Tecogen Inc. [TGEN]
Q4 and Full Year 2016 Earnings Results Conference call
Wednesday, March 22, 2017, 11:00 AM ET

Company Participants:
David Garrison, Chief Financial Officer, Treasurer and Secretary
John Hatsopoulos; Co-CEO
Benjamin Locke; Co-CEO
Robert Panora; COO

Analysts and Investors:
Sameer Joshi, Rodman & Renshaw
Jim McCleary, Chardon Capital
Alex Blanton, Clear Harbor Asset Management
Roger Liddell, Clear Harbor Asset Management
Norman Heyman, Technological & Investment Horizons
Michael Zuk, Oppenheimer & Co.

Presentation

Operator: Good morning, and welcome to the Tecogen fourth quarter and full year 2016 earnings conference call. All participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. (Operator Instructions). For your information, this conference is being recorded.

A recording of this conference call will be available for playback approximately one hour after the end of the call and will remain available until Thursday, November 17, 2017. Individuals may access the recording by dialing 877-344-7529 from inside the United States, and 855-669-9658 from Canada, or 412-317-0088 from outside the U.S. Enter the replay conference number 10102549 followed by the pound sign.

Now, I'd like to introduce David Garrison, Tecogen's Chief Financial Officer.

David Garrison: Good day, and thank you for joining us on the fourth quarter earnings conference call. Speaking on the call today are John Hatsopoulos and Ben Locke, our Co-CEOs. Also joining us today with prepared remarks are myself, Tecogen's Chief Financial Officer, and Bob Panora, our President and Chief of Operations.

During the call, we'll be referencing slides posted on the Investor Relations section of our website at Tecogen.com.

Before we begin, I would like to remind you that this presentation includes forward-looking statements within the meaning of Section 27A of the Securities and Exchange Act of 1933, and Section 21E of the Securities and Exchange Act of 1934. Such statements include declarations regarding the intent, belief or current expectations of the Company and its management.

Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that can materially and adversely affect the actual results as identified from time to time in the Company's SEC filings. Forward-looking statements are provided are as of the specified date and are not reaffirmed or updated at any time.

I now turn it over to John Hatsopoulos, Co-CEO, for some opening remarks. John?

John Hatsopoulos: Good morning, ladies and gentlemen. Thank you for joining us. I'd like to remind you that last November -- November 2015 *[sic]* actually -- we made an offer to acquire ADG Energy. We went through the whole process to the extreme. We put committees on both sides, both the independent directors. We filed with the SEC and we proceeded with the merger at a ratio of 0.092 shares of Tecogen we offered for ADG.

Unfortunately, it has taken more than we ever expected, at least that I ever expected. We are now in something like the 14th or 15th month *[sic]* of doing this transaction. We have filed three S-4s with the SEC, and the last one, hopefully, we'll file after we get the earnings out, because by that time, our earnings should become stale. So we'll file after today one more time with the SEC.

We have been inundated with questions from the SEC, and I suspect the reason is that I happen to be the CEO of both companies, even though we used independent directors and independent bankers to evaluate the transaction. And after lot of negotiations, which as I said, took a long time, we reached the price. Now hopefully, we'll file with the SEC and we can get this thing going.

We have various options. If everything works out fine, we'll be very happy to continue and do the transaction. If it does not, one of our options is to cancel the deal, and there are other alternative options that we have.

With that, I thank you, and I apologize for all the delay. And I'd like to ask my partner, Ben Locke, to give you an update to what's going on in the Company.

Benjamin Locke: Thanks, John. So first, I'd like to start off our call reminding those who might be new to our Company about Tecogen's core business model shown on slide 4 -- heat, power and cooling that is cheaper, cleaner, and more reliable.

Our proprietary technology for improving efficiency, emissions and great resiliency is truly disruptive to the traditional methods of heating, cooling, and powering buildings and infrastructure. Tecogen's clean energy technology has been revolutionizing distributed generation for residential, commercial and industrial customers for over two decades.

This is an exciting time for Tecogen and our shareholders. 2016 was a tremendously productive year for the Company in terms of technology development, sales and marketing improvements, business development activities, and most importantly, financial performance.

I'll go into some detail about these accomplishments later in the call, but I'd like to start with our financial accomplishments.

Turning to slide 5, we achieved record revenues for the quarter of a little over $7.1 million, which is a 66% improvement over the fourth quarter of 2015. Most of the product revenue in the quarter was in co-generation sales with key repeat customers. We also saw impressive growth in service revenues due to increases in installation support accessories, which we call turnkey-like solutions.

Our gross profit for the quarter increased by 69% from the prior year quarter to $2.7 million. This was helped by improved gross margins of 38% in the quarter.

The gross margin for our service segment decreased slightly, as lower margin installations contributed more to the service segment, but this was offset by improved product margins to our ongoing cost control initiatives.

All of this contributed to the fourth quarter positive net income of around $4,500. While this is less than last quarter's profit, we're glad it remained positive despite some higher operating expenses that occurred in the fourth quarter. And it is certainly better than the loss of almost $800,000 in the fourth quarter of 2015.

Looking at our full year 2016 results on slide 6, total revenues increased to $24.5 million for the year versus $21.4 million in 2015, an increase of 14.2%.

Product revenue increased 7% to $10.7 million thanks to increased sales of our heat pump and chillers in the year.

Service revenue for the year increased about 10.5% to $13.8 million, primarily due to increased installation activity.

Margins for the year came in at 38%, which is right in our target range of 35% to 40%. This was helped by maintaining healthy service margins and improving product margins through cost controls and value engineering benefits of the new InVerde e+.

