

ENVIRONMENTAL POWER CORP
Form DEF 14A
April 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | | | |
|-------------------------------------|---|--------------------------|---|
| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
| <input type="checkbox"/> | Soliciting Material Pursuant to §240.14a-12 | | |

ENVIRONMENTAL POWER CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Edgar Filing: ENVIRONMENTAL POWER CORP - Form DEF 14A

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

ENVIRONMENTAL POWER CORPORATION

ONE CATE STREET, 4th FLOOR

PORTSMOUTH, NEW HAMPSHIRE 03801

April 3, 2006

Dear Fellow Stockholders:

I am pleased to invite you to join us for the Environmental Power Corporation 2006 Annual Meeting of Stockholders to be held on Wednesday, May 3, 2006 at 2:30 p.m., local time, at the Hilton Boston Logan Airport, One Hotel Drive, Boston, Massachusetts 02128. Details about the meeting, nominees for the Board of Directors and other matters to be acted on are presented in the Notice of 2006 Annual Meeting of Stockholders and Proxy Statement that follow.

In addition to Annual Meeting formalities, we will report to stockholders generally on Environmental Power's business, and will be pleased to answer stockholders' questions relating to Environmental Power.

We hope you plan to attend the Annual Meeting. Please exercise your right to vote by signing, dating and returning the enclosed proxy card as described in the Proxy Statement, even if you plan to attend the meeting. You may also vote by proxy over the Internet or by telephone.

On behalf of Environmental Power's Board of Directors and management, it is my pleasure to express our appreciation for your continued support.

Yours sincerely,

Joseph E. Cresci

Chairman and Secretary

YOUR VOTE IS IMPORTANT

PLEASE TAKE TIME TO VOTE AS SOON AS POSSIBLE. BY DOING SO, YOU MAY SAVE ENVIRONMENTAL POWER THE EXPENSE OF ADDITIONAL SOLICITATION.

ENVIRONMENTAL POWER CORPORATION

ONE CATE STREET, 4th FLOOR

PORTSMOUTH, NEW HAMPSHIRE 03801

NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 3, 2006

To our stockholders:

NOTICE IS HEREBY GIVEN that the 2006 Annual Meeting of Stockholders of Environmental Power, Inc. will be held on Wednesday, May 3, 2006 at 2:30 p.m., local time, at the Hilton Boston Logan Airport, One Hotel Drive, Boston, Massachusetts 02128. At the annual meeting, stockholders will consider and vote on the following matters:

1. The election of nine nominees to our board of directors to serve for a term of one year.
2. The approval of our 2006 Director Option Plan and the reservation of 300,000 shares of our common stock for issuance thereunder.
3. The approval of our 2006 Equity Incentive Plan and the reservation of 300,000 shares of our common stock for issuance thereunder.
4. The ratification of our board of directors selection of Vitale, Caturano & Company, Ltd. as our independent auditors for the fiscal year ending December 31, 2006.

5. Such other business as may properly come before the annual meeting or any adjournment thereof. Stockholders of record at the close of business on March 27, 2006 are entitled to notice of, and to vote at, the annual meeting or any adjournment thereof. Your vote is important regardless of the number of shares you own. Our stock transfer books will remain open for the purchase and sale of our common stock.

We hope that all stockholders will be able to attend the annual meeting in person. However, in order to ensure that a quorum is present at the meeting, please complete, date, sign and promptly return the enclosed proxy card whether or not you expect to attend the annual meeting. A postage-prepaid envelope, addressed to the American Stock Transfer & Trust Company, our transfer agent and registrar, has been enclosed for your convenience. You may also vote by telephone. If you attend the meeting, your proxy will, upon your written request, be returned to you and you may vote your shares in person.

All stockholders are cordially invited to attend the meeting.

By order of the Board of Directors,

Joseph E. Cresci

Chairman and Secretary

Portsmouth, New Hampshire

April 3, 2006

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, YOUR VOTE IS IMPORTANT. IN ORDER TO ASSURE THE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING, PLEASE VOTE AS SOON AS POSSIBLE OVER THE INTERNET, BY TELEPHONE OR BY MAIL.

ENVIRONMENTAL POWER CORPORATION

ONE CATE STREET, 4th FLOOR

PORTSMOUTH, NEW HAMPSHIRE 03801

PROXY STATEMENT

For the 2006 Annual Meeting of Stockholders

To Be Held On May 3, 2006

This proxy statement and the enclosed proxy card are being furnished by Environmental Power Corporation in connection with the solicitation of proxies by our board of directors for use at our 2006 Annual Meeting of Stockholders to be held on Wednesday, May 3, 2006 at 2:30 p.m., local time, at the Hilton Boston Logan Airport, One Hotel Drive, Boston, Massachusetts 02128, and of any adjournment thereof.

All proxies will be voted in accordance with your instructions. If no choice is specified, the proxies will be voted in favor of the matters set forth in the accompanying Notice of Meeting. Any proxy may be revoked by a stockholder at any time before it is exercised by delivery of written revocation to our Secretary or by appearing at the meeting and voting in person.

