

ENVIRONMENTAL POWER CORP
Form DEF 14A
May 11, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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:

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

(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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Our Stockholders:

The Annual Meeting of Stockholders of Environmental Power Corporation, a Delaware corporation (the Company or EPC), will be held on Wednesday, June 23, 2004 at 11:00 a.m. E.D.T., at the Hyatt Harborside, 101 Harborside Drive, Boston, Massachusetts, for the following purposes:

1. To elect the following nominees to EPC's Board of Directors to serve for the ensuing year and until their respective successors have been duly elected and qualified: Joseph E. Cresci, Donald A. Livingston, Kamlesh R. Tejwani, Robert I. Weisberg, John R. Cooper, Jessie J. Knight, Jr. and August Schumacher, Jr.; and
2. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only holders of record of the Company's Common Stock as reflected on the stock transfer books of the Company at the close of business on May 12, 2004 will be entitled to notice of and to vote at the meeting. In accordance with Delaware corporate law, the Company will make available for examination by any stockholder entitled to vote at the meeting a complete list of the stockholders of record entitled to vote at the meeting, arranged in alphabetical order. This stockholder list will be available for examination for any purpose germane to the meeting, during ordinary business hours, for at least 10 days prior to the meeting, at the offices of the Company. All stockholders are cordially invited to attend the meeting.

Please sign, date and return the enclosed proxy in the enclosed envelope at your earliest convenience. If you return your proxy, you may nevertheless attend the meeting and vote your shares in person.

Portsmouth, New Hampshire
May 21, 2004

By Order of the Board of Directors,

Joseph E. Cresci
Secretary

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IN THE UNITED STATES.

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PROXY STATEMENT

May 21, 2004

The Board of Directors of Environmental Power Corporation, a Delaware corporation (we , us , the Company or EPC), is soliciting proxies in the form enclosed with this proxy statement for use at the Company's Annual Meeting of Stockholders to be held on Wednesday, June 23, 2004 at 11:00 a.m. E.D.T. at the Hyatt Harborside, 101 Harborside Drive, Boston, Massachusetts, and any adjournments thereof (the Meeting).

GENERAL INFORMATION ABOUT THE MEETING AND VOTING

How Proxies Work

EPC's Board of Directors is asking for your proxy. Giving us your proxy means that you authorize us to vote your shares at the Meeting in the manner that you direct, or if you do not direct us, in the manner as recommended by the Board of Directors in this proxy statement. You may vote for the director nominees or withhold your vote for any nominee. You also may vote for or against the other proposals or abstain from voting.

Who May Vote

Holders of EPC's Common Stock at the close of business on May 12, 2004 are entitled to receive notice of and to vote their shares at the Meeting. As of May 12, 2004, there were 31,247,949 shares of Common Stock outstanding. Each share of Common Stock is entitled to one vote on each matter properly brought before the Meeting.

How to Vote

You may vote in person at the Meeting or by proxy. We recommend that you vote by proxy even if you plan to attend the Meeting in person. You may change your vote at the Meeting in one of the ways described below. All shares represented by proxies that have been properly voted and not revoked will be voted at the Meeting. If you sign and return your proxy card, but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board of Directors. If you choose to vote by proxy, simply mark your proxy, date and sign it, and return it in the enclosed postage-paid envelope. If you attend the Annual Meeting, you will be able to vote your shares, even if you already voted by mail. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Meeting.

Revoking a Proxy

You may revoke your proxy before it is voted by:

providing written notice to the corporate Secretary of EPC before or at the Meeting;

submitting a new proxy with a later date; or

voting by ballot at the Meeting.

The last vote you submit chronologically (by any means) will supersede your prior vote(s). Your attendance at the Meeting will not, by itself, revoke your proxy.

Quorum

In order to carry on the business of the Meeting, we must have a quorum. This means that at least a majority of the outstanding shares eligible to vote must be represented at the Meeting, either by proxy or in person. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. Treasury shares, which are shares owned by EPC itself, are not voted and do not count for this purpose.