Overall profit for the year improved approximately 22% to $9.3 million, and we significantly reduced the loss from operations to about $1 million for the year versus $2.6 million in 2015. And as I mentioned earlier, the second half of the year showed profitable operations, a trend we hope to continue in 2017.

Turning to slide 7, I'd like to spend some time reviewing some of our achievements throughout 2016. First, as I mentioned, in the second half of the year, we delivered profitable growth for the Company. This was accomplished in a way that establishes the groundwork for continued success in 2017.

First, we strengthened our core product offering with the introduction of our new InVerde e+ CHP system, which offers the best performance and economic benefits of any other CHP system in its class.

We also introduced our new cloud-based monitoring capability using the GE Equipment Insight system, which allows both customers and our Tecogen service experts the ability to monitor and analyze equipment performance in real time. It also gives customers a portal and dashboard to instantly view savings and operating metrics that reinforce the equipment's value proposition.

We expect to make additional improvements to other Tecogen products in 2017.

Second, we entered into an agreement to acquire American DG Energy, which subject to shareholder vote and SEC approval, will create a vertically integrated merged company with dependable annuity-type revenues from ADG assets, adding to the existing revenue streams of Tecogen.

And then third, we established TTcogen with our European joint venture partner TEDOM to bring an entirely new class of CHP systems to the U.S. market, effectively quadrupling our addressable market.

And last, we made great progress with regard to our Ultera emissions technology in three areas. We received research grant funding from the Propane Council to demonstrate the viability of our emissions technology in fork trucks. This program aims to develop a retrofit emission system for fork trucks to reduce their emission to levels acceptable for air quality and indoor work environments.

We have retained the services of a leading engine expert to lead the fork truck development work. Alan Welch will serve as the Project Manager for the initiative, and has already started working on a fork truck donated by a leading fork truck manufacturer specifically for the project. Bob will talk in more detail about this later in the call.

Next, we continued to make progress with ULTRATEK, our joint venture adapting Tecogen's Ultera emissions technology for automotive applications. We conducted two very important test campaigns at the automotive testing lab AVL in 2016 and we expect to have continued progress in 2017.

And lastly, we received air permit for a stationary standby generator system retrofitted with our Ultera emissions technology. Again, Bob will talk about the importance of that as well as more detail of the ULTRATEK work in just a few minutes.

Slide 8 shows some drivers for our sales. As I mentioned, the InVerde e+ offers unmatched economic benefits for CHP projects in our core market. And the GE system gives customers and our service staff visibility and information that assure that the systems are running as expected.

Our key relationship with ESCOs, property management companies and project developers have yielded good quality repeat business that will continue to grow in 2017. And the TTcogen JV allows us to now sell on the markets previously unaddressable, such as large megawatt projects and biogas projects.

Turning to our backlog on slide 9, our backlog at the end of the year was $11.1 million and current backlog as of March 21, yesterday, stands at $15.6 million, well above our guidance to maintain backlog over $10 million. As the pie chart shows, our backlog is a good mix of our core product segments, such as multi-unit residential, hospitality, education, healthcare, and industrial applications.

Dave will give some more detail on our financials in a few minutes, but needless to say, we're pleased with the results of this quarter and hope to build on it in the coming quarters.

I'd like to now turn it over to Bob for more discussion on our progress with the Ultera emissions technology, followed by Dave, who will give some more detail on our financials. I will then wrap up with some final remarks before we take questions. Bob?

Robert Panora: Good morning, and thank you, Ben. I will be updating listeners on our technology development today in three areas of interest. First, I'll discuss progress made by our joint venture ULTRATEK in the automotive application of Ultera.

Second, I'll discuss the research grant awarded to Tecogen from the propane industry for adapting the Ultera technology to propane fueled fork trucks. And lastly, I'll discuss our progress in bringing the special generators from Southern California that Ben mentioned that were retrofitted with Ultera emission systems, such that the customer could operate these units without annual hourly limitation.

So let's begin. ULTRATEK is the joint venture Tecogen formed in January, whose purpose is to demonstrate and commercialize the emissions after-treatment process on gasoline-powered vehicles. This work has been funded primarily by strategic investors in Europe and of course, is related to the heightened awareness of pollution brought on by the Volkswagen scandal.

In our last call, and in the several previous, I pointed out that the story has not really subsided and is still actively being reported. And that assessment remains accurate as the follow-up continues with major developments being reported even quite recently.

So for the Ultera process, the fit is for gasoline vehicles. This category has not been implicated in any improper testing. However, there is a growing awareness that the pollution output measured in controlled laboratory drive cycles significantly under-represents the true emissions output of vehicles of this type in real-world driving. As such, there has been an expectation that the certification process will be altered in some aspect to correct this shortcoming.

The Ultera strengths are well suited to this issue because the system provides robust performance, especially in the extreme edges of operation -- that being high acceleration-deceleration, heavy loading and so forth.

Last year, we were made aware that our assessment of the shortcomings for the existing certification methods would eventually be modified to include some sort of supplemental on-road testing and this expectation was indeed validated. In fact, over the next few years, the EU certification will phase in a portion of the process to include a significant on-road test.

The test protocol specifically applies to what's called the EU 60 emission regulation and will implement what they're calling real driving emissions, or RDE, in the 2017 to 2020 timeframe.

A Reuters story from October 14 articulates the distress the RDE protocol will cause automakers, GM, Renault, and Volkswagen. These makers have announced that their highly advanced small engines, both diesel and natural gas, may not be viable when subject to the RDE test, which would result in a return to a larger, less efficient engines that are less susceptible to the emissions [irregularities] that would be exposed by the RDE.

