

ENVIRONMENTAL POWER CORP

Form 424B3

September 01, 2005

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Filed Pursuant to Rule 424(b)(3)

File No. 333-121572

PROSPECTUS

# ENVIRONMENTAL POWER CORPORATION

## 100,000 SHARES OF COMMON STOCK

This prospectus describes the registration of 100,000 shares of common stock of Environmental Power Corporation, issuable upon exercise of outstanding common stock warrants held by Ladenburg Thalmann & Co. Inc., the sole underwriter of a public offering of our common stock effected in February 2005, and certain persons affiliated with Ladenburg Thalmann & Co. Inc. 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.

The shares of common stock covered by this prospectus may be sold by the selling shareholders from time to time at market prices or at negotiated prices in the case of private transactions. We will not receive any proceeds from the sale of shares of common stock by the selling shareholders.

Our common stock is quoted for trading on the American Stock Exchange under the symbol EPG. On August 31, 2005, the closing sale price of our common stock on the American Stock Exchange was \$6.77 per share.

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 a high degree of risk. See Risk Factors beginning on page 5 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 31, 2005.**

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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. Unless otherwise noted, all share amounts, share price information and the exercise prices of outstanding options and warrants set forth in this prospectus or in any documents incorporated by reference herein 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, with the ability to produce energy at a stable, predictable cost that is at or below the cost of most power sources. Our production facilities produce energy from environmentally harmful waste materials, allowing us to generate environmental benefits with significant social and economic value.

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 for its use to generate energy. 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 for thermal energy in a variety of industrial and agricultural processes and for the generation of electricity.

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 revenue stream through the transaction with ArcLight. We are currently focusing most of our corporate resources on advancing Microgy's business.

**Risk Factors**

Investing in our common stock involves risks. 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**

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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 American Stock Exchange (symbol: EPG). 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. Our Internet address is [www.environmentalpower.com](http://www.environmentalpower.com). The information on our Internet website is not incorporated by reference in this prospectus.

**We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The selling shareholder is 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 shareholders	100,000 shares
Use of proceeds	Environmental Power Corporation will not receive any proceeds from the sale of shares in this offering
American Stock Exchange symbol	EPG

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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. 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 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.

*Microgy has experienced losses to date and we anticipate it will continue to experience losses in 2005.*

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 in 2005.

*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. We expect to make these determinations 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.*

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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.

*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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*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 a year or more to obtain decisions and to negotiate and close these complex agreements, which 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 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.

*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.

*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 biogas. Lack of these waste resources or adverse changes in the

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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.

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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 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.

***Because all of the cash flow we receive from Buzzard is currently dedicated to the repayment of our loan with Arclight, we are entirely dependent upon the capital we raise to fund the continuing development of Microgy.***

We do not expect to receive cash from the operations of Buzzard, because such cash, if any, will be used to repay interest and principal on our loan from an affiliate of Arclight. As a result, if we are not able to raise additional capital, including by means of this offering, to fund Microgy's operations and our corporate expenses until Microgy's operations begin to generate positive cash flow, we will not be able to continue to fund Microgy's operations at their current levels, and our business will be materially and adversely affected.

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### **Risks Relating to Buzzard**

*We currently rely on the Scrubgrass plant for almost all of our operating revenues, and the cash distributions resulting from the Scrubgrass operations have been dedicated to the repayment of the Arclight loan.*

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 almost 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. In addition, we will not receive any distributions from Buzzard until our loan from Arclight is repaid. Thereafter, we will receive the next \$1,400,000 of distributions, after which we will share distributions equally with Arclight through December 31, 2012. As a result, unless we are able to raise additional capital or generate operating income from other sources, we would have to substantially curtail our operations.

*If we default on 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 on our obligations under our agreement with Arclight, Arclight would have the right to foreclose on this pledge and take ownership of EPC Corporation. As a result, we would lose our interest in the Scrubgrass facility, which is currently our most significant operating asset and revenue source.

The events of default under our agreements with Arclight are narrowly defined. The most significant default is 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, a default under our agreements with Arclight would be triggered.

