

TGEN -- Tecogen Company Status Report, August 6, 2015
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Ben Locke; Tecogen, Inc.; Co-CEO
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Roger Liddell; Clear Harbor Asset Management
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Presentation

Operator: Good morning and welcome to the Tecogen second-quarter 2015 financial 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. As a reminder, 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 Friday, May 15, 2015.

(Operator instructions)

Now I would like to introduce David Garrison, Chief Financial Officer. Please go ahead, sir.

David Garrison: Thank you. I will read a Safe Harbor statement.

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 provided herein, are as of a specified date and thereby not hereby reaffirmed or updated at any time.

I now turn it over to Ben Locke.

Ben Locke: John, would you like to say a few things?

John Hatsopoulos: Yes, ladies and gentlemen, I am John Hatsopoulos. I wanted to apologize to all of our shareholders for the lack of volume of our security and the lack of trading, which has upset some shareholders, and I don't blame them.

The reason that this has happened in the past, and hopefully it won't happen in the future, is that we have, in our effort to grow our company, we didn't want to use a lot of time and capital to have an IR person. Everybody that bought the stock, including the person that bought the shares in the last couple of days, are all friends of mine, they obviously believe in our story and our business plan. Therefore, there is no selling.

On the other hand, since there are no new investors available because we don't have any IR, there is no trading on the stock. This is about to be corrected. I am in the process of interviewing a list of people, and starting in September, we will have a dedicated IR department to bring us the values, institutions and retail shareholders and hopefully we will get some more activity in our stock. Thank you.

With that, I would like Ben to give you our business plan.

Ben Locke: Thanks, John. At the conclusion of this call, after our Q&A, for those interested we will have a short discussion about Ilios, which we issued a press release today giving the status.

Turning back to Tecogen, I'd like to start off our call by reminding those who may be new to our company of Tecogen's core business model on as shown on slide 3.

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.

As I will describe in this discussion, the combination of our unique technology, overall trends in energy supply and demand, and the increasing global emphasis on environmentally clean technology, all favor Tecogen's continued growth.

Turn to slide 4.

In the second quarter, we continued to make substantial progress in the three major metrics for our success: revenues, margins, and backlog. First, we continued our trend of growing revenues. Revenues for the second quarter increased to \$6.38 million compared to \$4.5 million in Q2 2014, an increase of 41%. This brings our year to date revenues to approximately \$12.5 million, in line with our revenue goal for the year.

Secondly, gross profit increased to \$2.14 million compared to \$1.35 million in Q2 of 2014, an increase of 59%. Gross margins came in at 33.5%, which is a bit lower than our goal of 35%, but still a 12.8% increase over Q2 of 2014. I'll talk a little bit more about our margins later in the call.

Third, we continue to maintain a robust backlog of projects. Backlog, as of August 5, 2015, yesterday, was \$10.77 million, ensuring a healthy continuation of our revenue growth in the third and fourth quarters of the year. Our goal is to continually maintain backlog above \$10 million.

Importantly, as indicated by our press release yesterday, we now have sufficient capital to fully execute our business plan. The additional funds will allow us to expand our sales team, increase the business development activities of our Ultra emissions technology, increase our marketing investor relations efforts, and provide overall working capital as we continue to expand our production.

Turning to slide 5. We reached some additional noteworthy achievements in the second quarter. We shipped 14 of our flagship InVerde CHP units, just one less than our record quarter last quarter, and an overall record for any second quarter. This further demonstrates that the unique capabilities of this

product, approved utility interconnect, variable speed operation, micro-grade capable and ultralow emissions, position it as the most compelling choice for our target markets.

As Bob will describe in a few minutes, we continue to make headway establishing our Ultra emissions retrofit system as a game changing technology for emissions regulations. By working with air quality management regulators in states like California, our goal is to demonstrate that our Ultra technology should be the basis for future emissions standards, thereby establishing us as the only cost-effective solution for meeting emission limits.

We continue to receive projects from large energy service companies, or ESCOs, as part of larger energy efficiency measures. In the second quarter, we were selected by ESCOs for projects in school districts in New Jersey and New York. Our goal is to solidify Tecogen as preferred product for these ESCOs.

Ilios continued to demonstrate that it is the highest efficiency water heater available in the market, offering customers tremendous savings and compelling ROIs. As our press release indicates, we shipped a record number of Ilios units in the second quarter with units going to new projects in Hawaii, Florida, Puerto Rico and the United Kingdom. We currently have a backlog on track to exceed \$1 million in revenue.