Thus, we are encouraged by this development as it sets a highly positive regulatory environment for our technology without requiring a special effort on our part. We are hopeful that the RDE protocol will be incorporated into our domestic certification process at some point as well.

During our last call, I discussed the second round of tests completed in Q4 at AVL. In these tests, the Ultera device was fine-tuned and more accurately sized for the test vehicle, providing us with excellent documentation of the system's effectiveness through a wide range of simulated driving conditions. We were also able to showcase its effectiveness with the type of vehicle highlighted in the Reuters news story as being problematic, in other words, the very high, small power density engines with advanced features for fuel economy.

More recently, at the SAE Light Duty Emissions Control Symposium held the third week of January in Washington D.C., we presented our results to an audience of industry experts, which provided us with valuable feedback regarding the Ultera technology and also insight into the nuances of the upcoming regulations, both domestic and foreign. SAE International, for those of you who don't know, is a preeminent professional organization relating to, among other things, the dissemination of scientific matters in the automotive world.

Also involving SAE, we prepared a substantial peer-reviewed paper for the SAE World Congress held in Detroit in April describing our vehicle test results in detail. Since our last call, our paper has been accepted by the reviewers for publication, which will coincide with our presentation at the conference. I want to mention that AVL is included, and rightfully so, as a co-author to the paper.

With this second phase of completion in the SAE paper, we have a solid foundation to move forward to engage the industry. Accordingly, we have initiated confidential contact with several potential partners with positive feedback, and for obvious reasons, we cannot discuss this topic in detail at this time.

Regarding Ultera intellectual property, we received promising news about our base Ultera patent from the EU office. With some modest changes requested by the examiners there, it appears that we will have -- we will conclude this process with a positive outcome.

I want to add that we are very pleased to have three patent applications being drafted involving the vehicle application of Ultera that will provide a successful, stronger IP protection in this more substantial and competitive industry.

So moving on to our press release last October regarding the fork trucks program, and as Ben mentioned, and as we announced at that time, the Propane Education and Research Council, or

PERC, has provided the Company with a research grant to demonstrate Ultera's emissions reduction capability in a propane fueled fork truck.

I want to point out that the technology rights for the fork truck application reside with Tecogen and were specifically excluded from our agreement with the automotive-focused joint venture, ULTRATEK. The project has significant benefit potential for this industry, as these vehicles generally operate indoors, where air quality concerns are magnified.

In recent years, the market share for propane trucks has been eroded by battery-operated versions to a large extent because of this issue. This market loss has occurred despite significant disadvantages of the battery system. That is, they're more costly and often unable to complete a full shift because of the energy storage limitation.

We have received strong interest from the industry and have obtained written commitment from two leading manufacturers to work with us in the development effort. The program commenced in January with this proof of concept phase, and is scheduled to be completed in about 9 months. Very recently, a few weeks ago, a donated fork truck was received from one of the manufacturers and we have initiated baseline testing of the truck and begun work on the preliminary design of the Ultera upgrade.

Finally, and as Ben mentioned, we’re very pleased to bring a highly experienced and talented engineer, Alan Welch, onboard to support the program. Mr. Welch's 30-year career has been focused on research and development involving vehicle fueling and emission systems, including fork truck engines, and is directly pertinent to this project. His impressive resume is well summarized in our February 22 press release.

My final topic is the Ultera upgrade to a group of generators in Southern California. In our previous earnings reports, we discussed a project that concerned a customer owning a group of natural gas-fired generators that need to be operated frequently. As the run hours exceed the maximum allowed for emergency generators, the units must meet the standards for continuous power generation. These are the same standards as our co-generation products where we have successfully permitted.

However, the simple generator receives no heat recovery credit as we do in co-generation in setting its emissions levels under the standard. As such, the emission levels required to permit these engines are the lowest we are aware of anywhere, and have not yet been achieved by an engine. So it'll be a quite a milestone when these are brought online.

As reported before, a simple generator was purchased and updated at Tecogen with the Ultera system in the first phase. It worked extremely well and the customer proceeded to apply for permits for this generator, but also their existing onsite units as well. We’re pleased that the generators have received their permits, as I spoke about last time, to operate.

And we’re proceeding with the onsite retrofit work this last few months. More than half the generators have been upgraded and we expect all the permits to be operational by the end of Q2 in third-party source testing validating the variable emissions that should be completed shortly thereafter.

I want to reiterate the significance of the successful outcome of the program. Achieving these limits essentially the same as a fuel cell will enable simple generators to be applied without hesitation to demand response in peak-shaving applications, an important milestone for the Ultera technology.

That concludes my discussion. I'll turn the call over now to David to discuss the financial performance of the Company.

David Garrison: Thanks, Bob. I will now review some highlights from the financial results.

Total revenues for 2016 increased 14% of our total revenues for 2015. Product revenues grew nearly 7%, while services grew by nearly 21%.

While the volume of co-generation modules were flat year-over-year, chiller and heat pump sales continue our steady growth. Of the 21% growth in service revenue, maintenance contract revenues continued their steady increase, while installation services grew by 47% year-over-year.

Shifting to revenues in the fourth quarter, 144% increase in product sales and 32% increase in service sales led to the highest quarterly revenues in Company history. The increase in service contract and parts revenue for the fourth quarter, when compared to the same period last year, is the 16th consecutive quarter of year-over-year quarterly contract service revenue growth.

Year-over-year comparisons adjust for the seasonality of co-generation service sales. Revenue from these long-term contracted maintenance and service agreements accounts for more than one-third of the total Company's revenue, providing a reliable annuity-like revenue stream.