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Votes Needed

The director nominees who receive the most votes will be elected to fill the seats on the Board of Directors. Approval of any other proposals properly brought before the Meeting requires the favorable vote of a majority of the votes cast. Only votes for or against a proposal count as votes cast. Abstentions and broker non-votes are not counted as votes cast and therefore will have no effect on the outcome of the matters to be voted on at the Meeting. Broker non-votes occur when a broker returns a proxy, but indicates that it does not have authority to vote on a particular proposal.

Voting on Other Matters

If other matters are properly presented at the Meeting for consideration, the persons named in the proxy will have the discretion to vote on those matters for you. At the date that this Proxy Statement went to press, we did not know of any other matters to be raised at the Meeting and, pursuant to the Company's Bylaws, the date by which other matters must have been submitted has passed.

Solicitation of Proxies

The Company will pay the expenses of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees, without additional remuneration, in person or by telephone, by mail, electronic transmission and facsimile transmission. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of Common Stock held in their names and, as required by law, the Company will reimburse them for their reasonable out-of-pocket expenses for this service.

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OWNERSHIP OF EPC S COMMON STOCK**Beneficial Ownership of Directors, Officers and 5% Stockholders***5% or Greater Stockholders*

The following table sets forth as of April 1, 2004 the name of each person who, to our knowledge, owned beneficially more than 5% of the shares of Common Stock of EPC outstanding at such date, the number of shares owned by each of such persons and the percentage of the class represented thereby.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percentage of Class</u>
Joseph E. Cresci c/o Environmental Power Corporation One Cate Street, 4 th Floor Portsmouth, NH 03801	5,500,011(2)	20.6%
Donald A. Livingston c/o Environmental Power Corporation One Cate Street, 4 th Floor Portsmouth, NH 03801	2,850,505	10.7%
Lewis Warshauer c/o Red Bank Radiologists, P.A. 6 Riverview Plaza Red Bank, NJ 07701	2,000,000(3)	7.5%
John O Shea c/o Westminster Securities Corporation	1,610,000	6.0%

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100 Wall Street, 7th Floor

New York, NY 10005

- (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 April 15, 2004 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 3,643,618 shares held in a revocable trust for the benefit of members of Mr. Cresci's family, of which Mr. Cresci is the trustee, and 59,730 shares held in trust for the benefit of Mr. Cresci and his children, as to which Mr. Cresci has shared voting and investment power; but does not include 20,000 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. Also includes 1,000,000 shares which Mr. Cresci deposited into a voting trust on November 20, 1996 and in which James F. Powers has beneficial ownership in his capacity as trustee with sole voting power. Mr. Cresci also has beneficial ownership in such shares which 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.
- (3) Includes 1,630,000 shares as to which Mr. Warshauer has sole voting and dispositive power, and 370,000 shares as to which he has shared voting and dispositive power, which are owned jointly with his wife.

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Directors and Named Executive Officers

The following table sets forth as of April 1, 2004 the number and percentage of outstanding shares of Common Stock beneficially owned by our Named Executives, Directors, 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	5,500,011(3)	20.6%
Kamlesh R. Tejwani - 2003	President and Chief Executive Officer	0	*
Donald A. Livingston - 1982	Executive Vice President	2,850,505	10.7%
Robert I. Weisberg - 1994	Director	786,250(4)	2.9%
August Schumacher, Jr. - 2002	Director	250,000(5)	*
Jessie Knight, Jr. - 2002	Director	250,000(6)	*
John Cooper - 2003	Director	100,000(7)	*
R. Jeffrey Macartney - 2002	Chief Financial Officer	90,000(8)	*
All Directors and Officers as a Group	(8 Individuals)	9,826,766(9)	35.3%