Turning to slide 6, I'd like to provide a little more commentary on each of our key revenue segments for the Company: product sales, service, and turnkey installation projects. For our product segment, we saw a 66% increase in revenues over Q2 2014, and product margins coming in the range we expect.

In the second quarter, we sold products in all of our key market segments: school systems, hospitals, residential housing, athletic facilities, assisted-living facilities, and hotels. For our service segment, we saw increases in service revenues which correlate to our increased unit sales and our focus on turnkey installations.

We are very happy with the margins from the service segment and expect continued growth going forward. As a reminder, many of our customers sign long-term service agreements when we sell the equipment and this backlog of service revenue is not included in the sales backlog number previously stated.

For our turnkey segment, we continue to select key projects that demonstrate our ability to handle start-to-finish-construction projects. Many large customers, such as hotel chains, property management companies and ESCOs, prefer using the product manufacturer for installation to assure that the units are installed and operate with the best engineering practices. From a strategic standpoint, it is a key part of our long-term sales strategy to establish Tecogen as the best-performing CHP product, and doing turnkey installation ourselves assures this will occur.

Occasionally, we accept a turnkey project that, although it does not have compelling margins, demonstrates our product superiority to a key customer with potential for many future orders. Specifically, we are currently installing a large Tri-Generation system at a recognized hotel chain. While the project is going very well in the customer's eyes, we have accepted a lower margin in order to foster good relations with this ownership.

The slightly lower margin in our service segment, which includes turnkey installation, reflects this and is the main reason our overall margins fell slightly below our goal. We fully expect our turnkey margins to improve going forward as this project wraps up in the third quarter.

Lastly, we are gradually growing our backlog of Ultra retrofit systems. As previously mentioned, the uptake of these systems is largely dependent on verifying performance over sustained periods of operation. We have to overcome the doubts of other emission control technology that did not produce the promised results for longevity of performance. As we complete more retrofit projects that demonstrate our robust performance, other customers will have less worry about adopting our technology. Bob will give some more detail on this very shortly.

Turning to slide 7, I wanted to provide a little more detail on our key market segments. As you can see, our backlog gives a good representation of where we are selling our products. Hotels, residential, schools, nursing homes, and athletic facilities typically dominate our sales pipeline. As you can see, the correctional facility segment is not as predictable, but we already have a few prisons with our units installed in them, and a few projects are looking very promising in the coming months.

All in all, I am very pleased with the results for the second quarter, and I'm fully confident that we will continue to meet our key metrics in the third and fourth quarters.

With that, I would like to ask David to provide some context to what we have achieved thus far in our key financial metrics, and what our goals are for the rest of the year. Afterwards, Bob Panora will provide a technology update on our Ultra emissions system development. David?

David Garrison: Thanks, Ben. The following are some of the key measures management uses to analyze and gauge our success. On some of the graphs, the shaded blue box on the right-hand side relates to time in future periods. If I can draw your attention to the revenue graph, service revenue is a combination of service contracts from our factory maintenance program and construction services from installing our products.

Our trailing four quarters revenue has increased at a CAGR of 43%, or from \$11.3 million ending 2013 Q2, to \$23 million for the trailing four quarters ended 2015 Q2. Management's goal is to achieve nearly \$24.5 million for calendar 2015.

Looking to the gross margin graph, review of gross margin percentage using the trailing four quarters eliminates the seasonality and shows our return to gross margin of 35%. On occasion, as Ben previously discussed, projects of lesser margin are intentionally initiated as part of a larger goal or a program of projects. These events will affect margins in the short-term, but management's goal is to sustain an average margin above 35%.

Turning to operating expense as a percent of revenue. In the second quarter of 2015, operating expenses decreased to 38% as a percentage of revenues. While continuing to lower the trailing four quarters percentage to 45% on the graph, management expects some of these costs to rise in the short term.

Again, while pleased with the results, the goal is to continue controlling these costs while growing revenues at a faster pace. Selling expenses will increase prior to seeing the resulting revenue gains from increased sales staff. Management's goal beyond 2015 is to work towards operating expenses less than 25% of revenues. To reiterate, this will be achieved with a combination of increased revenues and controlled expenses.

Onto backlog. It is worth noting that backlog only relates to product and installation service revenues. The service revenue from our maintenance contract, which exceeded \$2 million in the second quarter, is not included in this metric. This reoccurring revenue is nearly 1/3 of our revenues, providing steady cash flow and profit.