Gross margins for products the year and the fourth quarter improved to a consistent 33%.

Cost of sales in products realized many benefits from the improvements implemented with the e+ line of InVerde. The new product has a cost-effective manufacturing process that will continue to reduce costs and add to growth in volume.

Gross margins for services were consistent for the year at 42%, but this is a slight decrease when comparing to the fourth quarter results. With the combined gross margins of 38%, gross profit grew nearly 22% for the year, while quarterly gross profit jumped 69%. Gross margin improvement and expense reduction programs continue as management focuses on maintaining these strong margins into the future.

Starting with the chart in the upper left corner, total revenue for the year is $24.5 million. While the quarterly revenues have been improving over the last 5 quarters, we expect this growth cycle to continue into next year and the longer term benefit from our joint venture initiatives.

The chart in the upper right illustrates the growth on our gross margin, as you can see, a trailing four-quarter basis. Management delivered a gross margin of 38%, solidly in our targeted range of 35% to 40%. We expect cost controls and sales initiatives to continue to deliver these margins growing to the top of this range.

In the lower right is a chart of our operating expenses. Management's efforts to lower operating expenses have produced results. Our goal of delivering approximately $10 million in operating expense for the full year remains in place going forward.

Finally, in the lower left, the backlog chart plots our weekly backlog currently at $15.6 million as of Tuesday, March 21. This backlog is well ahead of management's goal to exceed $10 million in product and turnkey service revenue.

As a reminder, the backlog does not include service contract revenues or sales of TEDOM products by the TTcogen joint venture.

The targets of the Company are strong. Management plans to continue to meet these goals of delivering those gross margins in the 35% to 40% range, maintain the backlog and installation sales above $10 million, and deliver stable operating expenses of approximately $10 million on a yearly basis.

I now turn it over to Ben for closing remarks.

Benjamin Locke: Thanks, Dave. In closing, I think 2016 was a transformational year for Tecogen and the result of hard work of everyone in the Company are clearly trending in the right direction. I'm encouraged by the accomplishments we've achieved in all aspects of our business and look forward to accomplishing even more in 2017.

And as I stated in our last conference call, it's a great time. I'm excited to welcome ADG to our shareholders, to our family, and we finalize the merger process. We will continue building our core business to be recognized as the leader in co-generation technology.

And lastly, we're positioning Tecogen to maximize the potential of our Ultera emissions technology, whether it be through our stationary engine retrofit projects as evidenced by our South Coast air permit success; our PERC-funded fork truck program, which has clearly defined channels to commercialization; or our ULTRATEK automotive joint venture with game-changing economic environmental impacts.

It's clear that our patented emissions technology will ultimately contribute substantial financial gains for the Company going forward.

With that, I'd like to turn it over to the operator for questions.

Questions and Answers

Operator: (Operator Instructions). Sameer Joshi with Rodman & Renshaw.

Sameer Joshi: Congratulations on the progress.

Benjamin Locke: Thank you.

Sameer Joshi: Since only two questions, I will focus on ADG merger and the Ultera Southern California progress. On the Ultera front, as I understand, when it was announced in September 2016, there was a 180-day verification period. When did that period begin and when is this process are expected to complete?

John Hatsopoulos: This is John Hatsopoulos. We started a week -- one of the weeks of November 2015, we commenced the proposal to ADG management from Tecogen.

Robert Panora: He's asking about Ultera.

Benjamin Locke: Sameer, can you just ask your first part of the question, again? I think we might have gotten the two questions mixed up.

Sameer Joshi: Okay. So the first question about ADGE is basically, when do you now expect it to consummate? And I know John gave a brief idea, but what are the chances from where you sit that it is going to actually happen?

John Hatsopoulos: I was correct that the former proposal came in at 2016, which is -- Ben is correct because we started the process, but we needed independent directors and bankers and whatever to evaluate our proposal. You’re correct; Ben is correct. We did it in November 2016, but we started the process in November of 2015.

Robert Panora: And can you tell me -- this Bob Panora speaking -- what your question was with Ultera?

Sameer Joshi: Yes, so the Ultera was a 180-day verification period. Did it begin in September of 2016, or did it began in January when you actually installed the first -- or retrofitted the first units?

Robert Panora: I think that has to do with the permit, is that right?

Sameer Joshi: Yes, the permit --

Robert Panora: And what happens is you have 180 days. The permit allows you to operate knowing that they can’t get there the first day and test it. It gives you I think 180 days to have your source test, and that clock will begin in Q2 when the units are started up, and they’ll have 180 days. I believe someone has told me that the permit will require testing really in July, or something like that. So we think it has to be wrapped up by then and it’s certainly on schedule to do so.

John Hatsopoulos: The question, yes.

Sameer Joshi: Yes, and then I guess I'll take the ADG question offline. But in terms of backlog, it’s the product backlog, right? And so what is the proportion of co-generation versus chillers and TEDOM-originated sales versus Tecogen sales in that backlog?

Benjamin Locke: Yes, I don’t have -- so first off, you’re correct, backlog is product and installation revenue. And as Dave stated, what’s not in there is our service backlog, and we in fact do not have our TTcogen sales in the backlog. We’ve not broken that out separately yet because we’re still building that up. So the backlog is indeed a mix of our products and installation.

The exact mix of cogen versus chillers and heat pumps, I don’t think we’ve got that right here at our fingertips. It’s something I’d be happy to supply you a little bit later. But typically, the mix of our products is three-quarters cogen and then a quarter, a mix of chillers and heat pumps. That's historically what it’s been like.

Sameer Joshi: Okay. May I ask one more question?

Benjamin Locke: Sure, Sameer, go ahead.

