Tecogen

Second Quarter 2018 Results

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Operator: Greetings and welcome to the Tecogen Second Quarter 2018 Results Conference Call.

At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Bonnie Brown, Chief Accounting Officer. Thank you. You may begin.

Bonnie Brown: Thank you, Michelle [sp].

Good morning, and thank you all for joining our second quarter 2018 earnings call. On the call with me today are Benjamin Locke, our CEO, and Robert Panora, President and Chief Operating Officer.

Before I begin, I'd like to read our Safe Harbor statement. This conference call and any accompanying documents containing forward-looking statements, which may describe strategies, goals, outlooks and other non-historical matters or projected revenues, income, returns or other financial measures that may include words such as believe, expect, anticipate, intend, plan, estimate, project, target, potential, will, should, could, likely or may and similar expressions intended to identify forward-looking statements.

These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements.

In addition to those factors described in our annual report on Form 10-K and our quarterly reports on Form 10-Q under risk factors, among the factors that could cause actual results to differ materially from past and projected future results are the following - fluctuations in demand for our products and services, competing technological developments, issues relating to research and development, the availability of incentives, rebates and tax benefits relating to our products and services, changes in the regulatory environment relating to our products and services, integration of acquired business operations, and the ability to obtain financing on favorable terms to fund existing operations and anticipated growth.

In addition to GAAP financial measures, this presentation includes certain non-GAAP financial measures, including adjusted EBITDA, which excludes certain expenses as described in the presentation. We use adjusted EBITDA as an internal measure of business operating performance and believe that the presentation of non-GAAP financial measures provides a meaningful perspective of the underlying operating performance in our current business and enables investors to better understand and evaluate our historical and prospective operating performance by eliminating items that vary from period to period without correlation to our core operating performance and highlights trends in our business that may not otherwise be apparent when relying solely on GAAP financial measures.

I'll now turn the call over to Ben for a business update.

Ben Locke: Thank you, Bonnie.

So, as the agenda indicates on Slide 4, I'll start by reviewing the company's performance and financial results for the quarter along with recent achievements and accomplishments. Bob will then give an overview of our emissions technology development followed by Bonnie with more detail on the financials. I will then have some final remarks before we take questions.

As always, I'd like to remind investors who may be new to our company about Tecogen's core business model, shown on Slide 5 - heat, power and cooling that is cheaper, cleaner and more reliable. Our proprietary technology for improving efficiency, emissions and grid resiliency is truly disruptive to the traditional methods of heating, cooling and powering buildings and infrastructure.

Turning to Slide 6, the second quarter of 2018 saw revenues of $8.5 million, an 11% increase over the second quarter of 2017. This brings our trailing four quarter revenues to $37.4 million, an almost 33% increase year-over-year. Resulting trailing four quarters gross profit was $14.1 million.

Trailing four quarters adjusted EBITDA, which is more representative of the cash flows, was a little over $800,000, only slightly lower than the previous year. As shown on the chart, our previous eight quarters of EBITDA positive operations demonstrate the sustained steps to profitability on an annualized basis.

ADG Energy production revenues came in at approximately $1.5 million for the quarter, generating approximately $669,000 of profit.

Moving on to Slide 7, in addition to the 11.4% increase in revenues, we achieved total gross margin of 37.4%, helped by strong product margins of almost 40% and hindered slightly by lower installation margins for the quarter, which impacted service margins. Our operating expenses for the quarter were also higher by 17% quarter-over-quarter. While a number of factors drive our operational expenses, notable increases are in our R&D investment and our selling expenses.

R&D expenses are increased substantially to approximately $410,000 primarily, related to our emissions technology development efforts. Sales expense also increased as we initiated a robust new sales generation tool at the beginning of the year. Increases in both of these expense categories are deliberate and important investments in the future of Tecogen, which will ultimately create substantial value to the shareholders.

Takeaways from the quarter are that our revenues are still growing, margins are still strong, and while our expenses have increased, the investments in emissions R&D and sales growth are part of our overall value creation strategy at Tecogen.

Moving on to Slide 8, I like to review some of the notable achievements for the quarter. First, in terms of product development, as announced last week, we obtained an important certification that is required by the State of California for interconnection to the utility but ultimately is expected to be adopted by many other states in the future. UL 1741SA was developed to help meet critical needs of the utility when a large amount of distributed generation is an operation on the network.

Regardless of if the DG is wind, solar, our own CHP equipment, the utility needs to constantly react to grid perturbations such as frequency events or sudden power factor needs rapidly in order to maintain good stability. For example, in Germany, the large abundance of solar makes it challenging for the utility to react to changing output from the solar. When the ray is obscured or otherwise curtailed, the main utility must respond accordingly. The more unpredictable the DG out there, the more difficult it is for the utility to maintain stability.

UL 1741SA, otherwise known as the smart inverter certification, establishes operating conditions and communications between the DG asset and utility, which allows better response to grid instabilities. It basically allows the utility to interact with the DG asset, whether it be solar or CHP, as it would similar to our neighboring power plants, allowing the DG asset to be reliably ramped up or curtailed depending on the controlled features or the real-time needs of the grid.

The 1741SA certification is required by California utilities to help prevent brownouts or blackouts that result from grid instabilities that might otherwise have been avoided if the DG assets available were tasked to assist in frequency response, power-factor correction, demand response or other grid support programs. Importantly, having this smart inverter certification will allow Tecogen projects to participate in these revenue generating utility programs, thereby creating additional economic benefit to the site.

By virtue of Tecogen's CERTS micro-grid feature, we can also integrate battery storage operated and controlled by our inverter electronics, allowing an additional revenue stack to the foundational CHP economics.

Ultimately, the smart inverter certification, when combined with our CERTS micro-grid feature and underpinned with the best foundational CHP economics for our InVerde e+ and the near-

zero emissions of our Ultera emissions technology, make Tecogen systems the best, most cost effective choice for customer savings, utility acceptance, stability from grid fluctuations, a near-zero criteria emissions of air pollutants.