The backlog graph illustrates the variability and timing when projects are added to our backlog and when shipments are made or installations are completed. Management's near-term goal of maintaining a consistent backlog over \$10 million has been achieved. Our longer-term goal is to maintain a book-to-bill ratio of between 1 and 1 1/2, matching increased production capacity with increasing orders.

Now, I'll turn it over to Bob Panora.

Bob Panora: Thank you, Dave. Good morning, everyone. As you may recall, our emissions reduction process, which we call Ultra, is protected by several patents and has been available on our own products for several years. Most systems we manufacture include Ultra, as customers will want assured compliance with the strict air regulations we generally encounter. Also they want to be prepared for stricter regulations that might be encountered down the road.

It has been evident to us that for some time that our emissions process is readily adaptable with significant end user benefits to a wide variety of engines, unrelated to our core CHP business. These would be engines of various sizes applied to water pumping, power generation, certain mobile applications, and so forth, with sites in regions or applications where emissions regulation are difficult.

To this end, we introduced an Ultra retrofit kit for larger stationary engines through about 1000 hp, which we have been marketing primarily in Southern California. Referring to slide 9, as announced previously, we received three important orders from California-based customers.

One is to outfit a 50 liter biofueled engine manufactured originally by Caterpillar with a scaled up version of the Tecogen emission system. The equipment for this order was fabricated and shipped in Q1, and we currently expect initial operation in September. The on-site work, which is being directed by the water district, was delayed by several months due to a change in contract, but otherwise the project is proceeding well.

We look forward to providing an update as soon as we have meaningful data. This customer operates over 60 engines and has requested us to quote systems for three large engines in a second water treatment plant. This was provided in June, and we are optimistic as to the outcome.

The second order was in two phases from an industrial customer needing their on-site standby generators to be permitted for use beyond the 200 hour exemption allowed for simple standby generators. To achieve compliance would require operation of these generators at unprecedented emissions levels, actually below that of our CHP systems because simple generators do not get the efficiency credit for waste heat recovery.

As we reported previously, the first phase of the order, which was to demonstrate technology in our laboratory, went very well. The customer took our data and specifications and then submitted permits to the SoCal regulators for their generator group. These were groundbreaking permits as no engine has attempted or achieved compliance to these levels. This has made the process somewhat protracted.

However, the regulators provided draft permits several weeks ago which we reviewed with comments for final processing. Now that the permitting process is being concluded we expect the phase 2 order to be forthcoming.

I wanted to point out this is an important order for the Company because standby generators are currently prohibited in many cases from extended use for peak shaving or demand response programs. Peak shaving refers to operation of a generator during periods of especially high electricity costs. Demand response programs involve a similar concept with a different revenue structure.

The generator owner in this case is reimbursed for assisting utility with load reduction during its greatest strains. In either case, a simple generator with a clean emissions profile would be appealing as it could produce significant revenue, as opposed to what they do normally, which is to just sit idle.

The third order is for the Gage Canal Company, a water district. This engine, also a Caterpillar, is a 15 liter water pumping engine. The kit was shipped in June and is being installed by the customer. When this work is complete and the permits squared away we will proceed with startup.

We have had quotation activity, including the waste treatment plan I mentioned earlier, as well as a municipality in the San Diego area. Again, we are optimistic that some of these will turn into orders.

There is also some favorable regulation and progress to report. The very strict regulation that began in Southern California in 2008 requires regular self-testing of equipment. The consequences of test failure is a lot of paperwork, and readjustments and repair to the engine. Painful, but for many operators an acceptable cost of doing business.

Regulators have started the process, however, to remove this loophole, the proposed rule amendment is as follows. Noncompliance in a self-test if it is significant will result in automatic notice of violation. This is a very serious situation. It involves fines, and if it is repeated it can result in the permit being revoked.

If small but occurs three times in a quarter, the same result, a notice of violation will be issued immediately. We believe closure of this loop hole will significantly benefit our sales efforts for Ultra in the region.

Operators that are content with their current systems because they can continue to operate by maintaining good paperwork will be forced to upgrade their engines to a robust system or retire them. The most important attribute, as I said in the past, of Ultra is highly dependable 24-7 performance. You can count on it day after day.

Turning to slide 10 and also related to Ultra, it was the subject of a feature article in the July article of *Diesel Progress*, an important trade magazine that covers engine technology for gas and diesel fuel stationary and mobile applied engines. This edition is themed to emissions technology and regulation, so it's a very good fit for our story. If you would like a reprint, just let us know.

Also we have submitted a formal proposal for an entirely new mobile application for the emissions technology to an industry research collective. This was following a face-to-face meeting at Tecogen in the short form proposal that we had submitted earlier.

