

ENVIRONMENTAL POWER CORP
Form 10-Q
August 13, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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, 2007

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 001-32393

Environmental Power Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

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

(address of principal executive offices) (zip code)

75-3117389
(IRS Employer

Identification No.)

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(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Number of shares of Common Stock outstanding at June 30, 2007: 10,122,491 shares

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

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PART I. FINANCIAL INFORMATION

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995, referred to as the PSLRA, provides a safe harbor for forward-looking statements. Certain statements contained or incorporated by reference in this Quarterly Report, 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, variations thereof, and other statements contained in this Quarterly 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 financing,

the lack of binding commitments and the need to negotiate and execute definitive agreements for the construction and financing of projects,

the lack of binding commitments for the purchase of gas produced by certain projects,

the lack of binding commitments for, and other uncertainties with respect to, supplies of substrate

uncertainties regarding the costs of substrate and other project inputs;

risks related to weather and the unpredictability of extreme weather events;

risks related to performance on the part of suppliers of components, goods and services to our projects

financing and cash flow requirements and uncertainties,

inexperience with the design, construction, startup and operation of multi-digester facilities,

difficulties involved in developing and executing a business plan,

difficulties and uncertainties regarding acquisitions, including risks relating to managing and integrating acquired businesses,

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technological uncertainties, including those relating to competing products and technologies,

unpredictable developments, including plant outages and repair requirements,

commodity price volatility, particularly with respect to the price of natural gas,

the difficulty of estimating construction, development, repair, maintenance and operating costs and timeframes,

the uncertainties involved in estimating insurance and implied warranty recoveries, if any,

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

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

uncertainties relating to government and regulatory policies, the legal environment, intellectual property issues, the competitive environment in which Environmental Power Corporation and its subsidiaries operate, and other factors, including those described in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading Risk Factors, as well as factors set forth in other filings we make 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**Item 1. Financial Statements****ENVIRONMENTAL POWER CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets as of June 30, 2007 (unaudited) and December 31, 2006

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,038,953	\$ 13,794,091
Restricted cash	48,754,541	52,243,710
Receivables	466,124	332,335
Other current assets	86,529	78,361
Current Assets of Discontinued Operations	16,559,626	17,479,998
Total Current Assets	\$ 73,905,773	\$ 83,928,495
Property, Plant, and Equipment, net	\$ 318,891	\$ 312,747
Construction in Progress	21,869,447	14,074,353
Goodwill	4,912,866	4,912,866
Licensed Technology Rights, net	2,607,546	2,700,296
Notes Receivable, net	1,909,229	1,917,704
Deferred Financing Costs	2,616,773	2,661,251
Other Assets	23,453	23,453
Long Term Assets of Discontinued Operations	71,482,583	75,336,300
TOTAL ASSETS	\$ 179,646,561	\$ 185,867,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,980,500	\$ 2,762,450
Current Liabilities of Discontinued Operations	15,970,708	14,739,895
Total Current Liabilities	\$ 18,951,208	\$ 17,502,345
Long Term Debt	60,139,121	60,717,099
Long Term Liabilities of Discontinued Operations	75,535,576	78,970,988
Total Liabilities	\$ 154,625,905	\$ 157,190,432
Minority Interests	\$ 100	\$ 100
Preferred stock (1)	\$ 10,156,021	\$ 10,156,021
Shareholders' Equity		
Preferred stock (2)	100	100
Common stock (3)	102,109	97,404
Additional paid-in capital	59,751,335	54,640,990
Accumulated deficit	(43,965,388)	(35,193,961)
Treasury stock (4)	(385,402)	(385,402)
Notes receivable from officers and board members	(638,219)	(638,219)
Total Shareholders' Equity	\$ 14,864,535	\$ 18,520,912
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 179,646,561	\$ 185,867,465

See Notes to Consolidated Financial Statements.

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- (1) Preferred stock, \$.01 par value, 2,000,000 shares authorized; 281,241 shares issued as of June 30, 2007 and December 31, 2006.
 - (2) Preferred stock of subsidiary, no par value, 10 shares authorized; 10 shares issued as of June 30, 2007 and December 31, 2006, respectively.
 - (3) \$.01 par value; 21,400,000 shares authorized; 10,210,921 issued and 10,122,491 outstanding as of June 30, 2007; 21,400,000 shares authorized; 9,740,455 issued and 9,652,025 outstanding as of December 31, 2006.
 - (4) 88,430 shares at cost, as of June 30, 2007 and December 31, 2006.