Our Annual Report to Stockholders for the fiscal year ended December 31, 2005 is being mailed to stockholders with the mailing of these proxy materials on or about April 3, 2006.

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission, except for exhibits, will be furnished without charge to any stockholder upon written or oral request to Environmental Power Corporation, Attention of Corporate Secretary, Environmental Power Corporation, One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801; telephone: (603) 431-1780.

Voting Securities and Votes Required

Stockholders of record at the close of business on March 27, 2006 will be entitled to notice of and to vote at the annual meeting. On that date, 9,729,116 shares of our common stock were issued and outstanding. Each share of common stock entitles the holder to one vote with respect to all matters submitted to stockholders at the meeting. We have no other securities entitled to vote at the meeting.

The representation in person or by proxy of at least a majority of the shares of common stock issued, outstanding and entitled to vote at the annual meeting is necessary to establish a quorum for the transaction of business. If a quorum is not present, the meeting will be adjourned until a quorum is obtained.

Directors are elected by a plurality of votes cast by stockholders entitled to vote at the meeting. To be approved, any other matters submitted to our stockholders, including the approval of our 2006 Director Option Plan, the approval of our 2006 Equity Incentive Plan and the ratification of Vitale, Caturano & Company, Ltd. as our independent auditors, require the affirmative vote of the majority of shares present in person or represented by proxy at the annual meeting and entitled to vote. The votes will be counted, tabulated and certified by a representative of the American Stock Transfer & Trust Company, who will serve as the inspector of elections at the annual meeting.

Shares that abstain from voting as to a particular matter will be counted for purposes of determining whether a quorum exists and for purposes of calculating the vote with respect to such matter, but will not be deemed to have been voted in favor of such matter. Shares held in street name by banks, brokers or other nominees who indicate on their proxy cards that they do not have discretionary authority to vote such shares as to a particular matter, which we refer to as broker non-votes, will be counted for the purpose of determining whether a quorum exists but will not be considered as present and entitled to vote with respect to a particular matter. Accordingly, abstentions will have the effect of a vote against a proposal, and broker non-votes will not have any effect upon the outcome of voting with respect to any matters voted on at the annual meeting.

Stockholders may vote in person or by proxy. Voting by proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder voting by proxy has the right to revoke the proxy at any time before the polls close at the annual meeting by giving our Secretary a duly executed proxy card bearing a later date than the proxy being revoked at any time before that proxy is voted, by voting again by telephone or by appearing at the meeting and voting in person. The shares represented by all properly executed proxies received in time for the meeting or voted by proxy by telephone will be voted as specified. If the shares you own are held in your name and you do not specify in the proxy card how your shares are to be voted, they will be voted in favor of the election as directors of those persons named in this proxy statement, in favor of the approval of the 2006 Director Option Plan, in favor of the approval of the 2006 Equity Option Plan and in favor of the ratification of Vitale, Caturano & Company, Ltd. as our independent auditors. If any other items properly come before the meeting, the persons named in the accompanying proxy intend to vote, or otherwise act, in accordance with their best judgment. If the shares you own are held in street name, the bank, broker or other nominee, as the record holder of your shares, is required to vote your shares in accordance with your instructions. In order to vote your shares held in street name, you will need to follow the directions your bank, broker or other nominee provides you.

If your shares are registered directly in your name, you may vote:

By Telephone. Call (800) 776-9437 toll-free from the United States or Canada and follow the instructions. You must specify how you want your shares voted and confirm your vote at the end of the call or your telephone vote cannot be completed. Your shares will be voted according to your instructions.

By Mail. Complete, date and sign the enclosed proxy card and mail it in the enclosed postage-paid envelope to American Stock Transfer & Trust Company. Your proxy will be voted according to your instructions. If you do not specify how you want your shares voted, they will be voted as recommended by our Board of Directors.

In Person at the Meeting. If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

If your shares are held in street name (held for your account by a bank, broker or other nominee), you may vote:

Over the Internet or By Telephone. You will receive instructions from your broker or other nominee if you are permitted to vote over the Internet or by telephone.

By Mail. You will receive instructions from your broker or other nominee explaining how to vote your shares.

In Person at the Meeting. Contact the broker or other nominee that holds your shares to obtain a broker's proxy card and bring it with you to the meeting. **A broker's proxy is not the form of proxy enclosed with this proxy statement. You will not be able to vote shares you hold in street name at the meeting unless you have a proxy from your broker issued in your name giving you the right to vote the shares.**

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement and Annual Report to Stockholders may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you upon written or oral request to Environmental Power Corporation, Attention of Corporate Secretary, One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801, Telephone (603) 431-1780. If you want to receive separate copies of the proxy statement or Annual Report to Stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

STOCK OWNERSHIP INFORMATION
Beneficial Ownership of Directors, Officers and 5% Stockholders

The following table sets forth, as of March 1, 2006, the name of each person who, to our knowledge, owned beneficially more than 5% of the shares of our common stock outstanding at such date and the number of shares owned by each of such persons and the percentage of the class represented thereby, and includes the number and percentage of outstanding shares of common stock beneficially owned by our directors, named executive officers, and directors and officers as a group.