* *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 by the named person.
- (3) Includes 3,643,618 shares held in a revocable trust for the benefit of members of Mr. Cresci's family, of which Mr. Cresci is the trustee, and 59,730 shares held in trust for the benefit of Mr. Cresci and his children, as to which Mr. Cresci has shared voting and investment power; but does not include 20,000 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. Also includes 1,000,000 shares which Mr. Cresci deposited into a voting trust on November 20, 1996 and in which James F. Powers has beneficial ownership in his capacity as trustee with sole voting power. Mr. Cresci also has beneficial ownership in such shares which 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.
- (4) Includes 500,000 shares that Mr. Weisberg has the right to acquire pursuant to stock options and 50,000 shares which Alco Financial Services, LLC has the right to acquire pursuant to warrants that are all currently exercisable. Also includes 156,250 which Mr. Weisberg may be deemed to own beneficially as a result of his agreement with another stockholder regarding the purchase of 312,500 shares in EPC's 2003 private placement, half of which shares were purchased for Mr. Weisberg's benefit but which were mistakenly registered in the other stockholder's name.
- (5) Includes 250,000 shares that Mr. Schumacher has the right to acquire pursuant to stock options that are all currently exercisable.
- (6) Includes 150,000 shares that Mr. Knight has the right to acquire pursuant to stock options that are all currently exercisable.
- (7) Includes 100,000 shares that Mr. Cooper has the right to acquire pursuant to stock options that are all currently exercisable.
- (8) Includes 25,000 shares Mr. Macartney has the right to acquire pursuant to stock options that are currently exercisable and 25,000 shares that Mr. Macartney has the right to acquire pursuant to stock options that are exercisable within 60 days of April 1, 2004.
- (9) Includes 1,100,000 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 April 1, 2004.

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BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

EPC's Board of Directors (referred to as the Board of Directors or the Board) consists of seven members. The Company's by-laws presently state that the number of directors constituting the entire Board of Directors shall be determined by resolution of the Board of Directors. The number of directors currently fixed by the Board of Directors is seven. The Board of Directors is responsible for monitoring the overall performance of the Company. Among other things, the Board of Directors, directly and through its committees, establishes corporate policies; reviews the performance of the Chief Executive Officer and other executives; reviews and approves certain transactions; and reviews the Company's long-term strategic plans. In accordance with general corporate legal principles applicable to corporations organized under the laws of Delaware, the Board of Directors does not control the day-to-day management of the Company. Members of the Board of Directors keep informed about the Company's business by participating in Board and committee meetings, by reviewing analyses and reports regularly sent to them by management, and through discussions with the Chairman, the Chief Executive Officer and other officers.

The Board of Directors of the Company held seven (7) meetings during the fiscal year ended December 31, 2003. Each member of the Board of Directors attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and each committee on which he served.

Committees of the Board

The Board of Directors has established an Audit Committee, a Compensation Committee and an Executive Committee, each of which is described briefly below.

The Audit Committee is responsible for overseeing the accounting, financial reporting and audit processes of the Company, including the selection and retention of the Company's independent certified public accountants. The Audit Committee meets from time to time with EPC's financial personnel, internal audit staff and independent auditors regarding these matters. The Audit Committee may retain independent counsel, accountants, or others to assist it in the conduct of any investigation and the Company will provide appropriate funding for payment of such services, as determined by the Audit Committee. The Audit Committee is currently comprised of Messrs. Cooper and Knight. The board of directors of EPC has designated Mr. Cooper as an audit committee financial expert under Item 401(h) of Regulation S-K. Mr. Cooper is independent as defined under applicable SEC rules as well as NASDAQ rules applicable to issuers listed on the NASDAQ Stock Market; although EPC is not so listed, EPC has chosen to follow the NASDAQ rules as closely as possible. The Audit Committee met four (4) times in 2003. The responsibilities and activities of the Audit Committee are described in greater detail in the Report of the Audit Committee.