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

We have a management services agreement with Cogentrix, formerly 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, which 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 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. Furthermore, the Scrubgrass plant operates as a qualifying facility, or QF, under PURPA. The loss of QF status could trigger defaults in the project's PSA. Therefore, Buzzard would most likely have to sell power at prevailing market rates that are much lower than the rate outlined in the PSA.

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

Our Buzzard and EPC Corporation subsidiaries are leveraged with variable rate and fixed rate debt obligations. Additionally, Buzzard has lease expenses that are based on the principal, interest and fees of the debt obligations of the lessor of our Scrubgrass facility, most of which carries variable rate interest. The table appearing under the heading "Scrubgrass Debt Obligations", set forth in Note G to our financial statements included in our Quarterly Report on Form 10-Q for the period ended March 31, 2005 as filed with the SEC on May 16, 2005 (SEC File No. 001-32393), shows that over 90% of our debt obligations and lease obligations have variable interest rates. Therefore, significant increases in market interest rates will adversely affect our operating results since we are

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required to pay the Scrubgrass lessor's debt obligations as a base lease expense. For example, a one percent increase in the London Interbank Offering Rate, referred to as LIBOR, and our quoted bond rates would result in a \$1,391,880 increase in our lease expense.

*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, which has been 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 and profitability. Low wholesale energy rates during the later years of the power purchase agreement would also negatively impact our revenue and profitability and could adversely affect our financial position.

*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 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 in order to produce 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.

*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.

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### **Risks Relating to Both Microgy and Buzzard**

*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, or EPA, 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 and permitting requirements could delay the development of projects and could be costly and harm our financial condition.

Furthermore, there are from time to time various legislative proposals that would amend or comprehensively restructure the Public Utility Regulatory Policies Act of 1978, or PURPA, and the electric utility industry. If PURPA is amended or repealed, the statutory requirement that electric utilities purchase electricity from qualifying facilities, or QFs, at full-avoided cost could be repealed or modified. While we expect that existing contracts would be honored, the repeal or modification of these statutory purchase requirements under PURPA in the future could, among other things, increase pressure from electric utilities to renegotiate existing contracts. Should there be changes in statutory purchase requirements under PURPA, and should these changes result in amendments to our current power purchase agreement with Penelec for our Scrubgrass facility that reduce the contract rates, our results of operations and financial position could be negatively impacted.

*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 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.

### **Risks Relating to Our Common Stock and This Offering**

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



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As of June 30, 2005, we had outstanding options, both vested and unvested, and warrants to acquire up to approximately 2,329,919 shares of our common stock at prices ranging from \$1.40 to \$21.56 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 effect 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 2,000,000 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.

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However, we may issue preferred stock which would enjoy dividend and liquidation preferences over our common stock, thereby diminishing the value of our common stock.

*The sale of a substantial number of shares could cause the market price of our common stock to decline.*

Our sale, or the resale by our stockholders, of shares of our common stock after this offering could cause the market price of our common stock to decline.

A significant portion of our outstanding shares of common stock had been restricted from immediate resale, but are now available for sale in the market pursuant to Rule 144 under the Securities Act of 1933. As of June 30, 2005, we had approximately 2,946,642 shares of restricted common stock outstanding, of which approximately 1,268,954 shares are eligible for resale in accordance with Rule 144.

Furthermore, we currently have on file with the Securities and Exchange Commission an effective registration statement that permits the resale by certain of our shareholders of up to 1,677,688 shares of our restricted common stock, of which 1,017,712 shares are currently issued and outstanding and 659,976 shares are subject to outstanding warrants that are currently exercisable at a price of \$7.14 per share.

As of June 30, 2005, we had outstanding vested options to acquire up to approximately 1,849,392 shares of our common stock at prices ranging from \$1.40 to \$21.56 per share. The shares of common stock issuable upon exercise of these options will be freely transferable without restriction, except to the extent that they are held by our affiliates. Any shares held by our affiliates may only be sold in compliance with the volume limitations of Rule 144. These volume limitations restrict the number of shares that may be sold by an affiliate in any three-month period to the greater of 1% of the number of shares then outstanding, which equals approximately 75,060 shares as of June 30, 2005, or the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

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

As of May 30, 2005, management and directors, including Joseph E. Cresci, Donald A. Livingston, Kamlesh R. Tejwani, Robert I. Weisberg, Jessie J. Knight, Jr., John R. Cooper and August Schumacher, Jr. beneficially owned approximately 27% of our outstanding common stock. While there are no voting agreements among them, 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 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 our company and, therefore, your opportunity to sell your shares in such a transaction.