Beneficial ownership is determined in accordance with the applicable rules of the Securities and Exchange Commission and includes voting or investment power with respect to shares of our common stock. The information set forth below is not necessarily indicative of beneficial ownership for any other purpose, and the inclusion of any shares deemed beneficially owned in this table does not constitute an admission of beneficial ownership of those shares. Unless otherwise indicated, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except, where applicable, to the extent authority is shared by spouses under community property laws.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	% of Class
5% or Greater Stockholders:		
Joseph E. Cresci	1,104,981	11.0%
Chairman (3)		
Donald A. Livingston	687,680	6.8%
Executive Vice President and Director (4)		
Dynamis Advisors, LLC (5)	660,947	6.8%
First New York Securities, L.L.C. (6)	630,900	6.5%
Kamlesh R. Tejwani	571,429	5.6%
President, Chief Executive Officer and Director (7)		
Other Directors:		
Steven Kessner (8)	308,182	3.1%
Robert I. Weisberg (9)	165,467	1.7%
August Schumacher, Jr. (10)	68,143	*
Jessie J. Knight, Jr. (11)	65,880	*
John R. Cooper (12)	44,452	*
Lon Hatamiya (13)	14,286	*
Other Named Executive Officers:		
John F. O'Neill	50,000	*
Chief Financial Officer and Treasurer (14)		
R. Jeffrey Macartney	35,287	*
Former Chief Financial Officer and Treasurer (15)		
Directors and Executive Officers as Group (10 persons) (16)	3,080,500	27.0%

* Less than 1%

Edgar Filing: ENVIRONMENTAL POWER CORP - Form DEF 14A

- (1) Except as otherwise indicated in the footnotes below, each of the named individuals or entities has an address c/o Environmental Power Corporation, One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801.

- (2) Except as otherwise indicated in the footnotes below, the named person has sole voting and investment power with respect to the shares. Except as indicated in the following notes all shares are held beneficially and of record.
- (3) Includes (i) 582,577 shares held in the Joseph E. Cresci Revocable Trust U/T/A DTD 4/3/96 of which Mr. Cresci is the trustee, (ii) 8,532 shares held in the Joseph J. Cresci & Mildred E. Cresci Trust, as to which Mr. Cresci has shared voting and investment power, (iii) 142,857 shares deposited in a 50-year voting trust on November 20, 1996, as to which David K. Mulhern, the trustee of the voting trust, has beneficial ownership in his capacity as trustee with sole voting power, but as to which Mr. Cresci has beneficial ownership through voting trust certificates held by The Cresci Family Limited Partnership, of which Mr. Cresci is the sole general partner with sole dispositive power, and (iv) 342,858 shares that Mr. Cresci has the right to acquire pursuant to currently exercisable stock options. Does not include 2,857 shares owned by Mr. Cresci's wife, as to which shares Mr. Cresci has neither voting nor investment power and as to which shares he disclaims beneficial ownership.
- (4) Includes 342,858 shares subject to currently exercisable stock options held by Mr. Livingston.
- (5) Based solely on a Schedule 13G jointly filed by Dynamis Advisors, LLC, Investment Management of Virginia, LLC, Alexander H. Bocoock and Frederic S. Bocoock on February 13, 2006, which notes that (i) Dynamis Advisors, LLC and Investment Management of Virginia, LLC are under common ownership, (ii) Alexander H. Bocoock and Frederic S. Bocoock are the members/general partners of Dynamis Advisors, LLC and (iii) Investment Management of Virginia, LLC, Alexander H. Bocoock and Frederic S. Bocoock, as a result of their positions with and ownership of securities of Dynamis Advisors, LLC, could be deemed to have voting and/or investment power with respect to the shares beneficially owned by Dynamis Advisors, LLC. Dynamis Advisors, LLC gives its address as 310 Fourth Street NE, Suite 101, Charlottesville, VA 22902.
- (6) Based solely on a Schedule 13G jointly filed by First New York Securities, L.L.C., Eric Goldstein and Sam Ginzburg on February 14, 2006, which notes that Messrs. Goldstein and Ginzburg are members of First New York Securities, L.L.C. First New York Securities, L.L.C. gives its address as 850 Third Avenue, 17th Floor, New York, NY 10022.
- (7) Comprised of 571,429 shares subject to currently exercisable stock options held by Mr. Tejwani.
- (8) Comprised of (i) 198,289 outstanding shares and 21,428 shares subject to currently exercisable warrants held by RE Funding, LLC, of which Mr. Kessner is the sole officer and director and over which he has sole voting and investment control, (ii) 23,428 outstanding shares and 1,715 shares subject to currently exercisable warrants held by the Adam Kessner Trust, the Michael Kessner Trust, the Richard Kessner Trust and the Robert Kessner Trust. Mr. Kessner is the sole trustee of each of the foregoing trust and has sole voting and investment control over the shares held by such trusts and (iii) 5,857 outstanding shares and 428 shares subject to currently exercisable warrants held as custodian for Jonathan Kessner, over which Mr. Kessner exercises sole voting and investment control.
- (9) Includes (i) 116,432 shares subject to currently exercisable stock options and warrants held by Mr. Weisberg and (ii) 7,143 shares subject to currently exercisable warrants held by Alco Financial Services, LLC. Mr. Weisberg is the President and Chief Executive Officer of Alco Financial Services, Inc.
- (10) Includes 64,287 shares subject to currently exercisable stock options held by Mr. Schumacher.
- (11) Includes 50,001 shares subject to currently exercisable stock options held by Mr. Knight.
- (12) Comprised of 44,552 shares subject to currently exercisable stock options held by Mr. Cooper.
- (13) Comprised of 14,286 shares subject to currently exercisable stock options held by Mr. Hatamiya.
- (14) Includes 50,000 shares subject to currently exercisable stock options held by Mr. O'Neill.
- (15) Includes 35,287 shares subject to currently exercisable stock options held by Mr. Macartney.
- (16) Includes 1,682,760 shares that directors and executive officers have the right to acquire pursuant to various stock options or warrants that are currently exercisable or exercisable within 60 days of March 1, 2006.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file initial

