

TECOGEN INC.  
Form DEF 14A  
April 20, 2018

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

SCHEDULE 14A

(RULE 14a-101)  
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ☒  
Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

TECOGEN INC.  
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2)Form, Schedule or Registration Statement No.:

(3)Filing Party:

(4)Date Filed:

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TECOGEN INC.  
45 First Avenue  
Waltham, MA 02451

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held Wednesday, June 6, 2018

TO THE STOCKHOLDERS OF TECOGEN INC.:

NOTICE IS HEREBY GIVEN that the 2018 Annual Meeting of Stockholders of Tecogen Inc., a Delaware corporation, or the Company, will be held at the Company offices located at 45 First Avenue, Waltham, Massachusetts, 02451, on Wednesday, June 6, 2018, at 1:00 p.m., local time, for the following purposes, as described in our Proxy Statement:

1. To elect six directors to the Board of Directors of the Company to hold office for one year until the 2019 annual meeting or until their successors are duly elected and qualified.
2. To ratify the appointment of Wolf & Company, P.C. as the Company's independent registered public accounting firm.
3. To transact any other business which may properly be brought before the Annual Meeting or any adjournment or postponement thereof.

All stockholders are cordially invited to attend the Annual Meeting of Stockholders, or the Annual Meeting. Attached to this notice is a Proxy Statement relating to the proposals to be considered at the Annual Meeting. The Board of Directors has fixed the close of business on April 20, 2018 (5:00 p.m., U.S. Eastern Time) as the record date, or the Record Date, for the determination of stockholders entitled to receive notice of and to vote at the Annual Meeting or at any adjournment or postponement thereof. A complete list of these stockholders will be open for the examination of any stockholder of record during ordinary business hours at the Company's principal executive offices located at 45 First Avenue, Waltham, Massachusetts, 02451 for a period of ten days prior to the Annual Meeting. The list will also be available for the examination of any stockholder present at the Annual Meeting.

If you are a holder of record and plan to attend the Annual Meeting in person, please bring photo identification. If your shares are held in the name of a broker, bank or other nominee, please bring with you photo identification and a letter from the broker or other nominee confirming your ownership as of the Record Date. If you wish to vote your shares at the Annual Meeting, the broker, bank or other nominee must provide you with a proxy or power of attorney. Your vote is important. Your prompt response will also help reduce proxy costs and will help you avoid receiving follow-up telephone calls or mailings. Please vote as soon as possible. The Company will be mailing the proxy materials to stockholders on or before April 30, 2018. The proxy materials will also be available to you and other stockholders on the Internet.

Whether or not you plan to attend the Annual Meeting, please sign and date the enclosed proxy and return it promptly in the envelope provided.

By Order of the Board of Directors,  
/s/ Bonnie J. Brown  
Bonnie Brown  
Chief Accounting Officer  
Waltham, Massachusetts  
April 20, 2018

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TECOGEN INC.  
PROXY STATEMENT  
FOR  
ANNUAL MEETING OF STOCKHOLDERS

To be held June 6, 2018

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

WHY DID YOU FURNISH ME WITH THIS PROXY STATEMENT?

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Tecogen Inc., a Delaware corporation, or the Company, for the Annual Meeting of Stockholders, or the Annual Meeting, to be held June 6, 2018 at 1:00 p.m., local time, and at any adjournments or postponements of the Annual Meeting. This Proxy Statement summarizes the information you need to make an informed vote on the proposals to be considered at the Annual Meeting. However, you do not need to attend the Annual Meeting to vote your shares. Instead, you may simply access your proxy card and vote via the Internet, at [www.proxyvote.com](http://www.proxyvote.com) or by telephone at 1-800-690-6903.

WHAT PROPOSALS WILL BE ADDRESSED AT THE ANNUAL MEETING?

The following proposals will be addressed at the Annual Meeting:

1. The election of six directors to the Board of Directors of the Company each to hold office for one year or until their successors are duly elected and qualified, each as identified below;
2. The ratification of the appointment of Wolf & Company, P.C. as the Company's independent registered public accounting firm; and
3. Any other business that may come before the Annual Meeting or any adjournment or postponement of the Annual Meeting so long as such business is properly brought.

Our Board of Directors, or our Board, has taken unanimous affirmative action with respect to each of the foregoing proposals and recommends that the stockholders vote in favor of each of the proposals.

WHO MAY VOTE ON THESE PROPOSALS?