Lastly, SoCal gas is producing a short video about the Ultra technology. We completed shooting at the water district demonstration site in July and the expectation is it will be available in the fall, subject, of course, to SoCal's desired timing.

Now I'd like to turn the presentation over to Ben for some final comments.

Ben Locke: Thanks, Bob. I'd like to take a few minutes to discuss some of the trends that continue to favor Tecogen going forward. Turning to slide 11, all of the drivers for our products are not expected to change anytime soon. Electric rates continue to rise in our key markets. In fact, higher electric rates are spreading to other geographic regions, both in the Northeast and the West Coast, that were previously uneconomic for our equipment.

Just as important, natural gas continues to be an abundant and cost-effective fuel source. The combination of low-cost natural gas and high electric rates are the primary drivers for our CHP and Chiller systems. Emission controls are rapidly becoming a decisive driver for all of our products.

As Bob described, strict regulations developed in California for criteria emissions related to smog, CO and NOx, are swiftly being adopted by other states, including Massachusetts. Any CHP, Chiller or heat pump system that cannot meet the mandated level of emissions face the eventual prospect of violation, fines or, as Bob described, potential shutdown.

Further evidence of this trend toward cleaner emissions can be found in the Clean Power Plan recently released by president Obama and the EPA. The plan outlines clear goals for national and state reductions of both greenhouse gas reductions and criteria emissions. Specifically, the plan calls for a 32% reduction in CO2 emissions and a 72% reduction in NOx emissions by 2030 from the power generation sector.

These goals address a serious national health issue surrounding current pollution levels, such as asthma, respiratory illness, and premature death. CHP technology will be a significant part of this plan. CHP systems cut CO2 emissions in half versus current electric production.

A typical Tecogen InVerde system provides approximately 600 tons of greenhouse gas reductions per year. Each year, Tecogen receives a certificate from the EPA certifying avoided greenhouse gas emissions. In 2014 Tecogen systems have avoided an estimated 95,500 metric tons of carbon dioxide, as compared to conventional energy sources. More importantly, the drastic reduction in CO and NOx that Tecogen Ultra technology provides.

Adoption of the Tecogen Ultra technology beyond our current focus in CHP and stationary engines to larger markets, such as vehicle fleets, offers a tremendous opportunity to reach or even exceed the goals for criteria emissions that cause smog.

The prospect of vehicle fleets, such as buses and trucks operating with standard engine technology but realizing fuel-cell like emissions is tremendously compelling from a policy and market standpoint. With every passing day it becomes more apparent that any engine, stationary or nonstationary, eventually will be required to meet stricter and stricter air emission regulations that current technology cannot cost-effectively provide. Our plan is to seize on this opportunity to prove that Tecogen technology is the best way to meet these stringent standards.

Tecogen is actively supporting any and all state or national policy addressing air quality and pollution. Ultimately, it will enhance the business opportunity for Ultra emissions technology. As I mentioned earlier, the new capital Tecogen now has will enable us to accelerate the development of the business opportunity for our Ultra technology while securing the necessary intellectual property and patent protections in each field of use.

In summary, Tecogen is in prime position for continued growth. The CHP and Chiller markets continue to be a strong revenue driver for all the reasons I mentioned. Our heat pump is being recognized in the HVAC community, which is a \$15 billion per year industry, as the most efficient, cleanest and cost-effective way to provide heating and cooling.

Building off our current backlog, I expect Ilios will still become one of the largest revenue contributors to our business. And as I just described, beyond the growth we expect from our core revenue segments, we are working towards making our Ultra emission systems' game changing technology essential for meeting state and national air quality goals.

In closing, we very bright prospects for growing Tecogen, and I look forward to sharing developments with you as they occur. With that, I'd like to turn it back over to the operator for questions.

Questions and Answers

Operator: Thank you. (Operator Instructions) JinMing Liu; Ardour Capital Investments.

JinMing Liu: I have a question about your use of proceeds from the [PP] financing from yesterday. You mentioned that you're going to expand your sales team. I just want to understand what kind of sales strategy, what kind of improvement you are going to make to your sales strategy, and where you're going to deploy additional sales forces? Also your relationship with ESCOs.

Ben Locke: Sure. That's a good question. JinMing, I've described in previous calls how we have our sales structure set up. We've got direct sales people, we have manufacturers reps and we have sales agents. Generally, that's how we do it.

What I'd like to do is expand our direct sales force to, in some cases, have a direct sales presence in territories where we might have had a rep before. That gives us much better control over the sales process and specific geography. I can see us expanding our sales team here on the East Coast and also on the West Coast, specifically to get more control over our sales prospects.

