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# EnerCare has a lot at stake

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Given the strained relations that existed between EnerCare Inc. and its largest shareholder, Octavian Advisors, it was inevitable the rhetoric would steadily increase as both sides present their views ahead of the annual meeting on April 30.

There's a lot at stake, made all the more complicated because EnerCare is mostly owned by retail investors and, in general, it's tough to get that group enthused enough to break from their normal tradition — and vote.

In this case, the shareholders have the company's vision of staying the course, continuing to build the business and providing shareholders with regular, and hopefully, growing dividends; in the case of Octavian it wants its four nominees elected who "will work for EnerCare shareholders to maximize the value of their investment." Octavian hasn't said much about how it would make EnerCare better and improve its operations.

Because of the relative lack of institutional ownership at EnerCare, it has the tougher task of getting the vote out even though Institutional Shareholder Services, a proxy advisory firm, has recommended shareholders vote for the company's slate. At last year's annual meeting, shareholders who owned 32.71% of the shares, representing 18.02 million shares, attended the meeting or voted by proxy. And those who did vote seemed a cranky lot: Of the six directors up for election, only one, John MacDonald, the company's chief executive, secured overwhelming support: 99.04% of those who voted wanted him back. Of the other five nominees, none secured more than 70% support. Since then EnerCare has added two more directors.

Octavian has slowly but steadily gathered support from institutional investors. Two weeks back, New York-based Moab Capital Partners said it plans to vote its 6.5% stake for the four Octavian nominees, noting it has followed "with increasing discomfort the contentious public communications between Octavian and the company." It added "it believes that recent actions taken by the board [adding two directors and not appointing an independent chairman] are not in the best interests of all shareholders."

Those recent actions include adding two directors and not appointing an independent chairman for the meeting. (In its circular, Octavian wants EnerCare's shareholders to support all but two of the company's nominees, one of whom is the chairman, James Pantelidis.)

Jerome Hass, at Toronto-based Lightwater Partners Ltd., is supporting Octavian's nominees, though he is a big supporter of EnerCare's current management team. What he wants is a fresh perspective at the board.

"While we like the management team, we sympathize with the arguments presented by Octavian. We do not see the downside of having some shareholder-friendly directors on the Board," said Hass, adding one of Octavian's arguments that ring home is the low valuation given to EnerCare relative to the consideration that a competitor, UE Water Income Fund received when it was sold in 2007.

Hass has little time for EnerCare's view that Octavian is not acting in shareholders' best interests. "They own 13% of the company and we would all benefit by having their perspective on the board," he said, adding that the battle between Octavian and EnerCare didn't have to end up in a proxy fight. "At one point there could have been a compromise. Now relations have deteriorated so there is no scope for a negotiated settlement."

Reached Thursday, EnerCare said, "It's critical for investors to vote in this important issue so as to preserve the value of the company."

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