The Compensation Committee oversees the compensation structure for the Chairman, the President and the Chief Executive Officer, evaluates the performance and sets the compensation of such officers and administers the Company's stock incentive plans. The Compensation Committee may retain, at the Company's expense, such independent counsel or other advisors as it deems necessary. The current Compensation Committee

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members are Messrs. Knight, Schumacher, and Weisberg. The Compensation Committee met once in 2003. The activities of the Compensation Committee are described in greater detail in the Compensation Committee Report on Executive Compensation .

The Executive Committee, which consists of Messrs. Cresci and Livingston, can act in place of the full Board of Directors to the extent permitted by law. The Executive Committee did not meet in 2003.

The Board does not currently have a separate Nominating Committee responsible for identifying, reviewing and recommending nominees to serve as members of the Board. Instead, the entire Board of Directors fulfills this function, and each member of the Board participates in the consideration of director nominees. Given the small size

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of the Company and its Board, the Board does not believe that creating a separate Nominating Committee would result in any greater efficiency in the nomination process or quality of nominees, and might, in fact, result in highly qualified nominees known to Board members not serving on such a committee not being considered. Therefore, the Board of Directors has concluded that the Company and its stockholders would be better served by having the entire Board of Directors act in place of a Nominating Committee.

Directors

The following table sets forth the age and principal occupation of each of our directors during the past five years. Except for Mr. Weisberg who is a trustee for Pacific Income Advisors, 1299 Ocean Avenue, Suite 210, Santa Monica, California 90401, and Chairman of Oceans Casino Cruises, Inc., 647 East Dania Beach Boulevard, Dania Beach, FL 33004; and Mr. Cooper who is an advisory director of Republic Financial Corporation, 3300 S. Parker Road, Aurora, CO 80014; and Mr. Knight who is a director of Avista Corporation, PO Box 3727, Spokane, WA 99220, and Alaska Air Group, Seattle, Washington 98268-0947 none of the other directors holds any other directorships in any company subject to the reporting requirements of the Securities Exchange Act of 1934 or in any company registered as an investment company under the Investment Company Act of 1940.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>
Joseph E. Cresci	61	Chairman and Director of Environmental Power Corporation (2003 present); Chairman and Chief Executive Officer of Environmental Power Corporation (1982 2003)
Kamlesh R. Tejwani	43	President and Chief Executive Officer (2003 present); President, Target Capital Corporation (1996 2003); Chairman and Chief Executive Officer, Air-Cure Technologies, Inc. (1990 1995)
Donald A. Livingston	61	Executive Vice President of Environmental Power Corporation (2003 present); President of Microgy (July 2001 present); President and Chief Operating Officer of Environmental Power Corporation (1991 2003);
John R. Cooper	56	President of Finance and Energy Advisory Services, LLC (2003 Present); Independent Director, Criimi Mae (2000 2003); Sr. Vice President, Treasurer and Principal Financial Officer, PG&E National Energy Group (1989 2003)
Robert I. Weisberg	57	Managing Partner, Alco Financial Services, LLC (1997 present); Chairman, President and CEO, Oceans Casino Cruises, Inc. (2004 present); Trustee, Pacific Income Advisors (1998 present); President and Chief Executive Officer, Pro-Care Financial Group, Inc. (1994 1997)
August Schumacher, Jr.	64	Managing Director, Washington D.C. Operations, SJH and Co., (2001 present); Consultant, W.K.K. Kellogg Foundation (2001 present); Under Secretary of Farm and Foreign Agricultural Service, U.S. Dept of Agriculture (1997 2001); Administrator, Foreign Agricultural Service, U.S. Dept. of Agriculture (1994 1997); Senior Agricultural Project Manager, World Bank (1990 1994); Commissioner of Food and Agriculture, Commonwealth of Massachusetts (1984 1990)
Jessie J. Knight, Jr.	53	President and Chief Executive Officer, San Diego Regional Chamber of Commerce (1998 Present); Director, Avista Corporation (1999 Present); Director Alaska Air Group (2002 Present); Commissioner, Electric, Gas and Telecommunications, California Public Utilities Commission (1993 1998)