Stockholders who owned shares of the Company's voting stock at the close of business on April 20, 2018, or the Record Date, are entitled to vote at the Annual Meeting on all matters properly brought before the Annual Meeting. On the Record Date, the Company had 24,814,646 shares of issued and outstanding common stock, par value \$0.01 per share, or the Common Stock.

HOW MANY VOTES DO I HAVE?

Each share of Common Stock is entitled to one vote on each matter presented at the Annual Meeting.

WHAT IS THE DIFFERENCE BETWEEN HOLDING SHARES AS A STOCKHOLDER OF RECORD AND AS A BENEFICIAL OWNER?

Stockholder of Record

If, on the Record Date, your shares were registered directly in your name with our transfer agent, VStock Transfer LLC, you are a "stockholder of record" who may vote at the Annual Meeting. As the stockholder of record you have the right to direct the voting of your shares via the Internet, telephone, to return a proxy card to us or to vote in person at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, please vote via the Internet, telephone, or complete, sign, date, and return a proxy card to ensure that your vote is counted.

Beneficial Owner

If, on the Record Date, your shares were held in an account at a brokerage firm or at a bank or other nominee holder, you are considered the beneficial owner of shares held "in street name." Your broker or nominee is considered the stockholder of record for purposes of voting at the Annual Meeting. As the beneficial owner, you have the right to instruct your broker, bank, or nominee how to vote your shares by using any voting instruction card supplied by them or by following their instructions for voting by telephone, online, or in person. However, since you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you receive a valid proxy from your brokerage firm, bank or other nominee holder. To obtain a valid proxy, you must make a special request of your brokerage firm, bank or other nominee holder.



#### HOW DOES THE BOARD RECOMMEND THAT I VOTE?

Our Board unanimously recommends that stockholders vote "FOR" all six nominees for director, and "FOR" the ratification of the appointment of Wolf & Company, P.C. as independent auditors.

#### WHAT IS THE QUORUM REQUIREMENT?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares are represented by stockholders present at the Annual Meeting or by proxy. On the Record Date, there were 24,814,646 shares outstanding and entitled to vote. Thus, 12,407,324 shares must be represented by stockholders present at the meeting or by proxy to have a quorum. Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. A broker non-vote occurs when a broker holding shares for a beneficial owner votes on one proposal but does not vote on another proposal because, in respect of such other proposal, the broker does not have discretionary voting power and has not received instructions from the beneficial owner. If there is no quorum, the chairman of the meeting or a majority of the votes present at the meeting may adjourn the meeting to another date.

#### WHY WOULD THE ANNUAL MEETING BE ADJOURNED?

The Annual Meeting may be adjourned if a quorum is not present or to allow time for further solicitation of proxies in the event there are insufficient votes present in person or represented by proxy to approve the proposals. For purposes of determining whether the stockholders have approved matters other than the election of directors, abstentions are treated as shares present or represented and voting, so abstaining has the same effect as a negative vote. Shares held by brokers who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers are not counted or deemed to be present or represented for the purpose of determining whether stockholders have approved that matter, but they are counted as present for the purpose of determining the existence of a quorum at the Annual Meeting.

#### HOW DO I VOTE BY PROXY?

If you hold shares directly as the stockholder of record, you may direct how your shares are voted without attending the Annual Meeting. Such stockholders may deliver their proxies either:

- (1) Electronically over the Internet at [www.proxyvote.com](http://www.proxyvote.com);
- (2) By telephone at 1-800-690-6903; or
- (3) By completing and submitting a properly signed paper proxy card.

If you are a stockholder of record, returning the proxy card will not affect your right to attend the Annual Meeting and vote in person as described elsewhere herein. If you properly fill in your proxy card and send it to us in time to vote, your proxy (one of the individuals named on your proxy card) will vote your shares as you have directed.

If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the Board of Directors as follows:

1. FOR the election of each of our Board's nominees for director;
2. FOR the ratification of the appointment of Wolf & Company, P.C. as the Company's independent registered public accounting firm.

If any other matters are presented, your proxy will vote in accordance with his or her best judgment. At the time this Proxy Statement was finalized, we knew of no matters that needed to be acted on at the Annual Meeting other than those discussed in this Proxy Statement.

If you are a beneficial owner, you must vote your shares in the manner prescribed by your broker, bank or other nominee. You will receive a voting instruction card (not a proxy card) to use in directing the broker, bank, or other nominee how to vote your shares. You may also have the option to vote your shares via the Internet.