statements of beneficial ownership (Form 3), and statements of changes in beneficial ownership (Forms 4 or 5), of our common stock and other equity securities with the Securities and Exchange Commission, or SEC. Officers, directors and 10% or greater stockholders are required by SEC regulation to furnish us with copies of all such forms they file.

We believe, based solely on our review of the copies of forms we have received, or written representations from certain reporting persons, that no additional forms were required for those persons and that our officers, directors and 10% or greater beneficial owners complied with all filing requirements applicable to them for 2005, except for the following:

On September 26, 2005, Messrs. Cresci and Livingston each filed amendments to Form 4s originally timely filed on September 23, 2005 to correct the number of derivative securities of the same class beneficially owned after the reported transactions on Table II, which had been inadvertently overstated in the original filings.

Mr. Livingston filed a Form 4 on October 11, 2005 that was due on October 10, 2005, relating to six sales occurring on October 6, 2005 pursuant to a 10b5-1 trading plan.

Mr. Livingston filed a Form 4 on November 17, 2005 that was due on November 16, 2005, relating to one sale occurring on November 14, 2005 pursuant to a 10b5-1 trading plan.

Mr. Kessner filed a Form 4 on December 19, 2005 that was due on December 15, 2005 as to 10 purchases and one sale on December 13, 2005 and would have been due on December 17, 2005 as to two purchases on December 15, 2005.

On December 19, 2005, Mr. Kessner filed an amendment to a Form 3 originally timely filed on August 12, 2005 to correct the number of outstanding shares reported as initially beneficially owned, which was inadvertently understated by 3,745 shares, and to two Form 4s originally timely filed on August 22, 2005 and August 25, 2005, in each case to correct the number of outstanding shares reported as beneficially owned after each of the reported transactions, which was inadvertently understated by 4,295 shares.

PROPOSAL ONE ELECTION OF DIRECTORS

Our board of directors currently consists of nine members, serving for one-year terms. Each of the current members of our board of directors has been nominated to stand for reelection as a director at the 2006 Annual Meeting.

At the 2006 Annual Meeting, stockholders will have an opportunity to vote for directors. The persons named in the enclosed proxy card will vote to elect these nine nominees as directors, unless you withhold authority to vote for the election of any or all nominees by marking the proxy card to that effect. Each of the nominees has indicated his or her willingness to serve, if elected. However, if any or all of the nominees should be unable or unwilling to serve, the proxies may be voted for a substitute nominee designated by our board of directors, or our board of directors may reduce the number of directors.

Board Recommendation

The board of directors recommends a vote FOR the election of each of the director nominees.

The following paragraphs provide information as of the date of this proxy statement about each member of our board of directors, each of whom is standing for reelection to the board. The information presented includes information about each director, including his or her age, all positions and offices he or she holds with us, his or her length of service as a director, his or her principal occupation and employment for the past five years, and the names of other publicly-held companies of which he or she serves as a director. Information about the number of

shares of common stock beneficially owned by each director, our named executive officers and all directors and executive officers as a group, as of March 1, 2006, appears under the heading Stock Ownership Information.

No director or executive officer is related by blood, marriage or adoption to any other director or executive officer. No arrangements or understandings exist between any director or person nominated for election as a director and any other person pursuant to which such person is to be selected as a director or nominee for election as a director.

Current Directors Standing for Reelection (Terms to Expire at the 2006 Annual Meeting)

Joseph E. Cresci, age 63, is a founder of our company and has served as our Chairman since its inception in 1982 and as Chief Executive Officer from 1982 to July 2003. Previously, Mr. Cresci had held other senior management positions including CEO/Owner of a distribution business and President/COO of a subsidiary of a New York Stock Exchange listed company. Mr. Cresci holds an A.B. degree from Princeton University and a law degree from Cornell Law School and was a member of the Pennsylvania and Massachusetts bars. Currently, Mr. Cresci is a member of the Boards of Trustees of the Wang Center for the Performing Arts and the Commonwealth Shakespeare Company and is an overseer of the Boston Lyric Opera and Huntington Theater Company, all in Boston, Massachusetts.