Next, we recently upgraded and rebranded our induction line of CHP equipment, the Tecopower System. As a reminder, these 60 and 75 KW CHP systems do not provide the grid outage operation of the inverter or the other micro-grid features are inverting, but has been the workhorse of Tecogen CHP systems for decades in terms of reliability and customer savings. Given the success of the inverter upgrade to e+, we upgraded several features of the Tecopower System to ensure it has the best technology, emissions and savings of any other induction CHP product in its class. Specifically, the new Tecopower has a higher electrical efficiency which equates to higher savings, lower required gas pressure, which is very important in city environments, and lower noise operation, which is always important to customers, and of course, all with near-zero emissions by virtue of our Ultera emissions technology.

We did a soft launch of the product earlier this year and now are rolling out the improved Tecopower product out more broadly. We anticipate a strong market response to the product, particularly for projects that do not require a black-start operation or micro-grid functionality.

And lastly, on the product side, in response to the overwhelming success of our Tecochill product and grow operations, ice rinks and other HVAC cooling projects that are hampered by very high electric grades, we're exploring the potential for expanding our gas engine cooling technology. Many large HVAC systems rely on circulated refrigerants to accomplish comfort cooling and/or sub-zero cooling such as ice or cold storage. In this case, our current Tecochill products are not a fit as they circulate chilled water or directly chilled air, more common in hotels and large buildings but not for industrial sites relying on circulated refrigerants.

In response, Tecogen is evaluating resurrecting our natural gas engine refrigerant cooling product. This product is already developed, deployed and serviced in several historic locations though the product line was halted, the manufacturing product line was halted when gas prices increased many years back. However, market factors have overwhelmingly indicated that reviving this technology would have tremendous and immediate industry benefit, particularly for projects with high electric operating cost because incumbent electric refrigerating systems are too expensive.

Reintroducing this product will dramatically increase the market potential for Tecogen gas engine cooling as projects increasingly turn to natural gas cooling instead of electric cooling. And importantly, we are already working with many of the engineering firms that are involved

in large scale industrial cooling projects, so the channels to market are already well established. I will share more about this potential expansion of our gas cooling technology later this year.

Turning to sales, we're continuing to get strong market pull from indoor growing facilities. Using natural gas to cool these facilities substantially and cost effectively lowers the electric needs and operating costs of the site, while the heat recovery is typically used for supplementary heating or dehumidification. As seen in our recent press releases, we had sales in the grower markets, ice rink markets, as well as gas company headquarters for our chillers. We expect more orders for our chillers and CHP systems into this expanding market in the coming quarters.

Next, we had the first of what will eventually be several projects with a prominent ESCO, an energy services company, commence at a high school. We had previously conducted engineering analysis of this and other sites for this ESCO, and we anticipate orders for additional equipment as the other site projects are initiated.

We have also completed the engineering design for a 1 megawatt trigeneration system with a different ESCO. In this case, we will deploy multiple InVerde systems to provide power and cooling to a data center with very high electric rates. This project is expected to move forward in early 2019, so I'll talk more about it as that approaches.

And lastly, on the emission side, we announced this morning that we received a U.S. patent for a customized catalyst formulation developed specifically for the Ultera emissions reduction process. The patent covers the material composition and manufacturing method used in its production and is essential when contemplating the use of Ultera or any other emissions system involving fuels with high sulfur concentrations that can cause corrosion and shorten catalyst life.

Next, earlier in the quarter, we obtained a Japanese patent on our Ultera technology, thereby allowing us freedom to develop and commercialize our Ultera emissions technology in Japan, a strategic market when thinking of engine and vehicle manufacturers.

And as we indicated in our last conference call, we reviewed the final results of our fork truck emissions program with PERC, the propane industry sponsor, and a fork truck engine manufacturer. We recently received positive feedback from the manufacturer with next steps being developed for additional deployment and testing. We are very excited by this development and the prospect of partnering with a prominent manufacturer to develop a near-zero emissions propane fork truck.

Bob will talk more about these developments as well as the ongoing work to adopt Ultera for vehicle emissions in just a few minutes. In all, a very busy and productive quarter from all parts of our business.

Moving on to Slide 9, our backlog continues to grow as a result of our product and sales accomplishments that will ensure the success in future quarters. Our backlog stood at $14.2 million at the end of the second quarter and is currently at a record $21.3 million as of a few days ago. And as I mentioned, chiller unit sales account for a substantial portion of this backlog as the HVAC industry increasingly recognizes the tremendous potential and value of so-called mechanical CHP for cooling instead of traditional electrical equipment.

As the pie-chart indicates, the key markets for our products continue to be multi-unit residential, particularly for our CHP systems, as well as core markets like hospitality and recreation, healthcare and industrial manufacturing. As a reminder, our backlog number consists of product and installations but does not include our steady growing service revenues.

I'd like to now turn the call over to Bob, who will describe our emissions progress in more detail, followed by Bonnie with some more detail on our financials. Bob?

Bob Panora: Good morning and thank you, Ben.

My discussion today will cover our initiatives pertaining to the emission system technologies that I've reported on regularly. I will first review progress regarding our research program to develop a low-emissions fork truck. As discussed in our Q1 earnings call, the program was just about complete. The Ultera fork truck performed very well in our testing, and we were about to host a meeting with the manufacturing partner for detailed design review and demonstration. That meeting has taken place and went very well, and the follow-up has been positive, which I'll discuss more momentarily.

Secondly, I will provide the status of our automotive program, which is underway with a subcontractor. And then lastly, I will update a few miscellaneous items in the emissions area, and I will comment about the UL certification just mentioned by Ben, as I believe this to be an important bellwether for distributed generation in its relationship to the electric grid.

So, let's begin with the fork truck. The funding program, which lasted 16 months, was completed in June with our final report submission to our sponsor, the Propane Education & Research Council, PERC. The report detailed the modifications made to a fork truck supplied by a prominent manufacturer, and of course, the impact of the Ultera device on the emissions. They're very complimentary of our effort and results, and I believe they recognize that our

system is highly effective, practical and very much needed to preserve their long-term market presence.