Sameer Joshi: So it relates to the NEEA alliance collaboration that was announced recently last month, I guess. What is the size of that market opportunity within that alliance?

Benjamin Locke: I’m having trouble remembering what the NEEA alliance that you’re referring to.

Sameer Joshi: Oh, it is (inaudible) says that one air source water heater was installed in --

Benjamin Locke: Oh, I see, yes, yes; that's for our heat pumps. That’s basically just an organization that is wanting to deploy these heat pumps to see the economic benefits of them and demonstrating that once the units are installed, they’ll achieve the metrics that we’ve laid out.

Sameer Joshi: And so what is -- how many units do you expect to install there? What is the potential revenue from that collaboration?

Benjamin Locke: Yes, I don’t think we’ve got that completely sorted out yet, but when we have a better idea, of course, we’ll make that public.

Sameer Joshi: Okay. Thanks. I’ll take other questions offline.

Operator: Jim McCleary with Chardon Capital.

Benjamin Locke: Hi, Jim. Operator, I’m not sure if Jim is there.

Operator: Hello, Mr. McCleary, your line is live; you may go ahead with your question.

Jim McCleary: Sorry about that. Hi, John, thanks for the opportunity to ask a question. Can you update on the sales force how many you have now, how big you think you can get it to be by the end of the year, and how that might be impacted by the potential acquisition of ADG?

Benjamin Locke: Sure. So it’s unfortunately not a clear-cut number, Jim, our sales force, and we’ve certainly got direct sales guys that are numbering in the five to six range. And the reason it’s not so clear-cut is we do a lot of our sales through our engineering folks. And so if I call them salesmen, they'd beat me up after the meeting because they’re really engineers. But they are accomplishing a lot of the sales when we work with engineering companies, when we work with construction, etc. So that’s supplemented by a few folks.

And then secondly, we have -- I mentioned in the past, these sales agents that we use and these are not employees of Tecogen, but they’re project developers, etc., that have aligned with us and aligned with our products and are bringing projects to us that way. And then, of course, we have our manufacturers' representatives, reps; mostly the reps are for chillers. The HVAC industry tend to be rep-oriented, but we do have a couple of reps for cogeneration.

And was there a second half to your question, Jim? Did I get all that?

Jim McCleary: Yes, the expansion, what you think you’re going to be at the end of this year?

Benjamin Locke: Yes, sure. Yes, got you. Yes, I remember you mentioned the ADG. Yes, ADG doesn’t -- is not contributing directly to any of our sales efforts, but indeed, we're always looking to hire good salesmen. It’s an opportunistic thing. We had the opportunity to hire a very good salesman just last quarter and we did so. I think when good people become available, I tend to try to bring them onboard as quickly as I can. So I think you’ll see a little bit of sales growth in 2017 and that that’s a good thing.

Jim McCleary: Okay, thanks. And then one other thing -- I don’t recall if you were referring to just products or just services. But you made a comment about mostly existing customers contributed to the sales of that category. And I was hoping you could put some numbers around it for both products and services. Well, services would be existing customers, but for products, for all of 2016, was it mostly new customers, or mostly expansion of existing customers?

Benjamin Locke: It’s a mix really, and we don’t have the numbers absolutely quantified. I suppose I could dig into our CRM and find it. But suffice to say, generally speaking, it’s about half and half of existing customers versus new customers. Existing customers like an ESCO, for example, they kind of bring us continual business. Some of the project developers we work with there, they’re turning over new properties and new projects, but it’s still the project developer that we’ll work for. So those are -- that’s an example of the repeat business.

But then, of course, as I say, we’re getting plenty of new business as well, new buildings, new hotels that are being nurtured along, and will hopefully lead to repeat business down the road from now. So I know I didn’t give you real metrics there, Jim, but it is about a mix of half and half of new and existing.

Jim McCleary: Okay. That’s good. That’s what I was looking for. All right. Thanks a lot. I appreciate it.

Operator: Alex Blanton with Clear Harbor.

Alex Blanton: Hi, very good quarter I thought. I just have a couple of suggestions before I ask my question. One is that you show the slides with the earnings release as an attachment because when you say that the slides are on the website, then people have to go and look for it; or else they have to find that little link at the bottom of the release, which is kind of (inaudible) to get to the slide.

So I'd send them as an attachment so people [don't] have to go hunt around for them because they often don't bother and then they don't have the slides to (inaudible).

The second thing is --

Benjamin Locke: All right.

Alex Blanton: -- I think in your release, you should lift the -- take down the gross profit into products and services, so that you can calculate the margin easily because the margin in services is 42.4% and products is 32.6%; so that if services keeps growing faster than the products, the margin will keep going up. So that that could be made very plain if you put -- if you break down the gross profit into products and services in the release as well.

Okay. So now my question is this. I think you need some more transparency on the orders because if you work out -- take the backlog at the end of the third quarter is 11.9 and the fourth quarter is 11.1. You had -- this may not be quite accurate based on your numbers, but the product shipments were 3.2.

That means that the orders were 2.4 in the quarter to get the backlog figure, but now the backlog is 15.6. So if we had, for example -- this is a hypothetical -- orders of -- I mean shipments of 3.0 million so far in this quarter, in order to get the backlog 15.6, you're going to have orders of 7.5 million to get that backlog up to that point.

I'm not sure shipments are a lot lower than -- I mean a lot higher than -- a lot lower than I think. But let's say these shipments for the quarter are almost all done, 3.0 million, let's say. Then the orders are very high to get to that backlog. But we have no information on what those orders are. You used to put out a lot of press releases on new orders, but we haven't seen anything (inaudible) --

Benjamin Locke: Alex, let me try to answer your question for you, okay?

