

ENVIRONMENTAL POWER CORP  
Form DEF 14A  
July 21, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION**  
Washington, D.C. 20549  
**SCHEDULE 14A**

OMB APPROVAL  
OMB Number: 3235-0059

Expires: January 31, 2008  
Estimated average burden  
hours per response... 14

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No.     )**

Filed by the Registrant   **x**  
Filed by a Party other than the Registrant   **o**

Check the appropriate box:

- o** Preliminary Proxy Statement
- x** **Definitive Proxy Statement**
- o** Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- o** Definitive Additional Materials
- o** Soliciting Material Pursuant to Rule §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):

- x** No fee required.
- o** 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:

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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):

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4. Proposed maximum aggregate value of transaction:

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5. Total fee paid:

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SEC 1913 (04-05)

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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:

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2. Form, Schedule or Registration Statement No.:

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3. Filing Party:

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4. Date Filed:

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**ENVIRONMENTAL POWER CORPORATION**

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

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July 21, 2005

Dear Fellow Stockholders:

I am pleased to invite you to join us for the Environmental Power Corporation 2005 Annual Meeting of Stockholders to be held on Thursday, August 11, 2005 at 11:00 a.m., local time, at the Hyatt Harborside Hotel, 100 Harborside Drive, Boston, MA 02128. Details about the meeting, nominees for the Board of Directors and other matters to be acted on are presented in the Notice of 2005 Annual Meeting of Stockholders and Proxy Statement that follow.

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

### **NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS To Be Held On August 11, 2005**

To our stockholders:

NOTICE IS HEREBY GIVEN that the 2005 Annual Meeting of Stockholders of Environmental Power, Inc. will be held on Thursday, August 11, 2005 at 11:00 a.m., local time, at the Hyatt Harborside Hotel, 100 Harborside Drive, Boston, MA 02128. At the annual meeting, stockholders will consider and vote on the following matters:

1. The election of nine members to our board of directors to serve for a term of one year.
2. The approval of our 2005 Equity Incentive Plan and the reservation of 1,200,000 shares of our common stock for issuance thereunder.
3. The ratification of our board of directors' selection of Vitale, Caturano & Company, Ltd. as our independent auditors for the fiscal year ending December 31, 2005.
4. Such other business as may properly come before the annual meeting or any adjournment thereof.

Stockholders of record at the close of business on June 15, 2005 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 American Stock Transfer & Trust Company, our transfer agent and registrar, has been enclosed for your convenience. You may also vote by proxy by telephone. If you attend the meeting, your proxy will, upon your written request, be returned to

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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,

Portsmouth, New Hampshire  
July 21, 2005

Joseph E. Cresci  
Chairman and Secretary

**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.**

### ENVIRONMENTAL POWER CORPORATION

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

#### **PROXY STATEMENT For the 2005 Annual Meeting of Stockholders To Be Held On August 11, 2005**

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 2005 Annual Meeting of Stockholders to be held on Thursday, August 11, 2005 at 11:00 a.m., local time, at the Hyatt Harborside Hotel, 100 Harborside Drive, Boston, MA 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 on Form 10-K for the fiscal year ended December 31, 2004 is being mailed to stockholders with the mailing of these proxy materials on or about July 21, 2005 in satisfaction of the requirements of Rule 14a-3 under the Securities Exchange Act of 1934.

**A copy of any exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 not included in the copy of the Annual Report accompanying this proxy statement, will be furnished to any stockholder upon written or oral request, for payment of a fee which will be limited to our reasonable expenses in furnishing such exhibit. Any such requests should be directed to Environmental Power Corporation, Attention of Corporate Secretary, Environmental Power Corporation, One Cate Street, 4<sup>th</sup> Floor, Portsmouth, New Hampshire 03801; telephone: (603) 431-1780.**

#### **Voting Securities and Votes Required**

Stockholders of record at the close of business on June 15, 2005 will be entitled to notice of and to vote at the annual meeting. On that date, 7,417,558 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 2005 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. The votes will be counted, tabulated and certified by a representative of American Stock Transfer & Trust Company, who will serve as the inspector of elections at the annual meeting.