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

Prior to December 27, 2004, our common stock was traded on the OTC Bulletin Board. 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. A holder of our common

stock may find it difficult to dispose 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.

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*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 will have rights and preferences that are superior to those of the shares of common stock offered hereby.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

The Private Securities Litigation Reform Act of 1995, referred to as the PSLRA, provides a safe harbor for forward-looking statements. Certain statements contained or incorporated by reference in this prospectus, 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, budgets, potential, continue, thereof, and other statements contained in this Report 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, including those relating to competing products and technologies,

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, and the amount and rate of growth in expenses,

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uncertainties relating to government and regulatory policies, the legal environment, intellectual property issues, the competitive environment in which we and our subsidiaries operate,

and other factors, including those described in this prospectus under the heading "Risk Factors," as well as factors set forth in other filings we make with the Securities and Exchange Commission. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, any forward-looking statements in this prospectus represent our views only as of the date of this prospectus and should not be relied upon as representing our views as of any subsequent date. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements publicly at some point in the future, we specifically disclaim any obligation to do so, whether as a result of new information, future events or otherwise.

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

We will not receive any proceeds from the sale of the shares of common stock to be sold by the selling shareholder pursuant to this prospectus. 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 approximately \$633,000. It is uncertain when, if ever, we will receive proceeds from exercise of the warrants.

**SELLING SHAREHOLDERS**

We will issue the shares of common stock covered by this prospectus in a private placement following exercise of the warrants by the selling shareholders. The following table sets forth certain information about the selling shareholders as of July 31, 2005, before giving effect to any sales of shares by such selling shareholders in the offering to which this prospectus relates. The selling shareholders will purchase the shares offered for sale hereby for resale.

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 July 31, 2005 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, the selling shareholders named in the table have sole voting and investment power with respect to their shares of common stock. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the persons named below.

Name of Selling Shareholder	Shares of Common Stock Beneficially Owned Prior to Offering <sup>(1)</sup>		Number of Shares of Common Stock Being Offered <sup>(1)</sup>	Shares of Common Stock Beneficially Owned After Offering <sup>(A)</sup>	
	Number	%		Number	%
Ladenburg Thalmann & Co. Inc.	50,000	*	50,000	0	0
Peter H. Blum	42,000	*	42,000	0	0
William T. Murray III	6,000	*	6,000	0	0
Martin James Dolfi	2,000	*	2,000	0	0

\* Less than 1%

<sup>(A)</sup> We do not know when or in what amounts the selling shareholders may offer shares for sale. The selling shareholders may choose not to sell any or all of the shares offered by this prospectus. Because the selling shareholders may offer all or some of the shares pursuant to this offering, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, we cannot estimate the number of the shares that will be held by the selling shareholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by this prospectus will be held by the selling shareholders. Unless otherwise noted, the number of shares beneficially owned by the selling shareholder after the offering are currently outstanding shares.

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- <sup>(1)</sup> All of the shares beneficially owned and offered for sale by the selling shareholders are subject to currently exercisable common stock warrants, which are exercisable for a period of five years at an exercise price of \$6.33 per share, subject to adjustment as set forth therein.

The selling shareholders have not held any position or office with, or otherwise had a material relationship with, us or any of our subsidiaries within the past three years, except that Ladenburg Thalmann & Co. Inc. was the sole underwriter of a public offering of our common stock effected in February 2005, and the other selling shareholders are principals of or employed by Ladenburg Thalmann & Co. Inc.