Alex Blanton: Yes, okay, go ahead. You understand my concern here?

Benjamin Locke: I understand your question. So first off, the backlog is not just products; it's not just units going out the door. There's a fair amount of installation that occurs and those installations can take -- [they're beginning] short -- but they can certainly be staggered over a long period of time.

So that's the first point, that the backlog transitions from quarter-to-quarter have installation portions. Like project X could have installation revenue in Q1, installation revenue in Q2, installation in Q3, Q4. Maybe even it could be an installation that takes over a year.

Alex Blanton: Yes.

Benjamin Locke: So it's not a proxy for just units, okay? That's the first point I wanted to make.

The second point I wanted to make is about orders. Now I know I've mentioned this to you before, Alex. This is a competitive business and I generally don't like to put out press releases that take away from our ability to compete with other folks and other technology and give details of how much revenue we're making, and etc. And so you can absolutely blame me for that because I do try to temper the amount of detail that we put on our press releases because ultimately, it could hurt us in our markets. And I think that's a fair balance that we've done.

Alex Blanton: Well, I understand that, but in the press releases, you don't have to put the dollars in there; just the fact that you got an order from somebody, but we haven't seen much of that lately. If you look at the string of press releases for the last 2 or 3 months, it's been pretty spare. And so one would conclude that my goodness, they're not getting much new business, but in fact, you must be getting a lot of new business that put the backlog up at that point.

That's -- my question is what is the state of the new orders in your -- I think your results on your initiatives are great, but we really don't know too much about the basic business at this point. It didn't say much about that in the release. How's business is the question.

Benjamin Locke: Alex, business is great. We had a record quarter, $7.1 million. We had growth in every one of our metrics.

Alex Blanton: I know.

Benjamin Locke: And I think the business is doing great.

Alex Blanton: I realize what the quarter was. I'm talking about new orders; that's what I'm talking about, not last quarter's shipment.

Benjamin Locke: Alex, maybe I think what we should do for the benefit of the other callers with questions is, we can -- I can take it offline and talk it over with you.

Alex Blanton: Okay.

Operator: Roger Liddell with Clear Harbor Asset Management.

Roger Liddell: My mind is on California because it isn't just the things that we have talked about this morning in not necessarily a meaningful ordering. We have the South Coast Air Quality strictures, carb elsewhere in the state; we have auto-related opportunities and issues. We have the [standing] off-rate retirement, the gas leak last winter, the demand response opportunity. And what isn't often referred to, water pumping, which is 20% of California's energy. So there's a lot going on in California.

Can you help me understand how I should view the array of issues and opportunities in California in terms of should we expect pent-up demand for various applications as a consequence of these long lead times and 180-day windows, etc.? Are you able to be out there marketing during this regulatory delay period? I don't mean delay; it's the way the facts are; or only when a final permit is issued, for example, can you then launch a marketing effort. So that's the generic question. Help us understand it.

Benjamin Locke: Yes, Alan, just in terms of our --

Roger Liddell: Roger.

Benjamin Locke: I’m sorry, Roger, just in terms of our products that we sell under the Tecogen name, the chillers and cogen, we have no fear of selling them. We have nothing to prove. They’ve been permitted everywhere in California and that market continues to be there. I believe it’s getting stronger right now. I think -- and then you can contradict me -- but I think we have a great opportunity of chillers and so forth. So that I think is a straightforward answer.

The water pumping initiatives that we’ve done, we have proposals out there. We have -- I think we’re close to a couple of projects, but it’s been a little bit tough going because of the regulations not being enforced as much as they were a couple of years ago. And so people are sort of hanging on trying to finesse their permits and so forth.

Now, the generators that are being operated that are being started up in the next month or two, those are something that I think we -- probably our customers will be waiting to see what happens on that, and see if it works out. And we can get to those as yet unproven levels in a permit, and so we’re thinking that’s going to be an important milestone, and that we should be able to go around and show people we’ve done it. Here's a site, here's a customer for reference and so forth. So that’s -- sorry -- a complicated answer, but that’s what I -- how I'd respond to that.

Robert Panora: And Roger, I’ll just add a little bit on to that as well. We've been thinking more about the West Coast. Honestly, most of my attention has been on the East Coast for obvious reasons; that’s where the strongest markets are. But I think in 2017, we are going to really try to spend more time in the California for the reasons you just mentioned. And there’s also another area that that we’re going to be involved in on the West Coast and that’s with the TEDOM partnership. As I mentioned, we have the ability to install biogas CHP and the biogas CHP is generally seen as a lot more in favor with the California folks than natural gas driven CHP.

So in fact, the joint venture has hired a salesman specifically for biogas opportunities, and he just joined in this quarter. And he's now getting his feet on the ground, looking at biogas, and I think he’s going to end up finding a lot of prospects in California. So I hope that that helps your question.

Roger Liddell: Yes, it does. And I think you said Alan Welch is there, and he hasn’t had a chance to say anything so far. Is there anything, Alan, that you'd want to wade into here, just what’s going on in your turf?

Benjamin Locke: Alan is not here. He’s not in the room with us now.

Roger Liddell: Okay, sorry.

Benjamin Locke: Yes, he’s got more important things to be doing --

Roger Liddell: Yes.

Benjamin Locke: -- which is I think good for us.

Roger Liddell: You're not demeaning the financial community, are you?

Benjamin Locke: Not at all, I would never do that.

Roger Liddell: Okay. On the issue of pumping, which I think is a big deal, but manufacturers may be uneasy about a retrofit anything, like Caterpillar. Is there anything that could breach a Caterpillar warranty by virtue of retrofitting?

