

ENVIRONMENTAL POWER CORP  
Form 8-K  
June 06, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**PURSUANT TO SECTION 13 OR 15(D) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

**Date of report (Date of earliest event reported): June 3, 2008**

**ENVIRONMENTAL POWER CORPORATION**

(Exact name of company as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-32393**  
(Commission File Number)

**75-3117389**  
(IRS Employer  
Identification Number)

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**120 White Plains Road, 6<sup>th</sup> Floor, Tarrytown, New York 10591**

**(Address of principal executive offices, including zip code)**

**(914) 631-1435**

**(Company's telephone number, including area code)**

**NONE**

**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Company under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**ITEM 5.02 DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS**

The following disclosure is made pursuant to Item 5.02(e) of Form 8-K:

On June 3, 2008, the Compensation Committee of the Board of Directors (the Committee) of Environmental Power Corporation (the Company), approved the following compensation arrangements with its executive officers:

**Changes to Base Salaries**

The Committee approved the following changes to base salaries for the following executive officers, retroactive to May 1, 2008:

| <i>Name and Title</i>                                                                    | <i>Old Base Salary</i> | <i>New Base Salary</i> |
|------------------------------------------------------------------------------------------|------------------------|------------------------|
| Richard E. Kessel<br><i>President and Chief Executive Officer</i>                        | \$300,000              | \$318,800              |
| Michael E. Thomas<br><i>Senior Vice President, Chief Financial Officer and Treasurer</i> | \$220,000              | \$227,700              |
| Dennis Haines<br><i>Vice President, General Counsel and Secretary</i>                    | \$210,000              | \$221,000              |

**Option Grants**

The Committee approved the following options grants under the Company's 2006 Equity Incentive Plan, each of which has an exercise price of \$5.52 per share, the closing price of the Company's common stock as reported on The NASDAQ Capital Market on the date of grant, which the Committee determined to be the fair market value of a share of the Company's common stock:

| <i>Name</i>       | <i>Number of Shares</i> | <i>Vesting</i>                                                                         |
|-------------------|-------------------------|----------------------------------------------------------------------------------------|
| Richard E. Kessel | 150,000                 | - 75,000 shares vested immediately<br><br>- 75,000 shares vesting on December 31, 2008 |
| Dennis Haines     | 25,000                  | Vested immediately                                                                     |

**Awards Under Long-term Incentive Plan**

The Committee approved combined awards of stock appreciation rights and restricted stock to the Company's executive officers. Pursuant to the guidelines set forth in the Company's 2008 Long-Term Incentive Plan, in the case of Mr. Kessel the award reflects a value of 65% of his salary in order to assure maximum alignment with shareholder interests. The stock appreciation rights were awarded under the Company's 2006 Equity Incentive Plan, each of which has an exercise price of \$5.52 per share, the closing price of the Company's common stock as reported on The NASDAQ Capital Market on the date of grant, which the Committee determined to be the fair market value of a share of the Company's common stock. The Committee also made restricted stock awards under the Company's 2006 Equity Incentive Plan, at a purchase price of \$0.01 per share. The Committee chose a vesting-schedule of 50% per year over a two-year period, commencing as of May 1, 2008, for both the stock appreciation rights and the restricted stock awards:

| <i>Name</i>       | <i>Number of Shares Subject to SARs</i> | <i>Number of Restricted Shares</i> | <i>Vesting</i>                                |
|-------------------|-----------------------------------------|------------------------------------|-----------------------------------------------|
| Richard E. Kessel | 33,278                                  | 16,500                             | 50% on May 1, 2009;<br>balance on May 1, 2010 |
| Michael E. Thomas | 11,665                                  | 5,000                              | Same                                          |
| Dennis Haines     | 11,089                                  | 5,000                              | Same                                          |

The form of restricted stock agreement that we will enter into with our executive officers is filed as Exhibit 99.1 to this Current Report on Form 8-K, and we refer you to such exhibit for the complete terms of the agreement. The complete terms of the form of restricted stock agreement are incorporated herein by reference.

*The following disclosure is made pursuant to Item 5.02(f) of Form 8-K:*

On June 3, 2008, the Committee approved a cash bonus to Richard E. Kessel, the Company's President and Chief Executive Officer, in the amount of \$100,000 in respect of Mr. Kessel's performance in 2007 (the 2007 Bonus).

As the Committee did not take the above actions until after the filing of the Company's definitive proxy materials on Schedule 14A for its 2008 Annual Meeting of Stockholders with the Securities and Exchange Commission on April 29, 2008 (the Proxy Materials), information regarding Mr. Kessel's bonus was omitted from the Summary Compensation Table included in the Proxy Materials, in reliance on Instruction 1 to Item 402(c)(2)(iii) and (iv) of Regulation S-K. The following Summary Compensation Table, taken from the Proxy Materials, is updated to reflect the 2007 Bonus:

#### SUMMARY COMPENSATION TABLE

| Name and<br>Principal Position                                                                  | Year | Salary     | Bonus(1)   | Stock<br>Awards(2) | Option<br>Awards(3) | Non-Equity<br>Incentive Plan<br>Compensation(4) | Change in<br>Pension Value<br>and Nonqualified<br>Deferred<br>Compensation<br>Earnings(5) | All Other<br>Compensation(6) | Total        |
|-------------------------------------------------------------------------------------------------|------|------------|------------|--------------------|---------------------|-------------------------------------------------|-------------------------------------------------------------------------------------------|------------------------------|--------------|
| Richard E. Kessel<br>President and Chief<br>Executive Officer and<br>President of Microgy, Inc. | 2007 | \$ 300,000 | \$ 100,000 |                    | \$ 917,374          |                                                 |                                                                                           | \$ 38,909                    | \$ 1,356,283 |
|                                                                                                 | 2006 | 137,500    |            |                    | 578,423             |                                                 |                                                                                           | 6,319                        | 722,242      |
| Michael E. Thomas(7)<br>Senior Vice President,<br>Chief Financial Officer<br>and Treasurer      | 2007 | 134,680    | \$ 15,500  |                    | 106,559             |                                                 |                                                                                           | 17,295                       | 274,034      |
|                                                                                                 | 2006 |            |            |                    |                     |                                                 |                                                                                           |                              |              |
| Dennis Haines<br>Vice President, General<br>Counsel and Secretary                               | 2007 | 210,000    | 22,000     |                    | 91,699              |                                                 |                                                                                           | 20,532                       | 344,231      |
|                                                                                                 | 2006 | 43,750     |            |                    | 20,058              |                                                 |                                                                                           | 3,661                        | 67,469       |
| John F. O'Neill<br>Former Chief Financial<br>Officer and Treasurer                              | 2007 | 83,330     |            |                    | 297,006             |                                                 |                                                                                           | 133,521                      | 513,857      |
|                                                                                                 | 2006 | 200,000    |            |                    | 167,066             |                                                 |                                                                                           | 31,401                       | 398,467      |

- (1) We did not pay any bonuses in 2006. In March 2008, Messrs. Thomas and Haines were paid the bonuses reflected above in respect of their services in 2007. In June 2008, Mr. Kessel was paid the bonus reflected above in respect of his services in 2007.
- (2) We did not make any awards of stock in 2006 or 2007.
- (3) The amounts in the Option Awards column reflect the dollar amounts recognized as compensation expense for financial statement reporting purposes for stock options or stock appreciation rights for the fiscal years ended December 31, 2007 and December 31, 2006 in accordance with SFAS 123(R), using a Black-Scholes option-pricing model employing certain variables and related assumptions, including stock price volatility. The amounts shown in this column are, therefore, projections that do not necessarily reflect the actual cash compensation to be received by the option

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holder upon exercise of the option. The assumptions we used to calculate these amounts are discussed in Note J to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. Please see the table below under the heading Outstanding Equity Awards at Fiscal Year-End for further detail regarding the option awards underlying these amounts, including the exercise price and the number of shares subject to such options.

- (4) We did not pay any non-equity incentive plan compensation in 2006 or 2007.  
 (5) We no longer maintain a pension plan, nor did we maintain any nonqualified deferred compensation plans in 2006 or 2007.  
 (6) The amounts in the All Other Compensation column represent the following amounts for the following individuals:

|                   |       |                                                                                                                                                                                                                                                                                                                             |
|-------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Richard E. Kessel | 2007: | Automobile expense reimbursement: \$13,500 (includes amounts to which Mr. Kessel was entitled in 2006 but which were paid in 2007); 401-K corporate matching contribution: \$7,750 Medical insurance premiums: \$9,627; Dental insurance premiums: \$1,505 Life insurance premiums and stipend for life insurance: \$6,527. |
|                   | 2006: | Life insurance premium: \$6,319. Mr. Kessel is entitled to (a) up to \$750 a month in reimbursement for automobile lease payments*, (b) reimbursement for automobile insurance, and (c) coverage under our medical and dental insurance policies. Mr. Kessel did not take any of these benefits in 2006.                    |
| Michael E. Thomas | 2007: | Automobile expense reimbursement: \$5,625; 401-K corporate matching contribution: \$5,500 Medical insurance premiums: \$5,617; Dental insurance premiums: \$553.                                                                                                                                                            |
| Dennis Haines     | 2007: | Automobile expense reimbursement: \$9,750 (includes amounts to which Mr. Kessel was entitled in 2006 but which were paid in 2007); Medical insurance premiums: \$4,643; Dental insurance premiums: \$1,103 Life insurance premiums and stipend for life insurance: \$5,036.                                                 |
|                   | 2006: | Automobile expense reimbursement: \$2,250; Medical insurance premiums: \$774; Dental insurance premiums: \$92; Life insurance premiums: \$545.                                                                                                                                                                              |
| John F. O'Neill   | 2007: | Automobile lease payments: \$3,657; Medical insurance premiums: \$7,354; Dental insurance premiums: \$828 Life insurance premiums: \$15; severance payments: \$121,667.                                                                                                                                                     |
|                   | 2006: | Automobile lease payments: \$7,296; Automobile insurance premiums: \$1,580; 401(k) match: \$7,500; Medical insurance premiums: \$13,075; Dental insurance premiums: \$1,914; Life insurance premiums: \$36.                                                                                                                 |

- (7) Mr. Thomas commenced employment in May 2007. Accordingly, no information is provided for 2006.

\* Previously filed Summary Compensation Table incorrectly reported monthly reimbursement amount of \$1,000.

### ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

| Exhibit No. | Description                                                                                                             |
|-------------|-------------------------------------------------------------------------------------------------------------------------|
| 99.1        | Form of Restricted Stock Agreement granted under the Company's 2005 Equity Incentive Plan or 2006 Equity Incentive Plan |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ENVIRONMENTAL POWER CORPORATION

By: /s/ Michael E. Thomas  
Michael E. Thomas

Senior Vice President, Chief Financial Officer  
and Treasurer

Dated: June 6, 2008