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**PLAN OF DISTRIBUTION**

We are registering the shares of common stock on behalf of the selling shareholders as required by the terms of a common stock warrant delivered by us to the selling shareholders as compensation pursuant to the terms of that certain Underwriting Agreement, dated February 2, 2005, between us and Ladenburg Thalmann & Co. Inc., as underwriter. Selling shareholders include donees and pledgees selling shares of common stock received from the named selling shareholders after the date of this prospectus. Pursuant to the registration rights provisions of the common stock warrants, all costs, expenses and fees in connection with the registration of the shares of common stock offered hereby will be borne by us. A table setting forth the estimated costs and expenses of this registration is set forth in Item 14 of Part II of the registration statement of which this prospectus is a part. In addition, the selling shareholders may be entitled to indemnification against certain liabilities pursuant to the terms of the Underwriting Agreement or the common stock warrants. Brokerage commissions and similar selling expenses attributable to the sale of shares of common stock will be borne by the selling shareholders. Sales of shares of common stock may be effected by selling shareholders in one or more types of transactions (which may include block transactions), on the American Stock Exchange, in negotiated transactions, through put or call option transactions relating to the shares of common stock, through short sales of shares of common stock, or a combination of such methods of sale, at market prices prevailing at the time of sale, or at negotiated prices. Such transactions may or may not involve brokers or dealers other than the selling shareholder.

The selling shareholders may effect such transactions by selling shares of common stock directly to purchasers in privately negotiated transactions or to or through other broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling shareholders and/or the purchasers of shares of common stock for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

The selling shareholders are underwriters within the meaning of Section 2(11) of the Securities Act of 1933, and any commissions received by them and any profit on the resale of the shares of common stock sold by them while acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act of 1933. In addition, any other broker-dealers that act in connection with the sale of shares of common stock might be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act of 1933, and any commissions received by such broker-dealers and any profit on the resale of the shares of common stock sold by them while acting as principals might be deemed to be underwriting discounts or commissions under the Securities Act of 1933. Such arrangement may necessitate a filing with the NASD pursuant to Notice to Members 88-101. The selling shareholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares of common stock against certain liabilities, including liabilities arising under the Securities Act of 1933. We expect, after reasonable inquiry, that all participating underwriters, dealers and agents will be registered broker-dealers or associated persons of registered broker-dealers.

Because the selling shareholders are deemed underwriters within the meaning of Section 2(11) of the Securities Act of 1933, the selling shareholders will be subject to the prospectus delivery requirements of the Securities Act of 1933.

The selling shareholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling security holder. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

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The selling shareholders also may resell all or a portion of the shares of common stock in transactions in reliance upon Rule 144 or Regulation S under the Securities Act of 1933, provided they meet the criteria and conform to the requirements of such Rule or Regulation.

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Upon our being notified by the selling shareholders that any material arrangement has been entered into for the sale of shares of common stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by another broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act of 1933, disclosing:

the name of the selling shareholder and of any other participating broker-dealer(s), if any;

the number of shares of common stock involved;

the price at which such shares of common stock are being sold;

the commissions paid or discounts or concessions allowed to the selling shareholder or other broker-dealer(s), where applicable;

that the selling shareholder or other broker-dealer(s) did or did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and

other facts material to the transaction.

In addition, upon our being notified by the selling shareholders that a donee or pledgee intends to sell more than 500 shares of common stock, we will file a supplement to this prospectus.

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**DESCRIPTION OF CAPITAL STOCK**

Our authorized capital stock currently consists of 21,400,000 shares of common stock and 2,000,000 shares of undesignated preferred stock. As of June 30, 2005, there were approximately 7,505,988 shares of our common stock issued and outstanding that were held of record by 313 persons and beneficially by more than 1,500 persons.

We will not offer preferred stock to our officers or directors unless:

the preferred stock is offered to our officers and directors on the same terms as it is offered to other existing shareholders or to new shareholders; or

such issuance of preferred stock is approved by a majority of our independent directors who do not have an interest in the transaction and who have access, at our expense, to independent legal counsel.

**Common Stock**

Each holder of record of common stock is entitled to one vote for each share held on all matters properly submitted to the stockholders for their vote. Cumulative voting in the election of directors is not authorized.

Holders of outstanding shares of common stock are entitled to those dividends declared by our board of directors out of legally available funds, and, in the event of liquidation, dissolution or winding up of our affairs, holders are entitled to receive ratably our net assets available to the stockholders. Holders of outstanding shares of common stock have no preemptive, conversion or redemption rights. All of the issued and outstanding shares of common stock are, and all unissued common stock, when offered and sold will be, duly authorized, validly issued, fully paid and nonassessable. To the extent that additional common stock of ours may be issued in the future, the relative interests of the then existing stockholders may be diluted.