#### HOW DO I VOTE IN PERSON?

If you are a stockholder of record (i.e., you own the shares directly in your name) and plan to attend the Annual Meeting, you may attend and vote in person on June 6, 2018, or at a later date if the Annual Meeting is adjourned or postponed to a later date, as long as you present valid proof of identification at the Annual Meeting. We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, in addition to identification, you must bring proof of beneficial ownership in order to attend the Annual Meeting, which

generally can be obtained from the record holder. In that event, you must also obtain a proxy or a power of attorney executed by the broker, bank or other nominee that owns the shares of record for your benefit and authorizing you to vote the shares at the Annual Meeting.

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#### **MAY I CHANGE MY VOTE?**

Stockholders of record may change their vote at any time before the proxy is exercised by sending a written notice of revocation or a later-dated proxy to our Secretary, which must be received prior to commencement of the Annual Meeting; by submitting a later-dated proxy via Internet or phone before 11:59 p.m. Eastern Daylight Time on June 5, 2018; or by voting in person at the Annual Meeting. Your attendance at the Annual Meeting in person will not cause your previously granted proxy to be revoked unless you file the proper documentation for it to be so revoked. If you hold your shares through a broker, bank or other nominee in "street name", you should contact such person prior to the time such voting instructions are exercised.

#### **WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD OR VOTING INSTRUCTION CARD?**

If you receive more than one proxy card or voting instruction card, it means that you have multiple accounts with brokers, banks or other nominees and/or our transfer agent. Please sign and deliver, or otherwise vote, each proxy card and voting instruction card that you receive. We recommend that you contact your nominee and/or our transfer agent, as appropriate, to consolidate as many accounts as possible under the same name and address. Our transfer agent is Vstock Transfer, LLC, 18 Lafayette Place, Woodmere, NY 11598: Telephone: 212-828-8436.

#### **WHAT VOTE IS REQUIRED TO APPROVE EACH PROPOSAL?**

Proposal 1: Election of Directors. The election of directors shall be determined by a plurality of the votes cast by the stockholders. Therefore, a nominee who receives a plurality, (the nominee who receives a higher number of votes "for" his or her election than any other nominee for the same director's seat) will be elected.

Proposal 2: Ratification of independent registered public accounting firm. The approval of the ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of the holders of a majority in voting power of the votes cast by the holders of all of the shares of stock present or represented at the Annual Meeting entitled to vote on the matter.

#### **HOW ARE VOTES COUNTED?**

Proposal 1: You may either vote "FOR" or "WITHHOLD" authority to vote for each of the nominees for the Board of Directors. Shares present at the meeting or represented by proxy where the stockholder properly withholds authority to vote for such nominee and broker non-votes will not be counted toward such nominee's achievement of a plurality.

Proposal 2: You may vote "FOR," "AGAINST" or "ABSTAIN" on the ratification of Wolf & Company, P.C. If you abstain from voting on the proposal to ratify Wolf & Company, P.C., your vote will have no effect on the outcome of the vote on the proposal. Brokers, bankers and other nominees have discretionary voting power on this routine matter and, accordingly, broker non-votes will have no effect on the vote for this proposal.

#### **ARE THERE ANY DISSENTERS' RIGHTS OF APPRAISAL?**

Our Board is not proposing any action for which the laws of the State of Delaware, the Company's Certificate of Incorporation or the Company's by-laws provide a right of a stockholder to dissent and obtain appraisal of or payment for such stockholder's shares.

#### **WHO BEARS THE COST OF SOLICITING PROXIES?**

The Company will bear the cost of soliciting proxies in the accompanying form and will reimburse brokerage firms and others for expenses involved in forwarding proxy materials to beneficial owners or soliciting their execution.

#### **WHERE ARE THE COMPANY'S PRINCIPAL EXECUTIVE OFFICES?**

The Company's principal executive offices are located at 45 First Avenue, Waltham, Massachusetts, 02451, and the Company's telephone number is (781) 466-6400.

#### **HOW CAN I OBTAIN ADDITIONAL INFORMATION ABOUT THE COMPANY?**

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, or the Annual Report, is being sent to all stockholders along with this proxy statement. Exhibits to the Annual Report will be provided upon written request and payment of an appropriate fee. All written requests should be directed to the Secretary of the Company c/o Tecogen Inc., 45 First Avenue, Waltham, Massachusetts 02451. The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Our website address is included several times in this Proxy Statement as a textual reference only and the information in the website is not incorporated by reference into this Proxy Statement.

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# INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

The following table lists the current members of our Board, and our executive officers. The address for our directors and officers is c/o Tecogen Inc., 45 First Avenue, Waltham, Massachusetts 02451.