Compensation of Directors

Each director of EPC who is not an officer or employee of EPC receives \$2,000, plus expenses, for each scheduled meeting of the Board of Directors or non-coincident meeting of a board committee which he or she attends. In addition, the Chairman of the Audit Committee receives \$4,000 for each meeting of the Audit Committee attended. Furthermore, under our 2002 Director Option Plan, each non-employee director first elected on or after July 25, 2002, the date of our 2002 Annual Meeting, receives 50,000 options on the date of such first election or appointment. In addition, regardless of when first elected, each non-employee director will receive a grant of 50,000 options on each anniversary date of such director's election or appointment. The 2002 Director Option Plan was amended on July 25, 2003. As a result, each non-employee director receives 100,000 options on the date of the first board meeting following our annual meeting of stockholders.

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The following table shows the number of options granted to each director under the Amended 2002 Director Option Plan or other plans approved by shareholders and the number of shares of stock granted in lieu of cash.

<u>Director</u>	<u>Options</u>	<u>Stock (1)</u>
August Schumacher, Jr.	150,000(2)	15,839
Robert I. Weisberg	100,000	15,839
John Cooper	100,000	
Jessie Knight, Jr.	100,000	15,839

- (1) During 2003, certain directors received shares of stock in lieu of cash compensation for attending two scheduled meetings. The number of shares issued were based upon the closing price of the stock on the day of each of those meetings.
- (2) Mr. Schumacher received 50,000 options that were granted under the 2001 Incentive Compensation Plan.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of Jessie Knight, Jr., August Schumacher, Jr., and Robert Weisberg. No member of the Compensation Committee is now an officer or an employee of EPC or any of its subsidiaries or has been at any time an officer or employee of EPC or any of its subsidiaries. Mr. Weisberg is a principal of Alco Financial Services, LLC, which was a lender to EPC. The loan transaction with Alco is described in [Certain Relationships and Related Transactions](#) below.

Policy Governing Security Holder Communications with the Board of Directors

The Board of Directors provides to every security holder the ability to communicate with the Board of Directors as a whole and with individual members of the Board of Directors through an established process for security holder communication as follows:

For security holder communication directed to the Board of Directors as a whole, security holders may send such communications to the attention of the Board of Directors via the method listed below:

U.S. Mail or Expedited Delivery Service:

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Attention: Board of Directors

For security holder communication directed to an individual director in his or her capacity as a member of the Board of Directors, security holders may send such communication to the attention of the individual director via the method listed below:

U.S. Mail or Expedited Delivery Service:

Environmental Power Corporation

One Cate Street, 4th Floor

Portsmouth, NH 03801

Attention: [Name of Director]

The Company will forward by U.S. mail any such security holder communication to the Board of Directors or any individual director, as specified by the security holder. Complaints and general communications related to accounting matters will be referred to members of the Company's Audit Committee.

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Executive Officers

Our executive officers, who are elected annually by the Board of Directors and serve at the discretion of the Board, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Joseph E. Cresci	61	Chairman
Kamlesh R. Tejwani	43	President and Chief Executive Officer
Donald A. Livingston	61	Executive Vice President
R. Jeffrey Macartney	49	Chief Financial Officer and Treasurer

Joseph E. Cresci, is a founder of EPC, and has served as Chairman since EPC's inception in 1982 and as Chief Executive Officer from 1982 to July 2003. 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 Directors of the Wang Center for the Performing Arts and the Commonwealth Shakespeare Company and is an overseer of the Boston Lyric Opera and the Huntington Theater Company, all in Boston, Massachusetts.

Kamlesh R. Tejwani became President and Chief Executive Officer of EPC, 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, a director and a founder of EPC, has served as Executive Vice President from EPC's inception and as President and Chief Operating Officer from September 1991 to July 2003. In addition, he serves as President and Chief Operating Officer of Microgy. 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 financial services firm, Capital Resources, Inc., where he was involved in obtaining debt and equity funds.

