

ENVIRONMENTAL POWER CORP
Form 10-Q/A
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A

Amendment No. 1 to Form 10-Q

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-15472

Environmental Power Corporation

(Exact name of registrant as specified in its charter)

Edgar Filing: ENVIRONMENTAL POWER CORP - Form 10-Q/A

Delaware
(State or other jurisdiction of incorporation or organization)

04-2782065
(IRS Employer Identification No.)

One Cate Street 4th Floor, Portsmouth, New Hampshire 03801

(Address of principal executive offices)

(Zip code)

(603) 431-1780

Registrant's telephone number, including area code

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock outstanding

at June 30, 2003 21,791,279 shares

EXPLANATORY NOTE:

This Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "10-Q") is being filed to correct (i) the Registrant's Condensed Consolidated Statements of Operations (unaudited) for the Three Months and Six Months Ended June 30, 2003 and June 30, 2002 included in Part I, Item 1 and appearing on page 4 of the 10-Q (the "Statement of Operations"), (ii) Note C- Earnings Per Common Share, included in Part I., Item 1 and appearing on pages 6 and 7 of the 10-Q ("Note C") and (iii) Note D - Stock Options, included in Part I., Item 1 and appearing on pages 7 and 8 of the 10-Q ("Note D"). The Registrant does not believe any of these corrections to be material.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Statement of Operations is amended and restated in its entirety as follows:

ENVIRONMENTAL POWER CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(unaudited) for the Three Months and Six Months Ended June 30, 2003 and June 30, 2002

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|----------------------|---------------|----------------------|---------------|
| | June 30, 2003 | June 30, 2002 | June 30, 2003 | June 30, 2002 |
| POWER GENERATION REVENUES | \$ 12,553,759 | \$ 11,977,205 | \$ 27,089,093 | \$ 26,090,461 |
| COSTS AND EXPENSES: | | | | |
| Operating expenses | 8,058,879 | 7,469,811 | 13,648,725 | 12,614,544 |
| Lease expenses | 4,643,469 | 6,291,677 | 9,683,421 | 13,075,057 |
| General and administrative | 1,287,695 | 976,662 | 2,732,801 | 2,334,541 |
| Depreciation and amortization | 123,550 | 136,689 | 247,480 | 272,660 |
| | 14,113,593 | 14,874,839 | 26,312,427 | 28,296,802 |
| OPERATING INCOME (LOSS) | (1,559,834) | (2,897,634) | 776,666 | (2,206,341) |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 4,816 | 12,479 | 7,202 | 22,032 |
| Interest expense | (22,062) | (40,062) | (47,424) | (70,561) |
| Amortization of deferred gain | 77,103 | 77,102 | 154,206 | 154,205 |
| Other Income | 3,788 | | 7,885 | |
| Other Income | | | | |
| Sales of NOx emission credits | | | | 2,428,200 |

Edgar Filing: ENVIRONMENTAL POWER CORP - Form 10-Q/A

| | | | | |
|---|--------------------|-------------|-------------------|------------|
| Settlement of Sunnyside litigation | | 859 | | 2,859 |
| | 63,645 | 50,378 | 121,869 | 2,536,735 |
| INCOME (LOSS) BEFORE INCOME TAXES | (1,496,189) | (2,847,256) | 898,535 | 330,394 |
| INCOME TAX EXPENSE (BENEFIT) | (694,231) | (1,104,749) | 551,026 | 306,251 |
| NET INCOME | (801,958) | (1,742,507) | 347,509 | 24,143 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | | | |
| Basic | 21,791,279 | 20,038,591 | 21,802,808 | 20,144,423 |
| Diluted | 21,791,279 | 20,038,591 | 21,854,584 | 20,216,663 |
| EARNINGS (LOSS) PER COMMON SHARE: | | | | |
| Basic | \$ (0.04) | \$ (0.09) | \$ 0.02 | \$ 0.00 |
| Diluted | \$ (0.04) | \$ (0.09) | \$ 0.02 | \$ 0.00 |

See Notes to Condensed Consolidated Financial Statements.

Note C and Note D are each amended and restated in their entirety as follows:

NOTE C EARNINGS PER COMMON SHARE

We compute basic earnings (loss) per share by dividing net income (loss) for the period by the weighted average number of shares of common stock outstanding during the period. We compute our diluted earnings (loss) per common share using the treasury stock method in accordance with Statement of Financial Accounting Standard No. 128, Earnings per Share. For purposes of calculating diluted earnings per share, we consider our shares issuable in connection with stock options to be dilutive common stock equivalents when the exercise price is less than the average market price of our common stock for the period. We exclude antidilutive common stock equivalents from the calculation of diluted earnings per share. There was no dilutive effect on earnings (loss) per common share in the three months ended June 30, 2003 and 2002 due to the company recording a net loss in those periods. The following table outlines the calculation of basic earnings per share and diluted earnings per share for the three months ended June 30, 2003 and 2002 and the six months ended June 30, 2003 and 2002.