Name	Age	Position(s)	(1)	(2)	(3)
Angelina M. Galiteva	51	Chairperson of the Board and Director	x	x	
John N. Hatsopoulos	83	Director			
Benjamin M. Locke	50	Chief Executive Officer			
Robert A. Panora	63	Chief Operating Officer and President			
Bonnie Brown	55	Chief Accounting Officer, Treasurer and Secretary			
Keith Davidson	67	Director			
Ahmed F. Ghoniem	66	Director			x
Charles T. Maxwell	86	Director	x		x
Deanna Petersen	56	Director	x	x	x

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of the Nominating and Governance Committee

Angelina M. Galiteva, age 51, has been the Company's Chairperson of the board of directors since 2005. Ms. Galiteva is founder and Chair of the Board for the Renewables 100 Policy Institute, a non-profit entity dedicated to the global advancements of renewable energy solutions since 2008. She is also Chairperson at the World Council for Renewable Energy (WCRE), which focuses on the development of legislative and policy initiatives to facilitate the introduction and growth of renewable energy technologies since 2003. Since 2011, she has served on the Board of Governors of the California Independent System Operator (CA ISO), providing direction and oversight for the CA ISO which operates the California electricity grid. Also, she is a principal at New Energy Options, Inc., a company focusing on advancing the integration of sustainable energy solutions since 2006. She has also been a strategic consultant with Renewable Energy Policy and Strategy Consulting since 2004. Ms. Galiteva holds a M.S in Environmental and Energy Law, a J.D. from Pace University School of Law, and a B.S. from Sofia University in Bulgaria. Ms. Galiteva is currently serving a one year term as the Company's Chairperson and as a director. Ms. Galiteva is also a member of Tecogen's Audit Committee and a member of Tecogen's Compensation Committee.

Tecogen's Board has determined that Ms. Galiteva's prior experience in the energy field qualifies her to be a member of the Board in light of the Company's business and structure.

John N. Hatsopoulos, age 83, has been a member of the Company's board of directors since its founding in 2000 and was Tecogen's Co-Chief Executive Officer until March 29, 2018. He also was the Co-Chief Executive Officer of American DG Energy until American DG Energy merged with the Company in May of 2017, and was on the board of directors of American DG Energy Inc. until March 29, 2018. Mr. Hatsopoulos was the Chairman of EuroSite Power Inc. from 2009 until 2016. Mr. Hatsopoulos is a co-founder of Thermo Electron Corporation, which is now Thermo Fisher Scientific. He was formerly the President and Vice Chairman of the Board of Directors of that company. He is a former Member of the Corporation of Northeastern University. He graduated from Athens College in Greece, and holds a B.S. in history and mathematics from Northeastern University, as well as honorary doctorates in business administration from Boston College and Northeastern University. Mr. Hatsopoulos is currently serving a one year term as a Tecogen director, but will be retiring as a Board member of the Company's at this year's annual meeting.

Benjamin M. Locke, age 50, has been the Company's Co-Chief Executive Officer since 2014 and as of March 29, 2018, Mr. Locke became the sole Chief Executive Officer of Tecogen. Mr. Locke was the Director of Corporate Strategy for Tecogen and was promoted to General Manager prior to his appointment as Co-Chief Executive Officer of Tecogen. In October of 2014, Mr. Locke began serving as Co-Chief Executive Officer of American DG Energy, and continued to serve as Co-Chief Executive Officer until the completion of the ADGE Merger. Previously, Mr. Locke was the Director of Business Development and Government Affairs at Metabolix, a bioplastics technology development and commercialization company. In that role, he was responsible for developing and executing plans for partnerships, joint ventures, acquisitions, and other strategic arrangements for commercializing profitable clean energy

technologies. Prior to joining Metabolix in 2001, Mr. Locke was Vice President of Research at Innovative Imaging Systems, or IISI, a high-technology R&D company. At IISI, he drove the development and implementation of growth strategies for the funding of specialty electronic systems for the United States Government. Mr. Locke has a B.S. in Physics from the University of Massachusetts, a M.S. in Electrical Engineering from Tufts University, and an M.B.A. in Corporate Finance from Boston University.

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Tecogen's Board has determined that Mr. Locke's prior experience and education qualify him to be a member of our Board in light of the Company's business and structure.