R. Jeffrey Macartney has been Chief Financial Officer of EPC since May 2002. Before joining Environmental Power, Mr. Macartney held a series of financial positions including Controller of Pitney Bowes Global Financial Services for four years from 1997 to 2001. Prior to Pitney Bowes, he worked as a business consultant from 1993 to 1997 and served as Senior Vice President of Finance and Administration for Bank Austria in San Francisco from 1989 to 1993.

Code of Ethics

EPC has not adopted a formal code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. EPC has not adopted such a formal code of ethics at this time due to the long-standing company policies already in place applicable to all employees, its emphasis on hiring persons of the highest integrity, and the close, collaborative manner in which the individuals fulfilling these functions work together. EPC will consider adopting such a code of ethics in the future as circumstances warrant.

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PROPOSAL ONE ~ ELECTION OF DIRECTORS

The directors of the Company are elected annually and hold office for the ensuing year and until their successors have been elected and qualified. Joseph E. Cresci, Donald A. Livingston, Kamlesh R. Tejwani, Robert I. Weisberg, John R. Cooper, Jessie J. Knight, Jr., and August Schumacher, Jr. have been nominated by the Board of Directors for election at the Meeting. All nominees are presently directors of the Company, having been elected at the Annual Meeting of Stockholders held on July 25, 2003 or by the Board of Directors to fill certain vacancies in accordance with the Company's by-laws. The Company's by-laws presently state that the number of directors constituting the entire Board of Directors shall be determined by resolution of the Board of Directors. The number of directors currently fixed by the Board of Directors is seven.

No proxy may be voted for more people than the number of nominees listed above. Shares represented by all proxies received by the Board of Directors and not marked so as to withhold authority to vote for any individual director (by striking that individual director's name where indicated on the proxy) or for all directors will be voted **FOR** the election of all the nominees named above. Each of the nominees has expressed his ability and willingness to serve as a director of the Company. However, if any such nominee were to become unable or unwilling to serve, proxies may be voted for the election of some other person at the discretion of the proxy holders.

Board Recommendation

The Board of Directors recommends a vote **FOR** each of the nominees to the Board of Directors.

REPORT OF THE AUDIT COMMITTEE

The Company has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee operates under a written charter adopted by the Board of Directors in April 2001 and amended and restated in October 2003. Management is responsible for the Company's internal controls and the financial reporting process. The Company's independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and issuing an independent accountants' report on such financial statements. The Audit Committee reviews with management the Company's consolidated financial statements; reviews with the independent accountants their independent accountants' report; and reviews the activities of the independent accountants. The Audit Committee approves the engagement of the independent accountants and recommends to the Board of Directors the appointment of the Company's independent accountants each year. The Audit Committee also considers the adequacy of the Company's internal controls and accounting policies. The Audit Committee is currently comprised of Messrs. Cooper and Knight. The board of directors of EPC has designated Mr. Cooper as an audit committee financial expert under Item 401(h) of Regulation S-K. Although the Company's Common Stock is traded on the OTC Bulletin Board, and, therefore, the Company is not subject to the NASDAQ Marketplace Rules, each of the members of the Audit Committee is an independent director within the meaning of Rule 4200(a)(15) of the NASDAQ Marketplace Rules.

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The Audit Committee has reviewed and discussed the audited financial statements with management of the Company. The Audit Committee has discussed with the Company's independent certified public accountants the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards), as may be modified or supplemented. In addition, the Audit Committee has received the written disclosures and letter from the Company's independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as may be modified or supplemented, and has discussed with the independent accountants matters pertaining to their independence. The Audit Committee based upon the reviews and discussions referred to above, recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for 2003 for filing with the Securities and Exchange Commission. The Audit Committee and Board of Directors has also recommended the selection of Deloitte & Touche LLP as the Company's independent certified public accountants for the fiscal year ending December 31, 2004.