Kamlesh R. Tejwani, age 45, became our President and Chief Executive Officer effective July 3, 2003. Mr. Tejwani served as President of Target Capital Corporation, a private equity firm, from May 1996 to June 2003. His responsibilities included structuring and implementing investments for an offshore investment fund and assisting operating companies in operational and strategic planning. From April 1990 until December 1995, he served as the Chairman and Chief Executive Officer of Air-Cure Technologies, Inc., a manufacturer and marketer of air pollution control systems.

Donald A. (Andy) Livingston, age 63, is a director and a founder of our company and has served as our Executive Vice President since inception and as our President and Chief Operating Officer from September 1991 to July 2003. In addition, he served as President and Chief Operating Officer of Microgy from July 2002 until June 2005. Mr. Livingston was previously President and Chief Executive Officer of Green Mountain Outfitters, Inc., a manufacturer and distributor of industrial plastic parts. He has also been a partner in a financial services firm, Capital Resources, Inc., where he was involved in obtaining debt and equity funds.

John R. Cooper, age 58, has been a director since 2003. Since 2002, he has been President of Finance of Energy Advisory Services, LLC, a financial structuring and energy consulting group. Until 2002, Mr. Cooper was a founding member of the management team at PG&E's National Energy Group (and predecessor companies). As Senior Vice President Finance, Treasurer and Principal Financial Officer, he oversaw all aspects of the structuring and arranging of financing for National Energy Group's projects, energy trading operations, mergers and acquisitions and equity sell-downs, and was responsible for all corporate finance, treasury and insurance activities. Previously, he spent eight years with Bechtel Financing Services, Inc., where he was responsible for structuring and arranging financing for large infrastructure and energy projects. He spent three years as chief financial officer of a European oil, shipping, banking and venture capital group in Geneva, Switzerland. He is a former member of the Board of Directors of Criimi Mae, a commercial mortgage-backed securities investment company, and is currently an advisory director of Republic Financial Corporation, and advisory director of EC³ Advisors, LLC, manager of the InvestLinc Energy Capital³ Fund. He is also a founding principal of Ocean Renewable Power Company, LLC. Mr. Cooper holds a bachelor's degree from Trinity College (Connecticut), a master's degree in development economics and international studies from the Johns Hopkins Nitze School of Advanced International Studies, and a master's degree in finance from the Kellogg Graduate School of Management at Northwestern University.

Jessie J. Knight, Jr., age 55, has been a director since 2002. Since 1998, Mr. Knight has been the President and Chief Executive Officer of the San Diego Regional Chamber of Commerce. From 1993 through 1998, under Governor Pete Wilson, Mr. Knight served as Commissioner of the California Public Utilities Commission,

responsible for regulatory oversight of the electric, gas, telecommunications and transportation industries of the state. Mr. Knight was the Vice President of Marketing for the San Francisco Chronicle and San Francisco Examiner newspapers for seven years. He spent ten years in senior management positions in finance and marketing for Castle & Cooke Foods in its domestic and Latin American operations. In its largest subsidiary and now a private company, the Dole Foods Company, he spent five years in senior marketing positions and as Director of Marketing for its U.S. and Canadian canned pineapple and juice businesses. Mr. Knight serves on the boards of the San Diego Padres Baseball Club, Alaska Airlines, a publicly-traded company, and Avista Corporation, a publicly-traded company. He was former Vice Chairman of the World Affairs Council of California and is a standing member of the Council on Foreign Relations. Mr. Knight is a graduate of St. Louis University, a fellow of the University of Madrid and has a master's degree in business administration from the University of Wisconsin, Madison.

August Schumacher, Jr., age 66, has been a director since 2002. Mr. Schumacher served as the third-highest ranking official in the United States Department of Agriculture in the Farm and Foreign Agricultural Service from 1997 to 2001. During this time, he was also President of the USDA's Commodity Credit Corporation. Prior to his appointment, he directed the Department's Foreign Agricultural Service. Earlier, Mr. Schumacher was the Senior Agricultural Project Manager for World Bank and also served as the Commissioner of Food and Agriculture for the Commonwealth of Massachusetts. He also serves as a consultant for W.K.K. Kellogg Foundation and, since 2001, has directed the Washington office of the SJH and Company of Boston, Massachusetts, a consulting firm.

Robert I. Weisberg, age 59, has been a director since 1994. He is President and Chief Executive Officer of Alco Financial Services, LLC, a commercial asset-based lending company, and Chairman and CEO of Oceans Casino Cruises, Inc., a publicly-traded operator of casino cruise ships. He was the former President and Chief Executive Officer of Pro-Care Financial Group, Inc., and has held the positions of President and CEO of Fleet Credit Corporation and Executive Vice-President of Fleet Financial Group. A graduate of Northeastern University, he received the Executive Award from a joint program sponsored by Williams College and the Harvard Graduate School of Business. Past Chairman and President of the Commercial Finance Association, he is presently a member of the Commercial Finance Association's Education Foundation. Mr. Weisberg is a trustee of the Monterey Mutual Fund, and has served on numerous other public, corporate and non-profit community boards. He is a Governing Member of the Reed Union School Board and Chair of Fundraising.