**Warrant Shares**

All 100,000 shares of common stock registered for sale pursuant to this prospectus will be issued upon exercise of outstanding common stock warrants held by the selling shareholders, who received such warrants as part of the compensation to Ladenburg Thalmann & Co. Inc. as the underwriter of a public offering of our common stock effected in February 2005. The warrants are exercisable at \$6.33 per share, subject to adjustment as set forth below, until 5 p.m. on February 2, 2010.

In case we (i) declare a dividend on our outstanding common stock payable in shares of our capital stock, (ii) subdivide the outstanding common stock, (iii) combine our outstanding common stock into a smaller number of shares, or (iv) issue any shares of capital stock by reclassification of our common stock (including any reclassification in connection with a consolidation or merger in which our company is the continuing corporation), then, in each case, the exercise price for the warrants, and the number and kind of securities issuable upon exercise of the warrants, in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination, or reclassification, will be

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proportionately adjusted so that the selling shareholders after such time will be entitled to receive the aggregate number and kind of shares which, if such warrants had been exercised immediately prior to such time, they would have owned upon such exercise and had been entitled to receive by virtue of such dividend, subdivision, combination, or reclassification. Such adjustment will be made successively whenever any event listed above shall occur.

In case we distribute to all holders of our common stock (including any such distribution made to our stockholders in connection with a consolidation or merger in which our company is the continuing corporation) evidences of its indebtedness, cash (other than any cash dividend which, together with any cash dividends paid within the 12 months prior to the record date for such distribution, does not exceed, on a per share basis, 5% of the current market price at the record date for such distribution) or assets (other than distributions and dividends payable in shares of our common stock), or rights, options, or warrants to subscribe for or purchase shares of our common stock, or securities convertible into or exchangeable for shares of our common stock, then, in each case, the exercise price of the warrants will be adjusted by multiplying the exercise price in effect immediately prior to the record date for the determination of stockholders entitled to receive such distribution by a fraction, the numerator of which will be the current market price per share of our common stock on such record date, less the fair market value (as determined in good faith by our board of directors, whose determination shall be conclusive absent manifest error) of the portion of the evidences of indebtedness or assets so to be distributed, or of such rights, options, or warrants or convertible or exchangeable securities, or the amount of such cash, applicable to one share, and the denominator of which shall be such current market price per share of our common stock. Such adjustment will be made whenever any such distribution is made, and shall become effective on the record date for the determination of stockholders entitled to receive such distribution. The current market price shall mean the average of the high and low reported sale prices per share of our common stock on the American Stock Exchange or such other nationally recognized trading system on which our common stock is then traded, for the ten trading days immediately preceding the relevant date

Upon each adjustment of the exercise price of the warrants, the warrants will thereafter evidence the right to purchase, at the adjusted exercise price, that number of shares obtained by dividing (i) the product obtained by multiplying the number of shares purchasable upon exercise of a warrant prior to adjustment of the number of shares by the exercise price in effect prior to adjustment of the exercise price, by (ii) the exercise price in effect after such adjustment of the exercise price.

### **Transfer Agent And Registrar**

American Stock Transfer & Trust Company serves as the transfer agent and registrar for our common stock.

### **Indemnification**

Section 102 of the Delaware General Corporation Law allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. Environmental Power Corporation has included such a provision in its Certificate of Incorporation.

Section 145 of the General Corporation Law of Delaware provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation



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unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

Section 145 of the Delaware General Corporation Law permits us to indemnify, under certain circumstances, any person acting on our behalf who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative for expenses related to such proceeding if the person acted in good faith and in a manner the person reasonable believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that the person's conduct was unlawful. Our bylaws substantively provide that we will indemnify such persons to the fullest extent allowed by the Delaware General Corporation Law.

In addition, our certificate of incorporation limits the liability our of directors for monetary damages for breach of their fiduciary duty as a director other than for intentional misconduct, fraud or a knowing payment of a dividend in violation of Delaware law. Such provision limits recourse for money damages that might otherwise be available to us or our shareholders for negligence by directors acting on our behalf. Although these provisions would not prohibit injunctive or similar actions against these individuals, the practical effect of such relief would be limited. This limitation of liability under state law does not apply to any liabilities that may exist under federal securities laws. We have also purchased directors' and officers' liability insurance which would indemnify our directors and officers against damages arising out of certain kinds of claims which might be made against them based on their negligent acts or omissions while acting in their capacity as such.