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Shares which abstain from voting as to a particular matter, and 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, neither abstentions nor broker non-votes will 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

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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 approval of the 2005 Equity Incentive 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 Mellon Investor Services. 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, 4<sup>th</sup> 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 tables set forth certain information regarding the beneficial ownership of our common stock. 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.

#### 5% OR GREATER STOCKHOLDERS

The following table sets forth as of May 31, 2005 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.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class
Joseph E. Cresci c/o Environmental Power Corporation One Cate Street, 4 <sup>th</sup> Floor Portsmouth, NH 03801	904,981(2)	12.0%
Kamlesh R. Tejwani c/o Environmental Power Corporation One Cate Street, 4 <sup>th</sup> Floor Portsmouth, NH 03801	571,429(3)	7.2%
Donald A. Livingston c/o Environmental Power Corporation One Cate Street, 4 <sup>th</sup> Floor Portsmouth, NH 03801	537,680(4)	7.1%

- (1) Except as otherwise indicated, 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. Shares of Common Stock subject to options or warrants currently exercisable or exercisable within 60 days of May 31, 2005 are deemed outstanding for computing the number and the percentage of outstanding shares beneficially owned by the person holding such options but are not deemed outstanding for computing the percentage beneficially owned by any person.
- (2) Includes 544,816 shares held in the Joseph E Cresci Revocable Trust U/T/A DTD 4/3/96 of which Mr. Cresci is the trustee and 8,532 shares held in the Joseph J Cresci & Mildred E Cresci Trust, as to which Mr. Cresci has shared voting and investment power. Mr. Cresci also has beneficial ownership in such shares that are evidenced by voting trust certificates held by The Cresci Family Limited Partnership of which Mr. Cresci is the sole general partner with sole dispositive power. The voting trust has 142,857 shares, deposited on November 20, 1996, and David K. Mulhern has beneficial ownership in his capacity as trustee with sole voting power. The trust has a maximum duration of 50 years. Includes 142,858 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.
- (3) Includes 571,429 shares that Mr. Tejwani has the right to acquire pursuant to currently exercisable stock options.
- (4) Includes 142,858 shares that Mr. Livingston has the right to acquire pursuant to currently exercisable stock options.

**DIRECTORS, DIRECTOR NOMINEES AND NAMED EXECUTIVE OFFICERS**

The following table sets forth as of May 31, 2005 the number and percentage of outstanding shares of common stock beneficially owned by our directors, director nominees, named executive officers, and directors and officers as a group.

Name of Director/Officer & Date First Joined EPC (1)	Positions and Offices	Amount and Nature of Beneficial Ownership(2)	Percentage of Class
Joseph E. Cresci 1982	Chairman and Director	904,981(3)	12.0%
Kamlesh Tejwani 2003	President and Chief Executive Officer	571,429(4)	7.2%
Donald A. Livingston 1982	Executive Vice President	537,680(5)	7.1%
Robert I. Weisberg 1994	Director	151,181(6)	2.0%
Jessie Knight, Jr. 2002	Director	51,594(7)	*
August Schumacher 2002	Director	53,857(8)	*
John Cooper 2003	Director	30,166(9)	*
R. Jeffrey Macartney 2002	Former Chief Financial Officer	28,917(10)	*
Steven Kessner	Director nominee	201,829(11)	2.7%
Lon Hatamiya	Director nominee	0	
All Directors and Officers as a Group	(8 Individuals)	2,329,805(12)	27.3%