Another use, as I alluded to, is the business development activity for our Ultra emission system. Right now Bob is really heading that up from a technology standpoint, but we really need a dedicated business development effort on the Ultra because the potential, as we described here, is so enormous, it is deserving of a full-time effort.

As John Hatsopoulos mentioned at the beginning of the call, we've been purposefully neglecting our IR and marketing efforts because simply the resources needed to be deployed in a much more functionally direct way. But we hope to do more with that, with investor relations and marketing, again, as Dave mentioned, those are costs, of course, but the costs that are needed ultimately to grow our revenues to where we want them to be.

You had a second part of your question, JinMing, that I don't recall what it was. The ESCOs, right. Yes, ESCOs are a great way -- We're working directly with ESCOs with our direct sales team and also with our manufacturers representatives. It really is tremendously important, as you can guess.

There are some very top name ESCOs out there that have chosen our products, and it's very important that we give them the attention and the performance that they are expecting in our units so they continue to spec us. That is a very important piece of our sales strategy that I expect to increase going forward.

John Hatsopoulos: Ben, maybe you should also mention that Johnson Controls just put out a press release naming our equipment as part of their effort for a school system.

Ben Locke: Yes, Johnson is one of the ESCOS, one of the larger ESCOs that are out there. These ESCOs typically work with school systems. They will come in there and they will provide solar, they'll replace windows, put up some insulation, but increasingly, CHP is a core part of their overall efforts with -- They will swoop in and do an entire K through high school building. That is something Tecogen or some of the smaller ESCOs can never do, whereas one of these larger named ESCOs can come in there and do that. It's a good relationship. We hope to keep it going.

JinMing Liu: Okay, good. Just one more question. Regarding your Ultra system emission, you started some mobile applications. What market your offerings are targeting? Is that the larger class truck or some smaller truck market?

Ben Locke: Yes, we are not going straight for the trucks and the buses and things like that. As you can imagine, that's a pretty significant reach. But there are light industrial mobile engines out there, things that scoot around on four wheels but aren't on the highways, that are already being targeted for their poor emissions. We're working with a government agency --

Bob Panora: A collective from an industry.

Ben Locke: Yes, right. That has been brought to task on this for, again, these light mobile engines that scoot around. It is a perfect fit for our technology. The engine scale is about the right size. It's a good medium stretch of the technology, that if we can show that, then you start to contemplate larger engines, as I mentioned before, like bus fleets, trucks, things of that nature.

We are being, I think as I described before, very careful and deliberate with each new field of use to make sure the technology works, but more importantly, number two, we have intellectual property in place, all of our patents in place so we can slowly start expanding our IP portfolio.

JinMing Liu: Okay. Thank you.

Operator: (Operator instructions) Ralph Wanger; RW Investments

Ralph Wanger: I noticed last week that there was an outbreak of Legionnaires disease in New York City due to people using cooling towers. Is there a way to replace those cooling towers with our product?

Ben Locke: Yes. Cooling towers, yes, they are outside of our scope. Any building that has a big, large air-conditioner has a cooling tower that we utilize. That is outside of our realm, except to say when we do a Chiller installation we typically inspect the cooling tower and inform the building if it, for any reason, has any deficiency. So, not directly, Ralph.

Ralph Wanger: Thank you.

Operator: (Operator instructions) There appears to be no further questions at the moment. I'd like to turn the conference back over to management.

Presentation

Ben Locke: That concludes our discussion of Tecogen's second-quarter results. For those of you that are interested, we did put a press release out today about some more specifics of Ilios. I will be spending just a few minutes now talking about that press release, some of the highlights of the Ilios, and some of the financials that Dave will go over.

Again, referring to the press release that we put out today about Ilios Dynamics, which of course, is a majority-owned subsidiary of Tecogen, we had some tremendous results with Ilios, as I described before, in the second quarter. In fact, Ilios had its first positive quarterly net income during the quarter, as a result of the orders we've received.

Nine gas heat pumps were shipped, and the highest single quarterly shipment total since the Company's establishment. As I mentioned, the backlog of Ilios is more than double of any previous year, on track to surpass \$1.2 million in revenue.

We previously announced to review and analyze the acquisition of remaining non-controlling interest by Tecogen. That process has begun. I'd like to turn it over to Dave to describe that in a little bit more detail.

David Garrison: Thank you, Ben. First off, in the press release we included three years of financials and the first six months of 2015. We were hoping to supply this information to show the success of Ilios over the last three years and to understand why now is the time to buy the last piece of non-controlling interest by Tecogen.