I've discussed the market performance in some detail. I won't do so today except to say regulations are getting tighter, especially in California. Owners need to maintain fleet emissions profiles within targets, and manufacturers are required to meet stricter standards for what they can sell.

But, even without the regulatory drivers, preserving indoor air quality is an increasing priority, it's a given. A near-zero emitting propane fork truck would, for many, be preferable to the battery-powered alternative, which may fall short operationally in their application.

In late May--so, we hosted in late May a group of executives and engineers from the manufacturer and several managers from PERC. We demonstrated the system and provided a detailed design review. As I mentioned, it went well. And the follow-up for the meeting was that the manufacturer would internally review what they had seen with others, the most prominent being the engine specialists that they use, and determine if the company would move forward.

We are pleased to report, as Ben mentioned, that we did get a positive reply. The manufacturer has informed us that their decision is to proceed further with the program, with the next steps being to provide us with engineering support to enhance the prototype, which will be followed by its relocation to their facility for evaluation on their test track, so very good news.

At the request of PERC, we submitted a scientific paper describing the program and the emissions reduction results for the WORLD LPG Forum in October. We'll put more about this on our website later or a press release, but this is the premier global event for the LPG industry. Liquefied Petroleum Gas is LPG, which is commercial propane. We were informed that our paper was accepted for the presentation of the conference, which is a good opportunity for showcasing the technology to other manufacturers and applications.

So, moving on to our gasoline automotive work, our development effort continues under the company funding subcontracted to the independent institute that specializes in Powertrain research. Their early work has identified a specific course of research to enhance the Ultera process, which they are pursuing. This involves a new type of multi-layer catalyst that is used in other applications. They believe the material, if configured for our application, should increase the effectiveness of our NOx removal, which, of course, will be a major benefit.

Lastly, I want to update listeners on a few of the miscellaneous items. In June, the company was informed that our Ultera patent was granted in Japan. The patent gives Tecogen exclusive control over the technology in Japan and augments our present patent portfolio, which also includes the EU, North America and Australia among others. More recently, the company was informed that its patent application for the corrosion resistant catalyst was granted by the U.S. Patent Office.

This is an entirely different aspect of the Ultera technology--the Ultera intellectual property, which we haven't discussed previously. It involves a specialized Ultera catalyst material developed by the company with an outside firm that specializes in this catalyst material development. The patented catalyst achieves excellent performance while being nearly impervious to corrosion created by sulfur and other compounds found in some fuels that are important to us in expanding Ultera applications - gasoline, biofuels, and natural gas and propanes in some cases.

Lastly, I want to wrap up by talking about the August 7 press release, which was the UL 1741 A. So, this new certification marks a break in tradition in how utilities treat distributor generation. In all previous revisions of this standard, DG sources were being certified with hairpin triggers to disconnect with even minor perturbation in the grid power quality.

The philosophy of the utility protection engineers was, if the grid has any sign of distress, which could cause from transformer failure or other things, the first order of business was to disconnect all the DG sources or get off the grid immediately. The flaw in this reasoning became apparent when DG sources became more substantial in number. A grid disturbance could lead to a large portion of the grid's power being lost as all these DG units simultaneously disconnected.

The new SA certification reverses this philosophy by requiring the inverter to remain connected unless the disturbance is substantial and prolonged. However, the certification goes further. It requires the inverter controls to be able to alter the operation of the DG system to help the grid be maintained. For example, the utility can ask the inverter to reduce its real power while increasing its reactor power output or vice versa and, of course, turn on and off. Moreover, the later phases of the certification require the incorporation of a communication protocol, Internet-based, that will allow the DG inverter to communicate with the utility computers in real time. As such, the utility will have a command-and-control capability over the DG system.

This is an interesting development as it will provide the technical foundation for DG assets to be an integral part of the grid, very much like power station but, of course, much smaller. The way this could manifest, and we believe it will, is that the inverting owners will be compensated by

the utility to provide various support functions as required, turn on, turn off, alter power quality and so forth, to compensate for inadequate resources on the grid.

Importantly, the reason that local grid maintenance may be required is the variability of other DG sources like solar and wind. This puts us in a particularly good position for grid support since we're not dependent on a variable energy input. Thus, while solar or wind output may suddenly sag locally, causing voltage browning and so forth, the InVerde could step in to offset this effect. Down the road, we expect to see additional revenue streams of this sort as DG becomes a mainstream part of the power system that is manipulated in real time for grid benefits. So, if realized, the interactive status will be significant, positive change from our outsider status we've had in the past.

We are still awaiting news on the last--I noticed on my slide--about the California state proposal that'll be announced in October.

And with that, I will return to Bonnie Brown.

Bonnie Brown: Thank you, Bob.

Moving on to the second quarter's results, slide 13 contains some of the highlights of the year-on-year financial results. Total revenues for the quarter increased by 11.4% compared to Q2 '17. On a trailing four quarters basis, total revenue growth was 33%, reaching a record revenue level of $37.4 million compared to $28.2 million for the same trailing four quarters period a year ago.

Total service revenue grew 21% for the quarter compared to Q2 '17 and continued its steady growth, delivering more than half of our product and service revenue for the quarter. Long-term service contracts and parts sales decreased slightly by 2.6% on a year-over-year basis and continue to provide its reliable annuity-like revenue stream.

Energy production revenue from our ADG sites contributed $1.5 million to our revenue for the quarter. This revenue stream adds an important second source of annuity-like revenue and cash flows with its long term contracts.

Product gross margin was 39.9% for Q2 '18 compared to 36.9% for Q2 '17, an 8% improvement in product gross margin year over year. Service margin was 33.6% for Q2 '18 compared to 37.6% for Q2 '17. Installation projects, which carry a lower margin than service maintenance contracts, were a higher percentage of the product mix as compared to the same period last year, bringing the overall service margin down on a comparative basis.