\* Less than 1%

- (1) Each of the named individuals has an address c/o Environmental Power Corporation, One Cate Street, 4th Floor, Portsmouth, New Hampshire 03801.
- (2) Except as otherwise indicated, 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) See footnote 2 to the preceding table.
- (4) See footnote 3 to the preceding table.
- (5) See footnote 4 to the preceding table.
- (6) Includes 102,146 shares that Mr. Weisberg has the right to acquire pursuant to currently exercisable stock options and warrants and 7,143 shares which Alco Financial Services, LLC has the right to acquire pursuant to currently exercisable warrants. Mr. Weisberg is the President and Chief Executive Officer of Alco Financial Services, Inc.
- (7) Includes 35,715 shares that Mr. Knight has the right to acquire pursuant to currently exercisable stock options.
- (8) Includes 50,001 shares that Mr. Schumacher has the right to acquire pursuant to currently exercisable stock options.
- (9) Includes 28,572 shares that Mr. Cooper has the right to acquire pursuant to currently exercisable stock options.
- (10) Includes 17,859 shares Mr. Macartney has the right to acquire pursuant to currently exercisable stock options and 3,572 shares that Mr. Macartney has the right to acquire pursuant to stock options that are exercisable within 60 days of May 31, 2005. Mr. Macartney's employment with us terminated on June 29, 2005.

- (11) Includes (i) 171,829 outstanding shares and 23,571 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) 3,000 shares held by the Adam Kessner Trust, 3,000 shares held by the Michael Kessner Trust, 3,000 shares held by the Richard Kessner Trust and 3,000 shares held by 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) 3,000 shares held as custodian for Jonathan Kessner, over which Mr. Kessner exercises sole voting and investment control.
- (12) Includes 1,102,153 shares that directors and officers have the right to acquire pursuant to various stock options or warrants that are currently exercisable or exercisable within 60 days of May 31, 2005.

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**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 2004, except for the following:

**2004 Section 16(a) Reporting Compliance**

Individual	Form	Reason of Event Transaction Code	Number of Shares/ Options Granted	Granted Under	Date of Event	Reporting Time Allowance	Date Form Filed with SEC	Filing Late by
R. Jeffrey Macartney	4	A	42,857	2001 Stock Incentive Plan	12/16/2003	2 business days	1/23/2004	38 days
Joseph E. Cresci	4	A	9,966	2003 Incentive Compensation Plan	3/15/2004	2 business days	3/18/2004	1 day
John R. Cooper	4	A	797	2003 Incentive Compensation Plan	3/15/2004	2 business days	3/18/2004	1 day
Jessie J. Knight Jr.	4	A	1,594	2003 Incentive Compensation Plan	3/15/2004	2 business days	3/18/2004	1 day
Donald A. Livingston	4	A	3,322	2003 Incentive Compensation Plan	3/15/2004	2 business days	3/18/2004	1 day
R. Jeffrey Macartney	4	A	1,771	2003 Incentive Compensation Plan	3/15/2004	2 business days	3/19/2004	2 days
August Schumacher Jr.	4	A	1,594	2003 Incentive	3/15/2004	2 business	3/18/2004	1 day

## 2004 Section 16(a) Reporting Compliance

				Compensation Plan		days	
Robert I. Weisberg	4	A	1,594	2003 Incentive Compensation Plan	3/15/2004	2 business days	3/18/2004 1 day

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**PROPOSAL ONE ELECTION OF DIRECTORS**

Our board of directors currently consists of seven 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 2005 Annual Meeting. In addition, on May 31, 2005, the Nominating Committee of our board of directors, acting pursuant to delegated authority, voted to increase the number of members of the board of directors from seven to nine, and to propose two additional nominees to stand for election as directors at the 2005 Annual Meeting.

At the 2005 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, as well as the new director nominees. 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 May 31, 2005, 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 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 44, 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.

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**Donald A. (Andy) Livingston**, age 62, 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.

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**John R. Cooper**, age 57, 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 structuring and arranging 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 EC<sup>3</sup> Advisors, LLC, manager of the InvestLinc Energy Capital<sup>3</sup> 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 54, 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, and Avista Corporation. 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 masters degree in business administration from the University of Wisconsin, Madison.

**August Schumacher, Jr.**, age 65, 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 58, 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., an 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.