| | Income (Numerator) | Shares (Denominator) | Per Share Amounts |
|--|-------------------------------|---------------------------------|----------------------------------|
| <u>Three Months Ended June 30, 2003</u> | | | |
| Loss available to shareholders | \$ (801,958) | 21,791,279 | \$ (0.04) |
| Effect of dividends to preferred stockholders | (1,250) | | |
| Basic EPS loss available to common shareholders | \$ (803,208) | 21,791,279 | \$ (0.04) |
| Diluted EPS loss available to common shareholders | \$ (803,208) | 21,791,279 | \$ (0.04) |
| <u>Three Months Ended June 30, 2002</u> | | | |
| Loss available to shareholders | \$ (1,742,507) | 20,038,591 | \$ (0.09) |
| Effect of dividends to preferred stockholders | (1,250) | | |
| Basic EPS loss available to common shareholders | \$ (1,743,757) | 20,038,591 | \$ (0.09) |
| Diluted EPS loss available to common shareholders | \$ (1,743,757) | 20,038,591 | \$ (0.09) |
| | Income (Numerator) | Shares (Denominator) | Per Share Amounts |
| <u>Six Months Ended June 30, 2003</u> | | | |
| Income available to shareholders | \$ 347,509 | 21,802,808 | \$ 0.02 |
| Effect of dividends to preferred stockholders | (2,500) | | |
| Basic EPS income available to common shareholders | \$ 345,009 | 21,802,808 | \$ 0.02 |
| Assumed exercise of dilutive stock options | | 51,776 | |
| Diluted EPS income available to common shareholders | \$ 345,009 | 21,854,584 | \$ 0.02 |

Edgar Filing: ENVIRONMENTAL POWER CORP - Form 10-Q/A

Six Months Ended June 30, 2002

| | | | | | |
|---|----|---------|------------|----|-------|
| Income available to shareholders | \$ | 24,143 | 20,144,423 | \$ | 0.00 |
| Effect of dividends to preferred stockholders | | (2,500) | | | |
| | | <hr/> | <hr/> | | <hr/> |
| Basic EPS income available to common shareholders | \$ | 21,643 | 20,144,423 | \$ | 0.00 |
| Assumed exercise of dilutive stock options | | | 72,240 | | |
| | | <hr/> | <hr/> | | <hr/> |
| Diluted EPS income available to common shareholders | \$ | 21,643 | 20,216,663 | \$ | 0.00 |
| | | <hr/> | <hr/> | | <hr/> |

NOTE D STOCK OPTIONS

The Company has elected to account for stock options in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, which uses the intrinsic value method of accounting. Accordingly, the Company has not recognized compensation expense for the fair value of its stock-based awards in its condensed consolidated statements of operations. The following table reflects pro forma net income and earnings per share had the Company elected to record expense for employee stock options under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation.

During the three and six months ending June 30, 2003, we issued options to acquire 150,000 shares of Common Stock to non-employee directors in respect of their service on the Company s board of directors.

Using the fair value criteria required by SFAS No. 123 to calculate compensation expense, pro forma net income (loss) and earnings per share would be as follows:

| | Six Months Ended | | Three Months Ended | |
|---|------------------|---------------|--------------------|---------------|
| | June 30, 2003 | June 30, 2002 | June 30, 2003 | June 30, 2002 |
| Fair Market Per Share | \$ 0.20 | \$ 0.41 | \$ 0.20 | \$ 0.41 |
| Assumptions | | | | |
| Risk-free rate of return | 3.43% | 4.70% | 3.43% | 4.70% |
| Volatility | 91.18% | 81.82% | 91.18% | 81.82% |
| Expected Annual Dividend Yield | 0% | 0% | 0% | 0% |
| Option Life | 10.00 | 8.33 | 10.00 | 8.33 |
| Compensation expense under the intrinsic value method | \$ | \$ | \$ | \$ |
| Net Income available to common shareholders | 347,509 | 21,643 | (801,958) | (1,743,757) |
| Compensation Expense under SFAS 123, net of taxes | 26,008 | 22,971 | 13,034 | 12,598 |
| Net Income (Loss) available to common shareholders under SFAS 123 | 321,501 | (1,328) | (814,992) | (1,756,355) |
| Basic EPS, as reported | \$ 0.02 | \$ 0.00 | \$ (0.04) | \$ (0.09) |
| Basic EPS, under SFAS 123 | \$ 0.02 | \$ 0.00 | \$ (0.04) | \$ (0.09) |
| Diluted EPS, as reported | \$ 0.01 | \$ (0.00) | \$ (0.04) | \$ (0.09) |
| Diluted EPS, under SFAS 123 | \$ 0.01 | \$ (0.00) | \$ (0.04) | \$ (0.09) |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENVIRONMENTAL POWER CORPORATION

August 14, 2003

/s/ R. JEFFREY MACARTNEY

R. Jeffrey Macartney

Treasurer and Chief Financial Officer

(principal accounting officer and authorized officer)