Benjamin Locke: None, no impact whatsoever. Just like adding another device exhaust, Caterpillar would expect the local engineer to pick the muffler; they'd pick the catalyst perhaps. And as long as that catalyst, in our case, as long as our Ultera system does not create any excessive back pressure -- and it does not -- there's no impact whatsoever.

Roger Liddell: Okay. Final question on the upcoming Society of Automotive Engineers Conference or Annual Meeting, whatever, next month -- what should one's expectations be about the publication in a forum like that of this extremely interesting data?

Robert Panora: I think that this is an ideal setting for us. Everybody -- the industry is all there just about; anybody you'd want to see is there. So they give a wider viewing and opportunity to, after the presentation, to meet people and talk to them and so forth.

So the other aspect of having a peer-reviewed paper is that it gives you credibility in your upcoming meetings with folks. We show them that paper and it says, AVL, number one, gives you great credibility; AVL paper with Tecogen and the MIT fellow, Ahmed Ghoniem, is authors and so on and so forth. It says, okay, this data is not anything but very credible. And the data itself is compelling; if you look at the data, it says, wow, this thing really does make a difference in the emissions. So it's just an opportunity to meet a lot of folks.

And so the Washington D.C. conference was a much more concentrated group of experts, a smaller conference, but really the engineering PhD folks that were there. And that was an excellent opportunity to get to see what they're expecting to happen when these new regulations come in. They offered us suggestions of how our machine, our device, could integrate into the vehicle. The new vehicles have a lot of stuff on them that we can take advantage of in how we integrate to get more than just emissions.

So collaboration, if it's done the right way, is very important in these events and we make contacts. People want to help us. They want to do research, scientists who say, we think we have maybe a spin on what you're doing that might improve it, and so on and so forth, or we'd like to help you there. So all in all, I find these conferences really, really important for my benefit as to what we should be thinking about when we integrate the technology of the vehicle and a lot has come out of that.

And as I mentioned, we have these three patent applications that are going in. They're not important; they're serious patent concepts. And part of the germ of ideas comes from these collaborations as we really start thinking about things that we haven't thought hard about. And that’s, I'd say, those patent applications are a direct result of germs that were planted at that conference. So anyway, I hope I answered your question. I went too long and that’s --

Roger Liddell: Yes, thank you.

Operator: (Operator Instructions). Norman Heyman with Technological & Investment Horizons.

Norman Heyman: Nobody has a problem with the results that you guys are accomplishing. It’s been pretty remarkable and if you’ve been involved with this company, you can appreciate how difficult what you guys are trying to do, are doing. The one problem I’m having -- and it’s a strategic question trying to appreciate a variable market. In this particular case, you’re dealing with either integrated units, different sizes of those integrated units and different markets for those units. And I guess your slide 9 kind of lays some of that out, so I don’t know if you can do it.

But maybe there’s a qualitative, semi-quantitative aspect of if one looked further out, what is the available market for what you guys are trying to do? And obviously, you’re still in the penetrating, getting share of market kind of thing. So there’s basic business, but there’s growth. So I’m trying to get a sense of how do you guys describe ultimate markets, which obviously you’re dealing with a matrix product mix here, so that’s not totally easy.

But from the customer base side, there must be some -- can you give us some idea of the size of available markets? If you want to take 5 years out, I don’t care what the period is, but in your mind, what is your available market either in total or in segmented sense? Now the segmented sense answer would be difficult, I know that, but what can you give us to give us an available market eventually for your product mix is my question.

Robert Panora: Norman, this is Bob Panora. How are you doing, Norman? What I think you’re referring to is if you took our co-generation chillers, heat pumps, and so forth, how many buildings could they go into and what that market would be and so forth?

Norman Heyman: That’s a surrogate, sure it is, because as an example -- and now please, I’ll make it brief. I know that you can sell I think to larger groups, assisted living groups, as an example, which have multiple sites, but you don’t have to do that. There must be statistics on the assisted living groups, some different categories of what you’re dealing with.

Robert Panora: Yes.

Norman Heyman: So you must have projected in your own mind, okay, guys, 5 years from now, we’ve done all this; we've done all the education. What is the ultimate market that we think we can have?

Robert Panora: Right. Let me tell you the analysis that I did a year or two ago. And what happened was that that California Energy Commission gave us -- they're giving a contract to researchers to do just the California market. How many nursing homes, how many breweries, how many, etc., etc. They broke the entire market down and they looked at 5 different future scenarios; I think it was 20 years or thereabouts. And you can get this; it’s online. But it’s a very detailed report.

And it says, these are the technologies; these are the amount of potential buildings they can go into and sizes and so forth. So they had the whole state's archives of data to go by. And what they said was we'll look at 3 or 4 different scenarios of the future. One is a very, very helpful regulatory environment, a medium-helpful, and they characterized it better than I am --

Norman Heyman: Sure.

Robert Panora: -- and no help at all, (inaudible) incentives, no incentives and so forth. So if you look at that market, you can take California and say, this is the total and this is the breakdown of where stuff is going. And so that's all you have in terms of breaking it down in such a fine way. But the same company also did a national assessment as well and they built on that same work, but it's not quite apples-to-apples. You have to go in --

Norman Heyman: Sure.

Robert Panora: -- and look at populations and so forth.

Norman Heyman: Sure.

Robert Panora: But again, what I did was I -- what we did was we looked at that and said what does that mean nationally? And I forget the exact methodology we used, but one that was obviously logical. California is 17% of the population and if we took these other states and say that's our main markets, we can go off from X, Y to Z and get a number. Now what the number is, I can't remember, but I think the size of the market is quite large; it's billions. And I think we segmented --

Norman Heyman: (Inaudible) billion is the number, all right.