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*Respectfully submitted by the Audit Committee**

John R. Cooper

Jessie Knight, Jr.

* The Audit Committee Report is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

INDEPENDENT AUDITORS FEES

Deloitte & Touche LLP served as the Company's independent auditors for the fiscal years ended December 31, 2002 and 2003, respectively. Deloitte & Touche LLP's fees billed for professional services rendered to the Company for the fiscal years ended December 31, 2002 and 2003 are described below.

Audit Fees. Deloitte & Touche LLP billed EPC an aggregate of \$141,800 and \$149,500 in the fiscal years ended December 31, 2002 and 2003, respectively, for professional services rendered in connection with the audit of EPC's financial statements and the reviews of financial statements included in each of EPC's Quarterly Reports on Form 10-Q for the years indicated.

Tax Fees. Deloitte & Touche LLP billed EPC an aggregate of \$3,750 and \$18,090 for the fiscal years ended December 31, 2002 and 2003, respectively, for tax compliance, tax planning and tax advisory services rendered to EPC and its affiliates.

All Other Fees. Deloitte & Touche LLP billed EPC an aggregate of \$0 and \$3,500 for the fiscal years ended December 31, 2002 and 2003, respectively, for other services rendered during such years.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation of Executive Officers

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Summary Compensation Table: The following table sets forth certain information with respect to the annual and long-term compensation of our Chief Executive Officer, Chief Operating Officer and each other executive officer earning in excess of \$100,000 in salary and bonus in 2003 for the three fiscal years ended December 31, 2003. Such persons are referred to as the Named Executives.

Name	Principal Position	Year	Annual Compensation		Long Term Compensation	
			Salary	Bonus	Restricted Stock	Options
Joseph E. Cresci	Chairman	2003	\$ 330,000			
		2002	\$ 400,000			
		2001	\$ 285,417			
Kamlesh R. Tejwani						
President and Chief Executive Officer	<i>Mr. Tejwani joined EPC on July 3, 2003</i>	2003	\$ 110,913			5,000,000
		2002				
		2001				
Donald A. Livingston	Executive Vice President	2003	\$ 378,900			
		2002	\$ 400,000			
		2001	\$ 285,417			
R. Jeffrey Macartney						
Chief Financial Officer and Treasurer	<i>Mr. Macartney joined EPC on April 26, 2002</i>	2003	\$ 148,667			300,000
		2002	\$ 109,333			100,000
		2001				

ENVIRONMENTAL POWER CORPORATION

One Cate Street, 4th Floor

Portsmouth, New Hampshire 03801

Stock Option Grants: The following table contains information concerning the grant of stock options made during 2003 to the Named Executives.

2003 Option Grants	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees	Exercise Price (Avg.)	Expiration Date	Value of Options at Time of Issue
Joseph E. Cresci		0.00%	\$		\$
Kamlesh R. Tejwani	5,000,000(1)	71.79%	\$ 0.71	1/3/2011	\$ 772,645(2)
Donald A. Livingston		0.00%	\$		\$
R. Jeffrey Macartney	300,000(3)	4.31%	\$ 0.88	12/16/2013	\$ 256,051(4)

- (1) These options were issued outside of any compensation plan approved by security holders. On March 29, 2004, the Company and Mr. Tejwani entered into an amendment to the option agreement relating to these options pursuant to which 1,000,000 of these options were rescinded. The remaining options vest in two tranches of 2,500,000 options and 1,500,000 options upon the achievement of specific performance goals.
- (2) Calculated using Black-Scholes Option Pricing Model with the following assumptions: stock price of \$0.20, annual volatility of 100.41%, no dividends, maturity of 8 years, and interest rate of 3.67%.
- (3) Options issued under the Company's 2001 Stock Incentive Plan. Options vest as to 75,000 shares on each of the first four anniversaries of the October 29, 2003 grant date.