Energy production activities from the ADG fleet provided a 44.3% gross margin and $669,000 in gross profit, bringing our overall consolidated gross margin to 37.4% and consolidated gross profit to $3.2 million for Q2 '18 compared to 39.3% and $3 million for Q2 '17, an increase of $173,000 or 5.8% in gross profit year-over-year.

Net loss attributable to Tecogen for the quarter was $754,000 compared to a comprehensive loss of $518,000 for Q2 '17, an increase of $236,000 of loss. As Bob discussed earlier, we have invested heavily in research and development activities. These costs for Q2 2018 amounted to $410,000 compared to $219,000 for the same period in 2017, an increase of $191,000, which is included in our operating expenses for the quarter.

Additionally, selling expenses increased $28,000 year-over-year as we invested in sales activities. This, together with the fact that our general and administrative expenses in Q2 of 2018 included a full quarter of ADG's operations compared to Q2 '17, which included only about six weeks, accounts for the $236,000 of additional loss year-over-year.

Net loss per share was $0.03 for the second quarter of 2018 and $0.01 for Q2 of '17. It should be noted that the 2017 calculation of loss per share excludes the effect of the unrealized loss on investment securities, giving rise to the comprehensive loss in that year.

Slide 14 presents backlog and historical adjusted non-GAAP EBITDA. On the left is our weekly backlog chart of product and turnkey service projects. At the end of Q2 '18, our backlog was strong at $14.2 million and is currently at $21.3 million as of Friday, August 10. Backlog at the end of Q2 '17 was $12.7 million. As always, backlog does not include a projection of service contracts or energy production revenues.

Looking at the schedule on the right, our adjusted EBITDA was negative for Q2 2018 by $330,000 compared to a positive $64,000 in Q2 of '17, a difference of $394,000. As we continue to invest heavily in the company's future through increased investments in selling and R&D activities throughout the quarter, these two cost categories increased operating expenses by an aggregate of $219,000 year-over-year. Additionally, G&A expenses included a full quarter of ADG's operations in 2018, whereas 2017 was only about six weeks.

Turning to Slide 15, let's review the charts that track our metrics using a trailing four quarters model. Starting with the chart on the left, total revenue for the trailing four-quarter period reaches a record $37.4 million. This chart illustrates the trend of increasing revenue over time in all revenue categories. The energy revenue is represented by the yellow right most bars in the chart, where product revenue is the green bars and service, blue.

The chart on the right side illustrates the growth trend of our gross margin in blue, along with the decreasing trend line of G&A and selling costs as a percentage of revenues over time in green. We expect cost controls and sales initiatives to continue to produce these results.

Overhead cost control efforts continue to remain a focus in 2018. There are, however, two components affecting the dollar rise in our expenses that warrant mentioning. First is the consolidation within Tecogen's financials of the costs associated with ADG's energy-producing operations where a full quarter is included in Q2 '18 and only six weeks in the comparative quarter of 2017. And second, as I've said, is the investment in selling and R&D activities where we are investing in our future.

As discussed in our previous call, in May of 2018, we entered into an agreement with Webster Business Credit Corporation for a secured revolving line of credit for up to $10 million with a term of three years. The availability of funds is based on percentages of the company's eligible accounts receivable and inventory balances. Upon closing this loan, we used the available funds to repay our note due to a related party of $850,000 plus accrued interest, fully discharging our obligations under that agreement. The company continues to use the credit line for working capital and for expansion and growth.

Now I'll turn the call back to Ben to conclude our discussion.

Ben Locke: Thanks, Bonnie.

So, as we look forward to the rest of 2018, I'd like to reiterate some of the trends in market forces that favor Tecogen's clean, reliable distributed generation systems. As utility continues to trend away from a central generation model to a distributed generation, more sophisticated controls and operational flexibility is needed to help maintain overall grid stability. Our InVerde e+ system now has the required certification needed to provide these grid support services, and in conjunction with our microgrid capabilities and near-zero emissions, provides far more reliable, consistent and robust power to an electricity market that is already huge and growing each year. While solar and fuel cells continue to have their place in the DG market, reliable, inexpensive natural gas is the most cost-effective way to displace traditional centralized electric generation.

As I mentioned, we are uncovering many high-value applications for our gas engine cooling technology and expect to grow that segment of our business substantially in the coming quarters. And of course, our emissions technology continues to make progress towards larger market applications such as fork trucks and eventually gasoline vehicles. We anticipate more compelling results in our emissions program in the coming months, and we'll share developments as they occur.

I am very happy with how Tecogen is positioning itself for the coming years. Our fundamental business is strong and growing. Our product advantages are well understood and embraced by the industry. And our emissions technology offers tremendous upside and value creation for our shareholders. It is a great time to be a Tecogen shareholder, and I hope to continue our tremendous achievements throughout the rest of the year.

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

Operator: Thank you. We will now be conducting a question-and-answer session. In the interest of time, we ask that you please limit yourself to one question and one follow up and welcome you to rejoin the queue for any additional questions you may have. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question comes from the line of Craig Irwin with ROTH Capital Partners. Please proceed with your question.

Craig Irwin: Good morning and thanks for taking my question.

Ben Locke: Morning, Craig.

Craig Irwin: Hi. First of all, I should say congratulations for that $20 million-plus backlog. That's a big achievement there.

Ben Locke: Sure.

Craig Irwin: So, the question I wanted to ask you guys is chillers seem to be gaining momentum for you. Can you maybe give us a little bit more detail about the attributes of the product? What's differentiated versus other chillers available in the market, because there's many, many other options for people to choose. Why are they choosing Tecogen? And is there an opportunity maybe to diversify this offering and catch more wind in the sails?

Ben Locke: Yeah, a great question. Indeed, we're finding a niche with this stuff. So, there's electric chilling, of course, which is kind of ubiquitous, these air source and water source electric units that are out there - tremendous, billion-dollar industry out there. Our Tecochill is obviously different because we're using natural gas to run it instead of electricity, and of

course, that's the whole value proposition is your electric meter's turning that much less, albeit with a gas chiller instead of electric chiller. There have been--there are other ways to chill with natural gas, but typically, it's something called absorption chilling, and what that typically does is either fires natural gas into an absorption chiller and at a very low efficiency will get you some chilled water. A lot of time, very large cogeneration systems like a megawatt or a 2-megawatt system will take all that heat and put it in the absorber to make chilled water.