We have entered into an indemnification agreement with Joseph E. Cresci and Donald A. Livingston whereby we agree to indemnify these individuals against any loss, liability, cost or other expense that they incur in relation to certain of their activities related to them acting as either fiduciaries or agents of all of our employee welfare benefit plans, employee pension benefit plans and benefit plans.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

## **LEGAL MATTERS**

The validity of the shares offered by this prospectus has been passed upon by Pierce Atwood LLP, Portsmouth, New Hampshire.

## **EXPERTS**

The financial statements as of December 31, 2004 and for the year ended December 31, 2004 and the related financial statement schedule incorporated by reference herein from our Annual Report have been audited by Vitale, Caturano & Company, Ltd. an independent registered public accounting firm, as stated in their report, which is incorporated by reference herein, and has been so included in reliance upon the report of such firm given their authority as experts in accounting and auditing.

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The financial statements as of December 31, 2003 and 2002 and for each of the two years in the period ended December 31, 2003 and the related financial statement schedule incorporated by reference herein from our Annual Report have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated by reference herein, and has been so included in reliance upon the report of such firm given their authority as experts in accounting and auditing.



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**WHERE YOU CAN FIND MORE INFORMATION**

We file reports, proxy statements and other documents with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC filings are also available to you on the SEC's Internet site at <http://www.sec.gov>.

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contains more information than this prospectus regarding us and our common stock, including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the address listed above or from the SEC's Internet site.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We are incorporating by reference certain documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus. Information in documents that we file with the SEC after the date of this prospectus will automatically update and supersede information in this prospectus. We incorporate by reference the documents listed below and any future filings we may make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and prior to the termination of the offering of the shares of common stock covered hereby.

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on March 31, 2005 (SEC File No. 001-32393);

Our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004, as filed with the SEC on April 29, 2005 (SEC File No. 001-32393);

Our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004, as filed with the SEC on July 18, 2005 (SEC File No. 001-32393);

Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 16, 2005 (SEC File No. 001-32393);

Our Current Report on Form 8-K dated April 1, 2005, as filed with the SEC on April 4, 2005 (SEC File No. 001-32393)

Our Current Report on Form 8-K dated May 5, 2005, as filed with the SEC on May 6, 2005 (SEC File No. 001-32393)

Our Current Report on Form 8-K dated June 21, 2005, as filed with the SEC on June 23, 2005 (SEC File No. 001-32393)

Our Current Report on Form 8-K dated June 29, 2005, as filed with the SEC on June 30, 2005 (SEC File No. 001-32393);

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Our Current Report on Form 8-K dated July 13, 2005, as filed with the SEC on July 14, 2005 (SEC File No. 001-32393);

Our Current Report on Form 8-K dated July 28, 2005, as filed with the SEC on July 29, 2005 (SEC File No. 001-32393);

Our Current Report on Form 8-K dated August 1, 2005, as filed with the SEC on August 2, 2005 (SEC File No. 001-32393);

Our Current Report on Form 8-K dated August 11, 2005, as filed with the SEC on August 12, 2005 (SEC File No. 001-32393);

Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, as filed with the SEC on August 12, 2005 (SEC File No. 001-32393); and

The description of our common stock contained in our Registration Statement on Form 8-A, as filed with the SEC on December 21, 2004 (SEC File No. 001-32393).

A statement contained in a document incorporated by reference into this prospectus shall be deemed to be modified or superceded for purposes of this prospectus to the extent that a statement contained in this prospectus, any prospectus supplement or in any other subsequently filed document which is also incorporated in this prospectus modifies or replaces such statement. Any statements so modified or superceded shall not be deemed, except as so modified or superceded, to constitute a part of this prospectus.

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You may request a free copy of any of the documents incorporated by reference into this prospectus by writing or telephoning us at the following address:

**Environmental Power Corporation**

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

**Portsmouth, New Hampshire 03801**

**Attention: Chief Financial Officer**

**Telephone: (603) 431-1780**