays may materially affect our financial condition.

Government regulations can be burdensome and may result in delays and expense. In addition, modifications to regulations could adversely affect our ability to sell power or to implement our chosen strategy for the sale of power. Subsequent changes in the applicable regulations could also affect our ability to sell or install new facilities or develop and install facilities in an efficient manner or at all. Failure to comply with applicable regulatory requirements can result in, among other things, operating restrictions and fines that could harm our financial condition.

*We have numerous outstanding options and warrants which may adversely affect the price of our Common Stock.*

As of June 30, 2004, we had outstanding options, both vested and unvested, and warrants to acquire up to approximately 11,871,662 shares of our common stock at prices ranging from \$0.17 to \$3.08 per share. For the term of such options and warrants, the holders thereof will have an opportunity to profit from a rise in the market price of our common stock without assuming the risk of ownership. This may have an adverse affect on the price of our common stock and on the terms upon which we could obtain additional capital. It should be expected that the holders of such options and warrants would exercise them at a time when we would be able to obtain equity capital on terms more favorable than those provided by the options and warrants.

*The issuance of preferred stock may adversely affect the price of our Common Stock, which could cause a reduction in the value of your investment.*

We are authorized to issue up to two million shares of preferred stock. The preferred stock may be issued in series from time to time with such designations, rights, preferences and limitations as our Board of Directors may determine by resolution without shareholder approval. No shares of preferred stock are currently outstanding. However, the potential exists that preferred stock might be issued which would grant dividend and liquidation preferences over our Common Stock, diminishing the value of our Common Stock.

*A significant sale of our outstanding restricted common stock into the market could reduce the value of your investment.*

A significant portion of our outstanding shares of common stock had been restricted from immediate resale but may now be sold into the market pursuant to Rule 144 under the 1933 Act. This could cause the market price of our Common Stock to drop significantly, even if our business is doing well. Any reduction in the market price of our Common Stock would reduce the value of your investment.

*Our management and directors will continue to control our management and affairs.*

As of June 30, 2004, management and directors beneficially owned approximately 32% of our outstanding common stock. Consequently, such persons, as a group, may be able to control the outcome of matters submitted for stockholder action, including the election of members to our

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board of directors and the approval of significant change in control transactions. This may have the effect of delaying or preventing a change in control of the company and, therefore, your opportunity to sell your shares in such a transaction.

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*The lack of a developed trading market may make it difficult for you to sell your common stock.*

Any trading of our common stock will likely be conducted on the OTC Bulletin Board trading market. Trading activity in our common stock has fluctuated and has at times been limited. We cannot guarantee that a consistently active trading market will develop in the future, especially while we remain on the OTC Bulletin Board. A holder of our common stock may find it difficult to dispose of or to obtain accurate quotations as to the market value of our common stock.

*The market price for our common stock may be volatile.*

The market price for our common stock could be subject to significant fluctuations in response to variations in quarterly operating results, announcements of technological innovations or new projects and products by us or our competitors, or our failure to achieve operating results consistent with any securities analysts' projections of our performance.

The stock market has experienced extreme price and volume fluctuations and volatility that have particularly affected the market price of many emerging growth and development stage companies. Such fluctuations and volatility have often been unrelated or disproportionate to the operating performance of such companies.

*We will require and are actively seeking significant additional financing, which may result in our issuing a significant number of shares of our common stock or preferred stock, which in turn may dilute your investment.*

We require and are seeking corporate and project financing to fund our ongoing operations and growth plans as well as and the cost of any development we may decide to pursue for our anaerobic digester projects. Any such financing could be in the form of debt or equity instruments or a combination of debt and equity instruments. To the extent any such financing involves equity, we may issue a significant number of shares of our common stock or preferred stock, which will dilute your investment in our common stock, and we may issue such shares at prices that may be lower than the price you paid for our common stock. In addition, if we issue shares of our preferred stock, such preferred stock is likely to have rights and preferences that are superior to those of the shares of common stock offered hereby.

*Our common stock is subject to penny stock regulations and restrictions on initial and secondary-broker-dealer sales.*

The Securities and Exchange Commission has adopted regulations which generally define penny stock to be any listed, trading equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. Penny stocks are subject to certain additional oversight and regulatory requirements. These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to sell your shares of our common stock in the secondary market.

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**CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 (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 "expects", "estimates", "anticipates", "believes", "projects" 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, financing and cash flow requirements and uncertainties, difficulties involved in developing and executing a business plan, difficulties and uncertainties regarding acquisitions, technological uncertainties, risks relating to managing and integrating acquired businesses, unpredictable developments (including plant outages and repair requirements), the difficulty of estimating construction, development, repair and maintenance 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, 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.