Now those--these absorption chillers are, again, very inefficient, and it's kind of the installation of last resort to use that hot water. That often gets confused with our Tecochill. That's why I went to the effort of explaining that to you. Our Tecochills are different than these absorption chillers. These are direct natural gas-fired engines driving the compressor, and then after that, it looks just like an electric chiller. From the neck down, the evaporator, the condensers, all of the footprint, all the connections are very much the same as an electric chiller. It's just that we have our engine and our natural gas feedstock in front of it.

So, at very high COP, much, much higher than these absorption chillers, so very efficient. Again, you get the hot water by-product, which only adds to the value proposition. And most importantly, Craig, we're the only ones that are doing it these days. There had been others that had done it in the past. I'm looking at Bob. But, I think when refrigerants changed and then the

complexity of this is such that we're the only ones that have stick--and importantly, it's because the size range that we're operating in is really a niche.

So, right now, we don't have much competition, much at all, except for electric chillers. People just want to conveniently put in electric and forget about the utility bill for the next five years. And what we want to tell them is, you should actually be thinking about that utility bill not for the next five years but the next 15 years and the really compelling savings of using natural gas instead. And as I mentioned, I think the market is ripe for expansion of this. There is a compelling need for alternatives to electric chilling, and the gas companies are all for that. I mean, the gas companies wake up every day and say, how can I displace more electric? Well, that's the same thing that we do. We wake up each day and say, how can we displace electric chilling. And our Tecochill chillers are doing it, and I think if we're successful revitalizing this refrigerant technology, it's going to only increase that market potential for our natural gas systems. So, hopefully, that answered most of your question, and if not, please reiterate any part that I didn't.

Craig Irwin: No, that captures it really well. Thank you for that. If I could ask a second one, I wanted to ask about the Ultera emissions technology. You guys have been vocal out there, presenting papers and working with a variety of interesting customers there. Can you maybe outline for us briefly sort of what you're looking at as items you expect to accomplish over the

next handful of quarters related to the commercial prove-out and commercial launch of this technology and potential time line for us to either see direct product revenues or license revenues related to Ultera?

Bob Panora: Yeah, I'll take that. It's Bob Panora. My anticipation over the next few quarters is we really want to get a commercial agreement with our fork truck friends. And that will mean that the technology has passed an important milestone as far as others we might be engaged with. And as I said, the propane industry was very instrumental in getting us funding and helping us introduce to these different fork truck manufacturers. I think that's going to be an opening--and I've talked to them, I know this to be true--is that if we have a success in this not huge market of fork trucks, that we would be introduced to the larger markets of natural gas and propane-powered vehicles, which are in a larger class, I think, of stuff.

And so, I think that's--this will be an important edge for us to get into the commercial aspect of the technologies, which is really what we want. And I think the pathway is an easier one when you go through these gradual steps of the fork truck applications to the larger applications that are easier than, say, jumping into automotive. So, I think there's a very good chance that'll be what the short term, what you see in this program.

Ben Locke: And I will just add a little bit on--absolutely correct that the notion of taking this very compelling emissions and our results from AVL that we did last year and everything and go running to an automobile manufacturer and hoping to develop the technology that way, that's a hope, but it's a long road to hoe to go through the automotive industry. And I think we've kind of found that out ourselves. So, a much more pragmatic and I think demonstrating approach is, incrementally, we've got these fork trucks, the technology development to develop this fork truck prototype and to get it deployed is very similar if not exactly similar to the development we'll be doing for gasoline vehicles. So, it's accomplishing the same thing.

As we talked, I believe, in the previous call, you can envision the rollout of the Ultera emissions for vehicles, perhaps not in the billions of billions of cars, but perhaps in a very segmented part of the market that we can address - for example, trucks. Natural gas trucks are getting retrofitted all the time for different customers. A very natural fit would be for us to deploy our Ultera emissions on a vehicle that's otherwise getting retrofitted as a natural gas vehicle, and then there you are. Now you've got a small fleet that's been deployed and out there and accomplished. And I think, pragmatically, that's a better way to get this out there than try to do the end run to--directly to an automobile or OEM manufacturer.

Craig Irwin: Great. Thank you for that. I'll go ahead and hop back in the queue. Congrats again on the backlog momentum.

Ben Locke: Sure. Thanks, Craig.

Operator: Thank you. Our next question comes from the line of Michael Zuk with Oppenheimer & Company. Please proceed with your question.

Michael Zuk: Good morning, Ben and Bob. I have a question regarding the accomplishments in our indoor farming. How many systems have we installed, and what's the number of systems under contract, and how's the backlog looking?

Ben Locke: Sure. Roger [sic], I don't have the exact number of indoor growing facilities at my fingertips. I know it's probably greater than seven, and it could be as high as 10 or 12. I promise you, I'll send you that later. I think I made mention of it last quarter what the count was but didn't add to it. But, suffice to say, we've got plenty more in the backlog, in the queue. I believe I mentioned in the press release that we have a backlog number for specifically our-- these chillers. And I'll tell you, the chiller sales are important for a number of reasons, Roger, which I'm sure you understand, but it's a very transactional sale, meaning that people do this all the time. People hem and haw about cogen systems, but people don't hem and haw about cooling because they have to have it. And so, they can't just ignore it. They buy coolers.

People write checks all the time. It's a part of the natural course of business for industry to work with engineering companies to get their HVAC and cooling solutions in place.

So, we're part of that now, but importantly, we're part of a much more thoughtful process than--I don't want to say unthoughtful process, but more of a--cogeneration is, well, I want it, but do I need it. These are transactional things. They're going to occur. These chillers sales happen quickly. We are making a concerted effort to stay in front of it, to keep inventory. So, if somebody says, I need it in two weeks because my chiller went down, well, we can accommodate that.