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### **New Director Nominees Standing for Election (Terms to Expire at the 2006 Annual Meeting)**

**Lon Hatamiya**, age 46, 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

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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 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 52, 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 are focused on further commercial development. Mr. Kessner holds a B.S. in Economics from Dartmouth College.

### IDENTIFICATION OF OTHER EXECUTIVE OFFICERS

**John F. O'Neill**, age 48, has been our Chief Financial Officer and Treasurer since July 1, 2005. From September 2002 to February 2004, Mr. O'Neill was Vice President, Finance, Chief Financial Officer and Treasurer of Constellation NewEnergy, a leading competitive supplier of electricity, natural gas and energy-related services to over 5,000 commercial and industrial customers throughout North America. From February 2000 until September 2002, Mr. O'Neill first served as Chief Financial Officer of the East Region of AES NewEnergy and subsequently Vice President of Finance/Chief Financial Officer of AES NewEnergy. From 1997 to October 1999 and from March 2004 through June 2005, Mr. O'Neill was a principal of EGB Consulting, Inc., a consulting firm providing advice on mergers, acquisitions, business sales, turnaround management and recapitalizations, where he served as an outsourced chief financial officer for several clients, including serving in this capacity for National Energy Choice, an energy aggregation company of which Mr. O'Neill later became a partner, from October 1997 to February 2000. Mr. O'Neill was an accountant with KPMG Peat Marwick LLP (now KMPG LLP) from 1983 to 1996, attaining the position of Senior Manager. Mr. O'Neill holds a B.S. in Accounting from Bentley College.

**Randall L. Hull**, age 54, has been President and Chief Operating Officer of our subsidiary, Microgy, Inc., since July 1, 2005. From July 2004 through June 2005, Mr. Hull was a Senior Marketing Strategy/Sales Effectiveness Consultant with Prime Resource Group, a consulting firm. From 1988 through June 2004, Mr. Hull held several management and executive leadership positions with various subsidiaries of BOC Gases, a leading global industrial gases, vacuum technologies and distribution services company, including serving as: Vice President, Industrial Water Outsourcing of BOC's subsidiary, Environmental Management Corp., a water services company, from 2003 to June 2004; Vice President and General Manager, Major Customer Group for BOC Gases, from 2000 to 2003; and Vice President and General Manager, Central Region for BOC Gases U.S., from 1997 to 2000. Mr. Hull holds a B.S. in mechanical engineering from Lehigh University and an MBA from Harvard University.

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## 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, or, in the case of Mr. Hatamiya, nominee for director, is independent within the meaning of Section 121A of the Amex Company Guide.

### BOARD OF DIRECTORS MEETINGS AND ATTENDANCE

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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 eight times during the fiscal year ended December 31, 2004, either in person or by teleconference. During 2004, 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 and a nominating committee. The members of each committee are appointed by our board of directors, upon recommendation of the Nominating committee, and serve one-year terms. Each of these committees operates under a charter that has been approved by the board of directors. We have posted current copies of each committee's charter on the Corporate Governance section of our website, which can be found at [www.environmentalpower.com](http://www.environmentalpower.com). In addition, a copy of the Audit Committee charter, as in effect on the date of this proxy statement, is attached as Appendix A.

The board of directors has determined that all of the members of each of the board's three standing 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.

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### **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 auditor, 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 auditor 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 are Messrs. Cooper, Knight and Weisberg. 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 four times in 2004.

**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.

The members of the Compensation Committee are Messrs. Knight, Schumacher and Weisberg. The Compensation Committee met four times during 2004.

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**NOMINATING COMMITTEE**

The Nominating 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; and
- overseeing an annual evaluation of the board.

The members of the Nominating Committee are Messrs. Cooper, Knight, Schumacher and Weisberg. As the Nominating Committee was established in November 2004, it did not meet in 2004.

**DIRECTOR CANDIDATES**

The process followed by the Nominating 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 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,