Robert Panora: Yes, it's very large. And what we said, well, let's take the scenario of what market share we can get with our small machines. And we broke them down further because they'd also broke it down by size --

Norman Heyman: Sure.

Robert Panora: -- multi-megawatt, [just] multi-megawatt, is the category we fit. So then we went on and looked at where we fit and what we could do. Now, what's different now, of course, is we have TTcogen, where we were excluding those big markets, those big engines and so forth. Now we have them and I don't think we've gone back in the last few months to look at that precisely, that whole -- rerun that whole thing.

But that's what I have and I can't remember every -- the details of it, but that's what we have done. And we could perhaps talk to you more about that offline and I can prepare my -- we could get more prepared as to what we -- where our assessment was.

Norman Heyman: Please, I know it's a complex question; it's not easily done. But you have to wonder what your available market is as a part of a planning process, that's a given. I think it's huge, frankly; I think it's huge frankly, in just the co-generation portion. But now you're talking about other parts, so from an analyst viewpoint, people worry about 2017, 2018. Frankly, I'm a long-term investor even though, I'm 85.

Robert Panora: Yes.

Norman Heyman: And I look out and base my decisions based more on a 2 or 3-year outlook. And I know if its execution is occurring now, you'll eventually reach those numbers. So whatever help you can give us in portraying that without going into the projection game --

Robert Panora: Yes.

Norman Heyman: -- I think would be helpful. I'm sorry to ask this kind of question, but that's me.

Benjamin Locke: Yes. Well, again, Norman, I think Bob and I'd be happy to follow up with you offline about some of these studies that he mentioned and get that and give you some links probably, or [Bob], I think he's got some links to these.

Robert Panora: Yes, we have a slide that we've used and I think it's available publicly. I don't think it's anything secret. Is that right, Dave?

David Garrison: Yes, I believe it's either in the second quarter -- we had laid it out with the addition of the TTcogen market potential. It was there as a slide.

Robert Panora: That's right, that's right. And the fork truck market, I gave a number, I believe in the last earnings call as the domestic number of fork trucks that are natural gas [size]. And I believe it was 70,000 annual sales in that market.

Norman Heyman: Yes.

Robert Panora: And that's -- in the non-U.S. market, of course, it's a lot bigger than that, but so anyway --

Norman Heyman: Right.

Benjamin Locke: Okay. We can take the next caller, operator.

Operator: Michael Zuk with Oppenheimer.

Michael Zuk: Good morning, everybody, and congratulations on a great year.

Benjamin Locke: Thanks, Mike.

Michael Zuk: A couple of questions -- on the balance sheet under accounts receivable, they increased year-over-year by about 60% or $3 million. Why are we carrying so much in accounts receivable, or how do we collect the money? Is it time payments or --

David Garrison: Well, Mike, this is Dave Garrison. There was some large shipments right at the end of the year and so that helped elevate our accounts receivable to such a level. I will tell you that a very large portion of that has already cycled back through, and I think the number you'll see at the end of third quarter will be a lower number.

Unidentified Company Representative: The end of the first quarter.

David Garrison: The end of the first quarter, I'm sorry. At the end of the first quarter, it will be a lower number, but the key thing to point out on that is that for the most part, our customers are within terms. We do have -- on these construction projects, we do have some construction projects that go out a little further than we would like, and we're addressing those projects and those terms going forward to try to pull that number down. But I will say that record sales can lead to record AR. So I apologize for the high AR, but I think the sales were the biggest influence there.

Michael Zuk: Okay. Well, that's good. Don't have to worry then about excessive delinquencies.

David Garrison: Absolutely not. We have a very low -- very, very, very low write-down percentage. You can imagine with our service maintenance contracts that we -- I'm proud to say, since I've been here, that's been almost a big zero due to the fact that as the customers appreciate the units, and the savings they're gaining from those units, they want to keep them operational. And paying your maintenance contract is something you have to do to achieve that. So we have not been subject to bad or large write-offs.

Michael Zuk: On the cash flow statement, there is a significant swing in the entry due from a related party. What accounted for that swing?

David Garrison: It's an interesting accounting result. When we merged Ilios together and in that consolidation process, there was receivables in that consolidation that disappeared; as well as ADG also has paid down their receivable to Tecogen, as well as some -- there was some TTcogen shared services internal that were also paid down. So there was a group of things that -- all that taking care of in this last year and that's why that number is nice and low.

Michael Zuk: And then a general question for Ben and Bob -- will we be attending or presenting at the ACT Expo out in California May 1 through 4? It's an advanced fuel and clean technology expo and virtually everybody in clean tech and clean fuels is going to be there and presenting. And of particular interest is there's going to be an in-depth workshop on the Volkswagen emission situation.

Benjamin Locke: Mike, honestly, I'm not aware of that conference and why don't you send me a link and I'd be happy to think about that (inaudible).

Michael Zuk: You'll have the link this morning.

Benjamin Locke: Okay.

Michael Zuk: It looks like a really important one. And besides that, there's also for our forklift, there's going to be a new battery-powered forklift demonstration that we at least ought to know about that technology because it's a competing technology.

Benjamin Locke: Right, no, well, we appreciate that. Just I'll get right on that. Send me the link.

Michael Zuk: You'll have the link this morning. Again, congrats. Progress is being made and the future looks terrific.

Operator: If there are no more questions, I would like to thank everyone for participating. This concludes today's conference. You may now disconnect.