Lon Hatamiya, age 47, has been a Director of LEGC, LLC, an international expert consulting firm serving businesses and public agencies specializing in economic analysis and development, intellectual property valuation, international trade and related matters, since January 2004. From December 2003 to March 2004, he was an advisor to Declare Yourself, a non-profit, non-partisan organization focused on motivating young voters. From January 1999 to November 2003, Mr. Hatamiya was Secretary of the State of California's Technology, Trade and Commerce Agency and Chairman of the Board of the California Infrastructure and Economic Development Bank. From September 1993 to January 1999, Mr. Hatamiya held various positions in the United States Department of Agriculture, including being Vice President of the Credit Commodity Corporation, and Administrator of the Agricultural Marketing Service and the Foreign Agricultural Service. He also practiced law with the international firm of Orrick, Herrington and Sutcliffe. Mr. Hatamiya holds a B.A. in Economics from Harvard University, an M.B.A. in International Business and Entrepreneurial Studies from the UCLA Anderson Graduate School of Management, and a J.D. from the UCLA School of Law.

Steven Kessner, age 53, has been the Chairman of the Board and President of The R.E. Group since 1981. In this capacity, Mr. Kessner has overseen the management and operation of the various real estate holding companies and construction and management companies of which The R.E. Group is the parent, which together own and manage approximately sixty multi-family and commercial buildings in Manhattan, comprised of almost 1,400 units and 100,000 square feet of commercial space and which are focused on further commercial development. Mr. Kessner holds a B.S. in Economics from Dartmouth College.

CORPORATE GOVERNANCE

General

We believe that good corporate governance is important to ensure that Environmental Power Corporation is managed for the long-term benefit of our stockholders. This section describes key corporate governance practices that we have adopted.

Board Determination of Independence

Under applicable American Stock Exchange rules, a director will only qualify as an independent director if, in the opinion of our board of directors, that person does not have a material relationship with our company which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our board of directors has determined that none of Messrs. Cooper, Knight, Schumacher, Weisberg or Hatamiya has a material relationship with our company which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and therefore, that each of these directors, is independent within the meaning of Section 121A of the Amex Company Guide.

Board of Directors Meetings and Attendance

The board of directors has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The primary responsibility of our board of directors is to oversee the management of our company and, in doing so, serve the best interests of the company and our stockholders. The board of directors selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. Our board of directors also participates in decisions that have a potential major economic impact on our company. Management keeps the directors informed of company activity through regular communication, including written reports and presentations at board of directors and committee meetings.

Our board of directors met 11 times during the fiscal year ended December 31, 2005, either in person or by teleconference. During 2005, with the exception of Mr. Hatamiya, each of our directors attended at least 75% of the aggregate of the total number of board meetings held during the period each has been a director and the total number of meetings held by all committees on which each director then served.

We have no formal policy regarding director attendance at the annual meeting of stockholders, although all directors are expected to attend the annual meeting of stockholders if they are able to do so.

Board Committees

Our board of directors has established an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and a Finance Committee. The members of these committees are appointed by our board of directors, upon recommendation of the Nominating and Corporate Governance Committee, and serve on such committees until their successors are duly appointed and qualified. Each of these committees, other than the Finance Committee, operates under a charter that has been approved by the board of directors. We have posted current copies of each committee's charter, except for the Finance Committee, which has no written charter, on the Corporate Governance section of our website, which can be found at www.environmentalpower.com.

The board of directors has determined that all of the members of each of the Audit, Compensation and Nominating and Corporate Governance Committees are independent as defined under the rules of the American Stock Exchange, and, in the case of all members of the Audit Committee, that they meet the additional independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934.

Audit Committee

The Audit Committee's responsibilities include:

appointing, approving the compensation of, and assessing the independence of our independent auditor;

overseeing the work of our independent auditors, including through the receipt and consideration of certain reports from independent auditors;

reviewing and discussing with management and the independent auditors our annual and quarterly financial statements and related disclosures;

monitoring our internal control over financial reporting and disclosure controls and procedures;

establishing policies regarding hiring employees from the independent auditors and procedures for the receipt and retention of accounting-related complaints and concerns;

meeting independently with our independent auditors and management to discuss our financial statements, and other financial reporting and audit matters; and

preparing the audit committee report required by Securities and Exchange Commission rules (which is included in this proxy statement).

The members of the Audit Committee for 2005 were Messrs. Cooper, Knight and Weisberg. Mr. Hatamiya was added as a member of the Audit Committee in March 2006. Mr. Cooper serves as chair of the Audit Committee. The board of directors has determined that Mr. Cooper is an audit committee financial expert as defined in Item 401(h) of Regulation S-K. The Audit Committee met 5 times in 2005.

Compensation Committee

The Compensation Committee's responsibilities include:

reviewing and recommending approval of the compensation of our executive officers;

overseeing the evaluation of our senior executives;

reviewing and making recommendations to the board of directors regarding incentive compensation and equity-based plans;

administering our stock incentive plans; and

reviewing and making recommendations to the board of directors regarding director compensation.