So, the growth of this segment, not just indoor growing, but just as the industry starts looking more to natural gas chilling, I think we're really on the coattails of a very strong wave here. So, I think--I hope I answered most of your question. Roger [sic], I'm sorry I don't have the exact numbers of growth facilities, but I can get that back to you afterwards.

Michael Zuk: And then there's a follow-up - is there a particular geography that is amenable to the gas chilling systems?

Ben Locke: Sure. Yeah, another good question. Yes, the old metric of high electric rates and low gas rates applies, the spark spread as we call it. But, because of the chiller and because you

actually can measure the chiller value against the incremental cost of putting an electric chiller in, meaning that they would have had to spend some money, anyways, means that you're not as prone to that spark spread as you were say for cogen, meaning that in areas that the electric rate is maybe not as compelling, maybe $0.09 or $0.10, but as long as you've got a good, solid gas rate, it makes a lot of sense, particularly for our markets like hospitals and healthcare where you can use the hot water derivative.

And again, for the growth facilities, as I mentioned, they use that hot water either for heating the plants or for, more likely, dehumidification. So, when you're able to have cheap natural gas and use both the chilling and the heat recovery, your geographical adjustable market is expanded beyond just cogen.

So, that's the long way of saying you're up and down the East Coast certainly, Roger [sic]. You're up and down the West Coast. But, some of these states with kind of middling electric rates start to come more into play, particularly as the electric chillers kind of--the gas chillers do something else, too. It reduces how much backup power you need. And again, these growing facilities are realizing this, and I think that you have to understand, Mike, that they are concerned about resiliency, as well. So, any type of way that they can cut their power consumption, if they do want to put in CHP or they do want to put in natural gas generators,

you've already probably halved their electric load and therefore halved the amount of CapEx they're going to need to do it.

So, Mike, I think it's a great market. We're pretty happy that we've got as far as we can. The indoor growing is a start. I think what the indoor growing really did for us, and I'll stop here, is allow us to explore how business is done with these engineering companies for a much more transactional process of equipment sale, being cogen, which sometimes tends to be a little more reflective if they go forward.

Michael Zuk: Well, again, congratulations on real progress and look forward to the next quarter.

Ben Locke: Thanks, Mike.

Operator: Thank you. Our next question comes from the line of Roger Liddell with Clear Harbor Asset Management. Please proceed with your question.

Ben Locke: Hi, Roger.

Roger Liddell: Good morning.

Ben Locke: Good morning.

Roger Liddell: A couple of things that you didn't touch on, and I take it it's because they are of less immediate impact than what you were discussing on the call--with the recent change in Florida's regulation for the health care facilities, is there--how should I think about the opportunity in Florida? And can you exploit it?

Ben Locke: Yeah, it is a great opportunity, Roger. It was a tragedy, of course, what happened there. When critical care facilities lose their ability to cool, it's--very bad things can happen. So, indeed, it's an opportunity for our Tecochills and for appropriately scaled-size facilities, and as you know, we don't deal with 50-unit facilities. These are appropriately sized facilities--absolutely something that is--that's needed by them.

We--we're starting up--I believe we mentioned last quarter, but I'll say it again for those who might have missed it. Our 10th service center is going to be in Florida, and in fact, we stood up--that was something that was a little slow to happen earlier in the year, but we have our 10th service center located in Florida specifically for that reason, Roger. We've got a good population of engines already there, a mixture of cogeneration, a mixture of heat pumps and some cogen that warranted us having an individual down there. And as these things go, I think

I've said in previous calls, it starts with a service tech servicing the local population of engines. And then you get another service tech as the population grows, and then those people become a little bit salesman-ish. And then next thing you know, you've got your next kind of localized business segment.

So, that's exactly what we're expecting from Florida. And it's not just Florida. It's the surrounding states as well, Southeastern United States. But, even more importantly, that's really the touchtone for the Caribbean. As I start to carefully think about how some of our products might fit say in Puerto Rico or some of these other areas, Florida and our service people that we set up there is going to be increasingly important.

Roger Liddell: Following up on that specific point, in your prepared remarks, you were speaking of the circulating refrigerant technology. You're still servicing them. They're still alive. And this--in fact, the embers could be blown back into a flame pretty quickly. If Tecochills were difficult--what, I think it's 120-ton and 240-ton sizes. That may have "priced to you" or "sized you out" of a reasonable market. Could the circulating refrigerant technology tap those, I take it, smaller facilities?

Ben Locke: Yes, absolutely, Roger. In fact, one of the real beauties of this product--and you're right, we've got these things out there, and we've got the manuals done. And believe me, a

new product launch is not easy. So, having an existing product that you just--as you said, blowing off the manuals, and you've already got service techs trained--makes it much more practical to do.

And the nature of this technology, without going too much down the detail of it, is it's very incremental. You could attack a very large industrial site and just hit a couple of their electric pumps, circulating refrigerants in that particular cooling area of the building. And then a few weeks later, a few months later, you could do different part. So, you could incrementally deploy this throughout many different type of HVAC systems in a building to allow them to incrementally see the savings, incrementally feel comfortable with gas cooling instead of the electric cooling. And I think Bob wants to add a little bit more onto that.

Bob Panora: Yeah, yeah, so the sizes--I was a little confused when you said about the sizes, Roger. You mentioned 120, I think, 240. The Tecochill is 400 tons, and then 350, then 200, and 150. And if you operate them as refrigeration, low temps, they go down in capacity because that's how the rules work. So, those are sizes of Tecochills. We actually have a smaller air cool version.

Now on the refrigeration side, the industrial refrigeration product that we're thinking about rolling out, that would be about 150-horsepower of engine. And depending on the

temperature of the refrigerant, it could be about 200 tons, or it can be down to 80 or 90 tons if it was making zero-degree ice-cold storage like for ice cream and stuff like that. So, maybe I didn't answer your question. If I didn't, just tell me what--.