Ilios earned its first profit in the second quarter and that is an exciting outcome. I want to just let everyone know that we have started the valuation process and the independent committees of each Board has been formulated to assure that the transaction can occur in an orderly fashion and with the correct evaluation. If there are any questions on the line about this or about the Tecogen call, you can get back in the queue and ask those questions now.

Questions and Answers

Operator: (Operator instructions) Ralph Wanger; RW Investments

Ralph Wanger: Given the size and importance of the California market, I see a lot of results from you guys for New Jersey and New York City and nothing building market in California. Why is this?

Ben Locke: Yes. The utility tariff structure, Ralph, in California is extremely complicated. They have a number -- they will never admit it, but they are cogen killer type tariff structures. What do they call that, push passing tariffs, Bob?

Bob Panora: Time-of-use.

Ben Locke: Time-of-use rates.

Bob Panora: Rates that are skewed to be anti cogen and anti-efficiency, really.

Ben Locke: Right. They're not as progressive as the utilities in the Northeast, ConEd, Eversource, in terms of their tariff structures. It's extremely complicated to unravel that. Fortunately, we've got a guy out there that has the experience and knows how to untangle these tariff structures.

But at the end of the day, sometimes the economics aren't there because the rates, once you get through all of these particular tariffs, aren't as strong. With all that said, Ralph, as part of our increased sales effort we are going to be spending a lot more time in California and trying to increase our activity out there.

Ralph Wanger: Okay. That seems to be very peculiar because California has such tight standards and yet you can't, they are keeping you from putting your equipment in to fix it.

Bob Panora: Ralph, this is Bob Panora. We actually -- this now is a new thing that we can actually meet the regulations, only about a year and a half, two years ago. Before Ultra we would have struggled, certainly in Southern California.

Part of the problem is that the cogeneration market in California was dormant for 2008 until the arrival of Ultra. Now the rep structure, the quotations, all that stuff is becoming more active, whereas it had gone to sleep because of this punitive emissions situation. It is definitely reawakening though.

Ralph Wanger: Okay.

John Hatsopoulos: Ralph, this is John Hatsopoulos. The battle we've got from utilities in Southern California, and actually Northern California mostly, it was unbelievable. They came up with stories -- I am talking now if you years ago -- that we'd end up killing maintenance people by starting our equipment when they were working, which is impossible to happen. It's an amazing story. With their new technology they lost all their arguments.

Ralph Wanger: Okay.

Operator: Roger Liddell; Clear Harbor Asset Management.

Roger Liddell: I want to pursue the Southern California air quality issue situation with a couple of questions. Can you give us some texture on the issue of whether Ultra could be designated Best Available Control Technology. If so, my understanding is that that sets the standard. What are the implications of that? What is the probability of being designated BACT?

Bob Panora: I'll answer that, Roger, this is Bob Panora. Last month I visited the South Coast regulators for a meeting. We were talking about this issue and others. They informed us that they had gone to one of our permitted sites, our cogeneration sites that were Ultra-equipped, and they are now proceeding their case to make our system Best Available Control Technology. That has started.

Now, they also said this will be, it's not publicly, the hearings haven't been started for it, but it will be quite opposed by people who don't have this technology. It will be a protracted situation. But they did visit our system, they looked at the results, they were very impressed, and they're going to pursue that. So let's see where it goes.

The implications are that, currently in California, engines that don't drive electrical generators are BACT is much higher than electrical generators, cogen has a much lower standard. What will happen is eventually is that other engines in California, water pumping and so forth, if it now has to BACT, the regulation will require it to meet our BACT, the new BACT which is a much stricter number, four or five times more strict.

That is the implication. Of course, BACT is something that is a national standard that EPA puts forth. That could become something that moves across the country. I mean, that is a long time coming and a lot of hearings, and so forth, between that time, but that's how these things progress.

Roger Liddell: All right. You had alluded in an earlier conference call to meetings with engine manufacturers, and I believe on this call you spoke of a consortium, an industry consortium. I don't know if the two entities are the same, or the engine manufacturers are part of the trade association, but is there anything you can comment on regarding the likelihood of a household name, whether overseas or US, offering as an option or standardizing on Ultra?

Ben Locke: Yes, I can start to answer that question and then, Bob, feel free to jump in. The consortium we were looking at is different than the discussions we have been having with the engine manufacturers. The discussions we have been having with the engine manufacturers reflect these companies', many of

which are international, not US-based, concern about their products operating in the United States, based on this increasingly stringent environment for emissions.