**Table of Contents****USE OF PROCEEDS**

We intend to use the net proceeds from the exercise of the warrants for working capital. If all of the warrants were exercised, we would receive proceeds of \$4,870,170. It is uncertain when, if ever, we will receive proceeds from exercise of the warrants. We will not receive any proceeds from the sale of the shares of common stock to be sold by the selling stockholders pursuant to this prospectus

**SELLING SHAREHOLDERS**

We issued the shares of common stock covered by this prospectus in a private placement. The following table sets forth, to our knowledge, certain information about the selling stockholders as of June 30, 2004.

Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to shares. Shares of common stock issuable under stock options or warrants that are exercisable within 60 days after June 30, 2004 are deemed outstanding for computing the percentage ownership of the person holding the options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the person named below.

<b>Name of Selling Stockholder</b>	<b>Shares of Common Stock Beneficially Owned Prior to Offering <sup>(A)</sup></b>		<b>Number of Shares of Common Stock Being Offered <sup>(B)</sup></b>	<b>Shares of Common Stock Beneficially Owned After Offering <sup>(C)</sup></b>	
	<b>Number</b>	<b>%</b>		<b>Number</b>	<b>%</b>
Lewis Warshauer <sup>(1)</sup>	2,360,000	6.8	360,000	2,000,000	5.7
Herbert Arnold Duke II	90,000	*	90,000	0	0
Henry S. Krauss <sup>(2)</sup>	336,743	1.0	261,743	75,000	*
Andrew Krauss and Sharon Krauss, JTEN <sup>(3)</sup>	120,000	*	45,000	75,000	*
Alexander Purdie Jr.	45,000	*	45,000	0	0
Gregory B. Jacobs	90,000	*	90,000	0	*
Michael Harvey and Lyn Harvey	45,000	*	45,000	0	0
Deborah Salerno <sup>(4)</sup>	430,000	1.2	180,000	250,000	*
James W. Krause	90,000	*	90,000	0	0
Chitra Radin <sup>(5)</sup>	169,393	*	90,000	79,393	*
Robert N. Fink and Gunilla H. Fink, JTWROS	45,000	*	45,000	0	0
Sanford E. Davis	45,000	*	45,000	0	0
David Schmidt	45,000	*	45,000	0	0
Henry H. Corning Trust	450,000	1.3	450,000	0	0
Shah Family of South Fl. L.P.	90,000	*	90,000	0	0

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Name of Selling Stockholder	Shares of Common Stock Beneficially Owned Prior to Offering <sup>(A)</sup>		Number of Shares of Common Stock Being Offered <sup>(B)</sup>	Shares of Common Stock Beneficially Owned After Offering <sup>(C)</sup>	
	Number	%		Number	%
Michael J. Hausman	45,000	*	45,000	0	0
Leslie Peer <sup>(6)</sup>	445,000	1.3	45,000	400,000	1.2
Stuart Baraw, Jr. <sup>(7)</sup>	475,000	1.4	135,000	340,000	1.0
Ronald L. Warnken	45,000	*	45,000	0	0
Brad R. Gibson and Suzanne Gadd Gibson	90,000	*	90,000	0	0
James Wallace Nall, Jr.	45,000	*	45,000	0	0
Leonard Lebental	45,000	*	45,000	0	0
Operation Dogbone, LLC	45,000	*	45,000	0	0
Bina Dagar and Mahavir Dagar	45,000	*	45,000	0	0
Sandra Jordan	45,000	*	45,000	0	0
Thomas Kroeger	45,000	*	45,000	0	0
Judith Phillips	45,000	*	45,000	0	0
Mark Krakowski	90,000	*	90,000	0	0
Arthur C. Williams and Myrna R. Williams, JTWROS	45,000	*	45,000	0	0
American Business Consortium, Ltd.	22,500	*	22,500	0	0
Hazelrig Family Partnership, Ltd.	90,000	*	90,000	0	0
W. Cobb Hazelrig	90,000	*	90,000	0	0
Frederick G. Wedell	90,000	*	90,000	0	0
W & H Investments	180,000	*	180,000	0	0
Eric Carlyle and Julie Carlyle, JTWROS	45,000	*	45,000	0	0
Hugh Cohen	45,000	*	45,000	0	0
Leonard W. Fuchs	90,000	*	90,000	0	0
Abundance Partners	45,000	*	45,000	0	0