Edgar Filing: ENVIRONMENTAL POWER CORP - Form DEF 14A

The members of the Compensation Committee for 2005 were Messrs. Knight, Schumacher and Weisberg. Mr. Hatamiya replaced Mr. Knight on the Compensation Committee in March 2006. The Compensation Committee met 11 times during 2005.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee's responsibilities include:

identifying individuals qualified to become board members;

recommending to the board the persons to be nominated for election as directors and to each of the board's committees;

reviewing and making recommendations to the board with respect to senior management succession planning;

developing corporate governance guidelines; and

overseeing an annual evaluation of the board.

The current members of the Nominating and Corporate Governance Committee are Messrs. Cooper, Knight, Schumacher, Weisberg and Hatamiya. The Nominating and Corporate Governance Committee was known as the Nominating Committee in 2005, and was comprised of Messrs. Cooper, Knight, Schumacher and Weisberg. The Nominating Committee met twice during 2005.

Finance Committee

The Finance Committee's responsibilities include:

reviewing with management the status of Microgy's project development efforts;

evaluating with management particular proposed projects; and

authorizing our company to proceed with further support to Microgy for particular projects; and

reviewing and making recommendations to the full board of directors regarding financing plans and alternatives.

The current members of the Finance Committee are Messrs. Cooper, Weisberg and Kessner. As the Finance Committee was established in December 2005, it did not meet during 2005.

Director Candidates

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate director candidates includes requests to board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Committee and the board.

In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the Nominating and Corporate Governance Committee applies certain criteria, including:

the candidate's honesty, integrity and commitment to high ethical standards;

demonstrated financial and business expertise and experience;

understanding of our company, its business and its industry;

actual or potential conflicts of interest; and

the ability to act in the interests of all stockholders.

The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a significant breadth of experience, knowledge and abilities that will allow our board to fulfill its responsibilities.

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders or groups of stockholders who have owned more than 5% of our common stock for at least a year as of the date the recommendation is made. Stockholders may recommend individuals to the Nominating and Corporate Governance Committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials and a statement as to whether the

Edgar Filing: ENVIRONMENTAL POWER CORP - Form DEF 14A

stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least a year as of the date such recommendation is made, to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Environmental Power Corporation, One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801. Assuming that appropriate biographical and background material has been provided on a timely basis, the Committee will evaluate stockholder-recommended candidates by following

substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others. We will generally consider stockholder nominations to be timely if they meet the criteria for timeliness for stockholder proposals, as described in this proxy statement under the heading Stockholder Proposals.

Communicating with the Independent Directors

The board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. The chair of the Nominating and Corporate Governance Committee is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors as he or she considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the chair of the Nominating and Corporate Governance Committee considers to be important for the directors to know. In general, communications relating to corporate governance and corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we tend to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board should address such communications to the Board of Directors, c/o Corporate Secretary, Environmental Power Corporation, One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801. You should indicate on your correspondence that you are an Environmental Power stockholder.

Anyone may express concerns regarding questionable accounting or auditing matters or complaints regarding accounting, internal accounting controls or auditing matters to the Audit Committee by calling the voicemail box at 866-257-5577. Messages to the Audit Committee will be received by the chair of the Audit Committee and our Corporate Secretary. You may report your concern anonymously or confidentially.

Family Relationships

There are no family relationships among any of our directors or executive officers.

Report of the Audit Committee

The Audit Committee has reviewed our audited financial statements for the fiscal year ended December 31, 2005, and has discussed these financial statements with our management and our independent auditors. Our management is responsible for the preparation of our financial statements and for maintaining an adequate system of disclosure controls and procedures and internal control over financial reporting for that purpose. Our independent auditors are responsible for conducting an independent audit of our annual financial statements in accordance with auditing standards generally accepted in the United States and issuing a report on the results of their audit. The Audit Committee is responsible for providing independent, objective oversight of these processes.

The Audit Committee has also received from, and discussed with, our independent auditors various communications that our independent auditors are required to provide to the Audit Committee, including the matters required to be discussed by Statement on Auditing Standards 61 (Communication with Audit Committees), which we refer to as SAS 61. SAS 61 (as codified in AU Section 380 of the Codification of Statements on Auditing Standards) requires our independent auditors to discuss with the Audit Committee, among other things, the following:

methods to account for significant unusual transactions;

the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates; and

disagreements with management regarding financial accounting and reporting matters and audit procedures.

Our independent auditors also provided the Audit Committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). Independence Standards Board Standard No. 1 requires auditors to disclose in writing on an annual basis all relationships that in the auditor's professional opinion may reasonably be thought to bear on independence, confirm their perceived independence and engage in a discussion of independence. The Audit Committee has discussed with the independent auditors their independence from our company.

Based on its discussions with management and the independent auditors, and its review of the representations and information provided by management and the independent auditors, the Audit Committee recommended to the board of directors that Environmental Power's audited financial statements as of and for the year ended December 31, 2005 be included in its Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission.

Respectfully submitted by the Audit Committee,

John R. Cooper, Chair

Jessie J. Knight, Jr.

Robert I. Weisberg

Independent Auditor's Fees

Vitale, Caturano & Company, Ltd. served as our independent auditors for the fiscal years ended December 31, 2005 and 2004. The fees billed for professional services rendered to us by Vitale, Caturano & Company, Ltd. are described below.