These discussions were initiated with that in mind and Tecogen, understanding their engines and is providing them with the possibility of how we could retrofit their engines in a larger-scale capacity so that they could continue to operate in the United States. Instead of a retrofit, it might be part of their actual manufacturing process.

All of those discussions, as you can imagine, are a little delicate, certainly preliminary from any action item standpoint, but a very important part, strategically, of how we choose to bring the Ultra to other engine platforms.

Roger Liddell: All right. Thank you. If I could follow up with what you stated earlier in the call on Ilios, there were sales in Hawaii, given their electric load issues and cost levels, electric prices in Hawaii, I can't believe this isn't a large opportunity. Can you give texture on the slope of activity in Hawaii? And by their nature, Caribbean islands typically have diesel generation and expensive electricity. This should be another great opportunity. Can you give any texture to those two locations?

Ben Locke: Absolutely. Hawaii is a perfect place for Ilios. Propane prices are very high and, as you know, Alex, the whole value proposition for Ilios is to cut those propane bills in half, if not reduce them by two-thirds. So when you go to customers and say, hey, you're going to have to fill up your propane tank once a week instead of twice a week, that's pretty compelling. So these first two units that we sold there, we hope to be just the tip of the iceberg in terms of getting more units installed in Hawaii.

Now, we have been engaging with the utilities in Hawaii to discuss what the right next step could be, and by next steps, I mean, as you said, electric rates are pretty high, it's a perfect market for Chillers and cogeneration, even though the gas is expensive, or the propane, or syngas is what they use there, the electric rates are that much more expensive. So you still have a spark spread, but the spark spread has jumped up another level.

What is very important to Tecogen is to be a little careful and deliberate. We don't want to just start dropping cogen units down there without any type of dedicated service support, because that has been a recipe for disaster. In fact, even in Hawaii, many years ago, 15, 20 years ago, that exactly happen. A cogen manufacturer dropped down a bunch of units, ran out of town and then these units never ended up running and left a bad taste in a lot of people's mouths.

What we are hoping for is by populating, initially with Ilios units and perhaps a Chiller here and there, again, Chiller is a basic HVAC product, you can get people on the ground that know vapor compression and refrigerant, etc. Once we get a critical mass of population of those two products, then we can seriously contemplate putting cogeneration on the ground and having Tecogen factory support in place for it.

That is our model for Hawaii. But, in fact, you mentioned the Caribbean islands, that is the exact model I tend to replicate there. Start off with Ilios, which, again, is a no-brainer, as you mentioned there are expensive fuel sources there, work up to Chillers, get a factory representative there that can support cogent installation. That is the very precise strategy that we're going to be using for Hawaii right now. It is starting to happen in Puerto Rico, and some of the other Caribbean islands are going to be following.

One last bit of color I'll give on that is we have reps there right now. And, again, this is how you do international expansion, you can't just hire a salesman for every one of these far-flung locations. We've got a very capable rep in Hawaii that is perfectly in line with our business plan and he is executing the

strategy there. We have a new rep in Puerto Rico, same thing. Perfectly aligned, he already sold a couple of units for us.

By starting up our southern Florida office, which we mentioned I believe last quarter, we are able now to have that be a touchpad to manage these reps in a very active way. Again, the whole thing with reps is you have to stay on top of them and manage them closely. We're able to do that from our southern Florida office, and Hawaii from our California office. So we really expect a lot of increased sales there.

Roger Liddell: Mexico. Cheap gas coming in from Texas into northern Mexico, the maquiladora plants. We haven't seen anything on that for a while. What are the opportunities there?

Ben Locke: Sure. That one is a great success story for us. We started off with one Chiller at one blue-chip location. They took a chance that it was going to save them a lot of money. Saving them a lot of money. Cheap gas, very high electric rate.

Workers in Mexico aren't too keen on working in 100 degree heat anymore. These buildings need to provide air-conditioning. We now have ramped that up to a few more Chillers to the same customer, a Another blue-chip company down the road -- because these guys all talk, the engineers all get together quarterly and have the discussions -- saw the result, we installed two Chillers there. We're hoping for a third one there.

So it is starting to be a trend in this particular manufacturing area where they have cheap gas and expensive electricity. Natural gas, engine-driven Chillers are indeed much more economic than buying the big electric chillers there.

We've got a rep in Mexico as well. Again, very aligned with our thinking, is actively mining that whole strip of industrial activity. I really hope you're going to see, Roger, more press releases about our Chillers in Mexico. The same as I applied to Hawaii, once we get to some critical mass where we can have a Tecogen factory supported service person down there, you can start contemplating cogen down there.