Ben Locke: --I think what you're saying is the actual tonnage is related to the temperatures that you're cooling to.

Bob Panora: Right. And the horsepower is what you're selling. You're selling a 150-horsepower or 120 kilowatts whether it converts to electric reduction in the cooling system. In the old--in the sites that we did in the early 2000s and earlier, typically, they would buy six of them or four of them or two of them, and they'd line them up in a storage warehouse, and they'd all feed into header that was distributing ammonia into the cold storage place. So, that's how they're deployed. So, you don't need a lot of sizes. You just need a little space to gang them up.

Roger Liddell: Uh-huh. Great. That's useful. I hope in a future call, there'll be enough developing there for you to update us on it. My last question is I'm trying to understand whether there is an opportunity with utilities themselves, the electrics--my wording would be the utilities used to be intolerant of DG. This was an enemy, it was competition--then grudging

acceptance. And taking your wording today, at least some utilities are somewhat supportive, maybe welcoming, but I would need to hear you say that if that were true.

Ben Locke: Yeah, I think--go ahead, Roger, keep going.

Roger Liddell: Well, no, that's good enough. Can you just--?

Ben Locke: --Yeah, yeah, well, what I was going to say is that Bob has certainly been in this environment far longer than I have and has seen all faces of the utility, the good, the bad and the ugly.

Bob Panora: Yeah.

Ben Locke: My experience has been I've seen utility making far more progressive overtures to embracing this DG so long as it can help, right? I mean, if it helps them, and I think this smart InVerde certification is evidence of that, then they want to be part of the solution, not part of the problem. Would you agree with that, Bob?

Bob Panora: Yeah, that's absolutely the case. The--in general, utilities--I don't know in every state, but like California, for example, the regulations do not permit the utility from owning

generation assets. You can't--they can't--they couldn't own a Tecogen product if they wanted to. I should say SoCal Gas has a pilot program where they have been allowed to do that, but it's still an experimental program. It's not really representative of how the big electric utilities can take action. They cannot. They can't own our products.

Now, I don't know if that's the case everywhere, but I think it's a case in a lot of places. The utilities are prohibited from being owners of it. But, they are now going to be apparently interacting with us as if they were acting with a power station owned by an entity or somebody where they can say, turn on, turn off, increase this, decrease that. I mean, that's to come. And I think that's a great opportunity for us to become part of the club, if you will, no longer an outsider.

Roger Liddell: Well, I noted last week southern company, Georgia Power recorded yet another write-off on their attempt to build the plant Vogtle units. That--it's--the latest hit last week was $1.2 billion, and I suspect there's a lot more to come. Georgia may wind up being an interesting market. That's all I have. Thank you.

Ben Locke: Thank you, Roger.

Operator: Thank you. Our next question comes from the line of Amit Dayal with H.C. Wainwright. Please proceed with your question.

Amit Dayal: Thank you. Good morning, Ben.

Ben Locke: Good morning, Amit.

Amit Dayal: In regards to your comments a little earlier about potentially being close, maybe closing some kind of a deal with the forklift opportunity, could you add a little bit more color to that? I mean, is this something that's imminent? I mean, you guys have been testing it for a few quarters now. It looks like progress is being made. Is this going to potentially convert into an order?

Ben Locke: Yeah. Well, I mean, the hope is--the whole goal, of course, with the demonstrated fork truck and, of course, not just demonstrated with a refrigerator taped onto the roof of this fork truck with all our control, I mean, the whole goal was to show that this is a practical--not only would work but could be a practical inclusion into the truck itself, and look and drive like a normal fork truck, and most importantly, perform like a normal fork truck. So, that has been--that part of it took some time, and that was the part I think that was most--certainly very impressed by the manufacturers. Not only did we get the results that we did, but I think Bob

has shown in the previous earnings call how nicely it fit within the fork truck design. It's modular, and the actual geometry of getting these things in there was significant.

So, what is the next step, and when are we going to get a deal? I think what we want to do now as we get this additional positive feedback, we're going to--and it's very--this is very late-breaking stuff. So, I think we're going to formalize that and to do some type of demonstration, Bob, right? And, Amit, when is it going to lead to an actual deal or structure deal? I can't say for certain, except to say, I see it being a lot more sooner rather than later. I'm not talking a two or three year development program here. I see us very quickly in a few months and quarters' time being able to get these things deployed with the help of this fork truck manufacturer on part of their fleet.

Bob Panora: Yeah, and they're very serious folks. They're not guys who do things lightly on a whim. They're very serious. And so, coming back to us and saying, yeah, we're going to--we've talked to our engine people, we have some ideas how to incorporate this thing to the engine controls with your stuff and so forth, which is what they're talking about, which I didn't talk about in detail, but they're very serious. So, I am hopeful that they're not doing this lightly. They're very serious.

Amit Dayal: [Unintelligible.] And then with the traction you guys have seen with chillers, are you doing anything different on the distribution side to take advantage of the momentum you have and all the other [unintelligible] you're seeing here?

Ben Locke: Yeah, to make sure I understand your question, Amit, you're talking about how we sell and move our product out of the factory. Is that--did I get that right?

Amit Dayal: I'm just trying to see if you are adding any additional channels, any other--.

Ben Locke: --Oh, yeah--.

Amit Dayal: --Creating leverage to take advantage of the acceptance that your chillers are seeing in the market.

Ben Locke: Yes, absolutely. And our team is--the HVAC industry, Amit, is very, very large, as you know, and structured. And it's structured with manufacturers and manufacturer representatives and engineers and ultimately customers, but very well structured and very connected. We are working--what we've done now with the Tecochill, the success we're having is working within that kind of embedded HVAC industry with these engineers and with these

installers to introduce a product which is slightly different, but from their perspective, not heck of a lot. I mean, it's a chiller. I mean--and I know how to install chillers, they say.