Table of Contents**ENVIRONMENTAL POWER CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2007 and June 30, 2006

	3 Months Ended		6 Months Ended	
	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)
REVENUES				
Microgy revenues	326,949	289,865	542,222	1,173,271
TOTAL REVENUES	\$ 326,949	\$ 289,865	\$ 542,222	\$ 1,173,271
COSTS AND EXPENSES:				
Cost of revenue	243,739	336,833	461,060	1,109,872
General and administrative (1)	3,655,597	2,483,388	6,001,054	4,311,659
Depreciation and amortization	77,303	74,852	148,165	141,637
TOTAL COSTS AND EXPENSES	\$ 3,976,639	\$ 2,895,073	\$ 6,610,279	\$ 5,563,168
OPERATING LOSS	\$ (3,649,690)	\$ (2,605,208)	\$ (6,068,057)	\$ (4,389,897)
OTHER INCOME (EXPENSE):				
Interest income	\$ 132,240	182,635	\$ 290,777	283,199
Interest expense	(2,283)	(2,269)	(6,202)	(6,738)
Other income			583,117	
TOTAL OTHER INCOME	\$ 129,957	\$ 180,366	\$ 867,692	\$ 276,461
LOSS BEFORE TAXES	\$ (3,519,733)	\$ (2,424,842)	\$ (5,200,365)	\$ (4,113,436)
INCOME TAX EXPENSE (BENEFIT)	\$ 400	400	\$ 800	800
NET LOSS, FROM CONTINUING OPERATIONS	\$ (3,520,133)	\$ (2,425,242)	\$ (5,201,165)	\$ (4,114,236)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	\$ (3,235,321)	\$ (495,051)	\$ (2,900,473)	\$ (231,466)
Preferred Securities Dividend Requirements	\$ (333,922)	\$ (1,250)	\$ (669,790)	\$ (2,500)
Loss Available to Common Shareholders	\$ (7,089,376)	\$ (2,921,543)	\$ (8,771,428)	\$ (4,348,202)
Weighted Average Common Shares Outstanding				
Basic	10,026,848	9,645,754	9,867,253	9,619,481
Diluted	10,026,848	9,645,754	9,867,253	9,619,481
Loss Per Common Share from Continuing Operations				
Basic	\$ (0.39)	\$ (0.25)	\$ (0.60)	\$ (0.43)
Diluted	\$ (0.39)	\$ (0.25)	\$ (0.60)	\$ (0.43)
Loss Per Common Share from Discontinued Operations				
Basic	\$ (0.32)	\$ (0.05)	\$ (0.29)	\$ (0.02)
Diluted	\$ (0.32)	\$ (0.05)	\$ (0.29)	\$ (0.02)
Loss Per Common Share from Continuing and Discontinued Operations				
Basic	\$ (0.71)	\$ (0.30)	\$ (0.89)	\$ (0.45)
Diluted	\$ (0.71)	\$ (0.30)	\$ (0.89)	\$ (0.45)

(1) General and administrative expenses include non-cash compensation, labor expenses, travel & entertainment expenses, insurance costs, and professional service fees.

See Notes to Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2007 and June 30, 2006

	6 Months Ended	
	June 30,	June 30,
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES: (All Operations)		
Net loss from continuing and discontinued operations	(8,101,638)	(4,345,702)
Net Loss from discontinued operations		
<i>Non-cash adjustments</i>		
Depreciation and amortization	230,461	261,500
Amortization of deferred gain	(154,206)	(154,206)
Accrued interest expense	285,752	233,697
Non-cash, stock based compensation expense	1,436,592	677,106
Write-off of Sunnyside liability	(583,030)	
Accrued power generation revenues	3,566,957	2,123,101
Accrued lease expenses	(3,566,957)	(2,123,101)
<i>Changes in operating assets and liabilities:</i>		
Increase in receivables	(344,226)	(4,631,961)
Increase in fuel inventory	(6,198)	(84,953)
Decrease in unbilled revenues		58,448
Decrease in other current asset		