Year	Audit Fees (1)	Audit-Related Fees (2)	Tax Fees (3)	All Other Fees
2005	\$ 149,987	\$ 210,909	\$ 22,372	
2004	\$ 100,722	\$ 69,593	\$ 5,655	

- (1) Comprised of professional services rendered in connection with the audit of our financial statements and the reviews of financial statements included in each of our Quarterly Reports on Form 10-Q for the years indicated.
- (2) Comprised of professional services rendered in connection with the preparation and review of registration statements filed with the Securities and Exchange Commission and other matters arising out of the audit of our financial statements and relating to the offerings to which such registration statements related, including the issuance of comfort letters.
- (3) Comprised of tax compliance, tax planning and tax advisory services rendered to us and our subsidiaries.

Pre-Approval Policy and Procedures

The Audit Committee has adopted a policy relating to the approval of all audit and non-audit services that are to be performed by our independent auditor. This policy generally provides that we will not engage our independent auditor to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee. All audit and non-audit services performed by our independent auditors during 2004 and 2005 were pre-approved by the Audit Committee.

Compensation of Directors

Until May 30, 2005, each of our non-employee directors received \$2,000, plus expenses, for each scheduled meeting of the board of directors or non-coincident meeting of a board committee that he or she attended. In addition, the chairman of the Audit Committee received \$4,000 for each meeting of the Audit Committee attended. Furthermore, under our Restated 2002 Director Option Plan, each non-employee director receives a fully vested non-statutory option grant to purchase 14,286 shares of our common stock at an exercise price equal to the fair market value of our common stock on the date of grant on the date of his or her first election or appointment. In addition, each non-employee director receives a fully vested non-statutory option grant to purchase 14,286 shares of our common stock at an exercise price equal to the fair market value of our common stock on the date of grant on the date of the first board meeting following our annual meeting of stockholders. Effective June 1, 2005, we began paying each of our non-employee directors a monthly stipend of \$1,000, and reduced the per-meeting fee payable to them to \$1,500. In addition, if our proposed 2006 Director Option Plan is approved at the Annual Meeting, each non-employee director serving as such at the close of business on the day on which our annual meeting of stockholders is held each year will receive an annual, fully vested non-statutory option grant to purchase 15,000 shares of our common stock at an exercise price equal to the fair market value of our common stock on the date of grant. Any such grants under the 2006 Director Option Plan would be in lieu of grants under our Restated 2002 Director Option Plan.

Certain Relationships and Related Transactions

During 1993 and 1995, Messrs. Cresci and Livingston exercised options to purchase shares of our common stock. As payment for the exercise price of these stock options, we accepted promissory notes payable upon our demand from Messrs. Cresci and Livingston aggregating \$332,875 and \$428,281, respectively. In 2000, we asked that a portion of these notes be repaid using the proceeds from bonuses due to concerns about ongoing cash requirements. In April 2001, we received \$1,500,000 pursuant to a settlement in connection with the litigation related to the sale of our Sunnyside project, and Messrs. Cresci and Livingston were allowed to each borrow \$100,000. As of December 31, 2005, Messrs. Cresci and Livingston had aggregate balances due to us of \$179,145 and \$410,498, respectively under these notes and loans. Interest on these notes and loans, which is payable monthly at the Applicable Federal Rate, amounted to \$20,465 in the aggregate during 2005 and has been fully collected from Messrs. Cresci and Livingston. Mr. Cresci also made principal repayments totaling \$1,891 during 2005. In accordance with applicable federal law, we have adopted a policy of not making any new loans to our officers or directors.

During 1994, Mr. Weisberg exercised options to purchase shares of our common stock. As payment for the exercise price of these stock options, we accepted a promissory note payable upon our demand for \$48,575. As of December 31, 2005, Mr. Weisberg had aggregate balances due to us of \$48,575. Interest on this note, which is payable monthly at the Applicable Federal Rate, amounted to \$1,686 in the aggregate during 2005 and has been fully collected from Mr. Weisberg. In accordance with applicable federal law, we have adopted a policy of not making any new loans to our officers or directors.

On July 3, 2003, we entered into an Employment Agreement and a related Non-Statutory Stock Option Agreement with Mr. Tejwani. These agreements were amended on March 29, 2004. Under the terms of the Employment Agreement, as amended, Mr. Tejwani is an at will employee until the Renewal Date, which is defined as the closing of the sale of equity securities of the Company or its subsidiary, Microgy, Inc., referred to as Microgy, resulting in gross proceeds of at least \$3,500,000. Provided that the Renewal Date occurs and neither the Company nor Mr. Tejwani has terminated his employment, Mr. Tejwani would be employed under the terms of the Employment Agreement until July 3, 2006. In accordance with the terms of the Employment Agreement, Mr. Tejwani receives an annual base salary of \$225,000, subject to discretionary salary increases and annual discretionary bonuses determined by the Board of Directors. Other compensation and benefits include full health care coverage, paid vacation, the use of a company leased vehicle, and stock options under the terms of the Non-Statutory Stock Option Agreement. The original Non-Statutory Stock Option Agreement provided for options to acquire 714,