And so, it's nuanced in that it's got natural gas, but I think it's an industry that's very mature and sophisticated, as I said before. They do transactions all the time. So, being in that business, that part of business and expanding that segment of our business as we look to maybe do another gas engine chiller product makes me feel very happy that--because I will take those type of sales, where it's an engineering, thoughtful people, and there's no disputing the economics, there's no disputing the efficiencies, etc., we're gonna win more times than not because, fundamentally, we have that stronger economic--certainly have the stronger emissions.

So, I'm feeling pretty confident about that. And again, it's all about partners. We have a partner in New Jersey, for example. It's a great engineering company, D&B Engineering. And they've been helping us sell our chillers for years with fantastic result. They know our stuff up and down. They've been part of the HVAC industry for decades. It's partners like that that are allowing us to be successful. And I think that's the biggest thing I've learned over these past few years as we've increased the sales of Tecochill is that's the way business is done in this HVAC industry. And I think it's a good place for us to be. Certainly, it's a good place for us to expand.

Amit Dayal: Thank you. That's all I have. Appreciate it.

Ben Locke: Thanks, Amit.

Operator: Thank you. Our final question comes from the line of Alex Blanton with Clear Harbor Asset Management. Please proceed with your question.

Alex Blanton Okay. Thank you.

Ben Locke: Hi, Alex.

Alex Blanton: Thank you. Hi. I'll be fast. I might have missed this, but the backlog increased in the last two weeks, up 50%. What is the reason for that? And is that because you just didn't have any shipments that period? Or can we look for that level to continue?

Ben Locke: Yeah, the backlog number that we showed was at the end of the second quarter. So, at 6/30 was that--.

Alex Blanton: --That was $14.2 million, but you said $21.3 million, so--right now.

Ben Locke: Yeah. So, Alex, the backlog--we show two backlog numbers traditionally. We show the backlog at the end of the quarter, and then we show the backlog within a few days of this call.

Alex Blanton: Yes.

Ben Locke: So, the backlog at the end of the quarter was that lower number, and then the backlog of just a few days ago was $21.3 million. So, it's just really over the past few days.

Alex Blanton: Yeah. So, what's the reason for the increase? That's my question.

Ben Locke: Oh, the reason--.

Alex Blanton: What are the orders you got the backlog up by $7 million?

Ben Locke: Yeah. Well, we received in that time between the end of the second quarter and when we took that backlog snapshot, obviously, $6 million or whatever that--$8 million worth of new orders, and I won't go into detail what they are--I know it's a mix of cogeneration. It's a mix of chillers. It's a mix of installation services. But, that account--but, those all occurred between when the second quarter ended and when we took that snapshot just a few days ago.

Alex Blanton: Yeah, is this kind of an unusual thing, and then you can deliver these and it's gonna go back down by the end of the quarter? What's going to happen here?

Ben Locke: Yeah. Well, I think that's kind of why we do it the way we do. Showing the backlog at the end of the quarter kind of shows everything that shipped out, right, because the backlog went from this to that because a lot of things moved out. And that's why we show the backlog of just a few days ago to say, you know what, since the end of the quarter, just in that short period of time, we've grown the business, projected for us over this amount. Now, this was a good little bump-up. We had a good month of orders come through, and that's good, but that's the way it works, Alex.

Alex Blanton: That's not my question, though. My question is, is this a spike and it's going to go back down as you deliver these? What--you probably have a pretty good idea of what orders are going to be coming in because you've been working on them and doing sales stuff. So, can we look for $20 million in backlog by the end of this quarter, or will it be back down to $15 million?

Ben Locke: Well, by its nature, as we deliver products, yes, of course, backlog will go down. If we deliver $1 million worth of product tomorrow, that backlog is going to go from $21 million

to $20 million. But, if I get another $1 million of orders and it goes--so, you understand how it works. So, it's a question of--.

Alex Blanton: --I understand. I'm asking what it looks like. What does the forecast look like?

Bob Panora: Alex, this is Bob Panora. Can you hear me?

Alex Blanton: Yes.

Bob Panora: I just want to make something clear that may not be clear. As that graph ends on August 12--14, it doesn't look that because the--because it says July on the--.

Alex Blanton: --I know, but I'm asking what--.

Bob Panora: --That's really--.

Alex Blanton: --What's it gonna look like in three months? That's my question.

Ben Locke: Yeah, Alex, I've not been in the habit of giving guidance of actual future sales contributions to the backlog. I don't think that would set a good precedence. But, what I will

say is we give updates as large projects come in. We try to deliver press releases. I don't want to issue a press release every time we deliver a little thing. But, certainly, some of these larger products that'll move the needle on backlog typically come with a press release, maybe not immediately, but when we are comfortable with the customer and customer with the--comfortable with the product, we'll put a press release out.

Alex Blanton: Okay. Then finally, on Slide 14, there's a backlog graph. Is that the same backlog that we're talking about?

Bob Panora: Yes, it is.

Alex Blanton: It says product installation services, and you don't have installation services in the backlog.

Ben Locke: No, Alex, if you recall, that--indeed, our backlog is three components, or two components. It's products, and those products could be CHP or chillers, and installation. And the example I've used in the past is a product--equipment-wise--I might ship a bunch of equipment that's worth $.5 million, and that's the equipment value. But, if I were to ship that same equipment but I'm going to install it, as well, if there's an installation component, that project value could be $1.5 million, right, because the installation part is a portion of it. So, that

backlog is product and installation. What it does not include are the service revenue and the energy revenue we get from the ADG asset.

Alex Blanton: Okay. Service revenue's not included, but installation is included. Okay.

Ben Locke: That's correct.

Alex Blanton: So, this is the same backlog. I don't think I've never seen it weekly before like this. That's a very good graph.

Ben Locke: Yeah, I would thank Bonnie for that. She's able to show it quite clearly, and--yeah.

Operator: Thank you. We have reached the end of our question-and-answer session. I would like to turn the call back over to Benjamin Locke for any closing remarks.

Ben Locke: All right. Well, thank you all once again for participating in this call. Again, we're very happy with our results, and I think we have a lot of good things in front of us, and we look forward to sharing with you as we do these things. Thank you.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.