Roger Liddell: Final question. The large procurement, the Long Island school district that you announced on July 16 with an ESCO -- whether that is Johnson Controls or not, it's not really the subject of my question -- but I welcome that particular contract or that announcement, a memorandum of understanding maybe, with contracts to come going forward. But do you foresee a rise in those kinds of bulk procurement programs versus the one-offs that are troubling to assess in terms of the Company's products and relevance of each one-off to the overall picture?

Ben Locke: Yes. I absolutely hope that we reached the point where you're going to see more of those things. Building relationships with these ESCOs is a very, very delicate thing, as you can imagine. These ESCOs are large and they can swing in one direction or the other very quickly. It really comes down to the interpersonal relationships of our folks and their folks.

We manage that relationship preciously and make sure that we are, of course, doing our job and that everything is performing well, that we give them good competitive pricing and good support all the way through the construction process. Only by doing that on a repeated basis, one project to the next project to the next project, where you get to the point where you're getting speeded in.

I'm hoping I'm answering your question. Suffice it to say, the relationships are very strong. We're paying particular attention to it, in terms of our engineering support, and we hope to see more orders as a result.

Roger Liddell: Thank you very much.

Operator: Alex Blanton; Clear Harbor Asset Management

Alex Blanton: I also have a question about that Long Island contract. I understand that the first part of the contract is the engineering of the 14 units for the six school districts, and that when that is completed and the order for the equipment comes in, as long as these are deemed to be economic, at that point (inaudible) the entire amount of the work. My question is, what is that amount? 14 units? That's quite a bit of equipment. Assuming that all of these units are deemed economic, what would be the total dollar value of that work for you?

Bob Panora: This is Bob Panora. I think you can do the math, 14 units. But in this particular case, this contract or this ESCO, what we've done in the past, and I assume it will be the same case, we will have the engineering revenue, but we will also have a lot of pre-engineered accessories that we'll build in a factory that will accompany the units. In other words, they want to minimize the work in the field so they will buy from us, skid-mounted heat exchanger pump assemblies, they'll buy control panels that control the whole plant, and so forth.

If you look at an earlier press release, not that one but another one, it describes the type of revenue we've got on I think it was a single unit sale, where it was not just a unit, it was also this additional stuff. This sale, the 14 units, will follow, more or less, what I said in that press release.

John Hatsopoulos: What did you say, Bob, in that press release?

Bob Panora: Yes, this is from memory. I believe the revenue from the unit was almost doubled by the amount of material that went along with it with these accessories.

Alex Blanton: To save us from doing the math, could you give us the final number?

Bob Panora: For the 14 units or just one unit?

Alex Blanton: The 14 units that we're talking about.

Bob Panora: I'm a little nervous about doing that. I'd rather --

Ben Locke: Alex, as you can imagine, we can't give you pricing when, in fact, our customer has not even had final pricing and negotiation hasn't occurred yet. It's a little premature.

Bob Panora: Yes.

Alex Blanton: What is per unit? Do you have a per-unit figure?

Ben Locke: Well, if I give you per unit you could just multiply it by the number of units. We're just trying to be a little cautious and protective of our relationship here, and don't want to provide any pricing at this point.

Alex Blanton: Okay. Thank you.

Operator: JinMing Liu; Ardour Capital Investments.

JinMing Liu: One quick question regarding the financials of Ilios. I saw that Ilios has \$1.7 million of accounts payable outstanding, which is relatively large compared to its revenue. Why is that?

Ben Locke: You're looking at Ilios and you're saying --?

JinMing Liu: Accounts payable is \$1.6 million.

David Garrison: Included in accounts payable is the payables owed to Tecogen, so that includes the combined total of the materials that has been purchased by us over time as well as work that's been done at Tecogen for Ilios. That's what that number is. It's really a related party; we tried to truncate the financial statements to make them smaller and more digestible instead of a full-blown audited detail.

JinMing Liu: Okay. Got it. Thanks.

Operator: At this time there appears to be no further questions.

Ben Locke: Okay. I'd like to thank everyone for joining this call. Particularly for the questions. We really do, are happy to answer any and all questions. We'll be having another conference call for the third quarter in a few months.

John Hatsopoulos: As you all know, this is John Hatsopoulos. Feel free any one of you to call me directly at my office and I'll try within a few hours to give you any answers you might have, you might need. Thanks.

Ben Locke: Thank you.

Operator: Thank you very much for participating in today's call. You may now disconnect. Take care.