Robert A. Panora, age 63, has been the Company's Chief Operating Officer and President since the organization of the Company in 2000. In August of 2015, Mr. Panora began serving as Director of Operations of American DG Energy and continued to serve as Director of Operations until the Completion of the ADGE Merger. On March 29, 2018, Mr. Panora was appointed as the sole director of ADGE. Before this role, since 1990, he had been General Manager of the Company's Product Group while a division of Thermo Electron Corporation and Manager of Product Development, Engineering Manager, and Operations Manager since 1984. Over his 31-year tenure with the Company and its predecessors, Mr. Panora has been responsible for sales and marketing, engineering, service, and manufacturing. Mr. Panora contributed to the development of Tecogen's first product, the CM-60 cogeneration system, and was Program Manager for the cogeneration and chiller projects that followed. Mr. Panora has had considerable influence on many aspects of the business, from building the employee team, to conceptualizing product designs and authoring many of the original business documents, sales tools, and product literature pieces. Mr. Panora has a B.S. and M.S. in Chemical Engineering from Tufts University.

Bonnie Brown, age 55, has been the Company's Chief Accounting Officer, Treasurer and Secretary since May of 2017, becoming a member of the management team after the ADGE Merger. Previously, Ms. Brown served as ADGE's Chief Financial Officer from September 2015 until completion of the ADGE Merger. She also served as EuroSite Power Inc's Chief Financial Officer from September of 2015 until January 20, 2017. Ms. Brown was a Financial Advisor at Barker Financial Group, a strategic wealth management advisory company, from July 2014 to September 2015. She joined Tecogen as its Controller in 2005 and became the Chief Financial Officer in 2007 and remained in that position until December 2014. She served from its inception in 2009 to December 2014 as the Chief Financial Officer of Ilios Inc. Prior to joining Tecogen, Ms. Brown was a partner at Sullivan Bille PC, a regional accounting firm, for 15 years where she provided financial, accounting, audit, tax, and business consulting services for mid-sized companies. Ms. Brown has also worked at Enterprise Bank and Trust as project manager for special assignments including branch acquisitions and information systems transitions in the trust department eventually serving as Internal Audit Director, establishing an in-house audit function. She has also provided independent contractor services for a wide variety of publicly traded and closely held companies, including consulting, internal control and Sarbanes-Oxley compliance services. Ms. Brown is a CPA and holds a B.S. in Accountancy from Bentley College and a M.S. in Computer Information Systems from Boston University.

Keith Davidson, age 67, has been a member of the Company's board of directors since 2016. Mr. Davidson is President of DE Solutions Inc., a consulting and engineering firm serving the distributed energy markets. With over 25 years of experience in the energy industry, Mr. Davidson has focused on environmental technology development, feasibility studies, product commercialization, application engineering, economic analysis and market development. Prior to joining DE Solutions, Mr. Davidson was President of Energy Nexus Group and Senior Vice President of Onsite Energy Corp. He served as a Director of the Gas Research Institute for over a decade, was past President of the American Cogeneration Association, served as Chair of the National Association of Energy Service Companies' Distribution Generation Committee, and is the recipient of several industry honors. Mr. Davidson is currently active in the California Clean DG Coalition and the US Combined Heat and Power Association. He holds a M.S in Mechanical Engineering from Stanford University and a B.S. from the University of Missouri, Rolla. Mr. Davidson has a long history with Tecogen, actively supporting new business initiatives as well as being instrumental in securing utility and government funding to support product development, including the Ultera technology. Mr. Davidson is currently serving a one year term as a Tecogen director.

Tecogen's Board has determined that Mr. Davidson's prior experience in the energy sector and prior associations in the energy industry qualify him to be a member of our Board in light of the Company's business and structure.

Ahmed F. Ghoniem, age 66, has been a member of the Company's board of directors since 2008. Dr. Ghoniem is the Ronald C. Crane Professor of Mechanical Engineering at MIT. He is also the Director of the Center for 21st Century Energy, and the head of Energy Science and Engineering at MIT, where he plays a leadership role in many energy-related activities, initiatives and programs. He joined MIT as an Assistant Professor in 1983. He is an associate fellow of the American Institute of Aeronautics and Astronautics, and Fellow of American Society of Mechanical

Engineers. He was recently granted the KAUST Investigator Award. Dr. Ghoniem holds a Ph.D. in Mechanical Engineering from the University of California, Berkeley, and a M.S. and B.S. in Mechanical Engineering from Cairo University. Dr. Ghoniem is currently serving a one year term as a Tecogen director. Dr. Ghoniem is also a member of Tecogen's Nominating and Governance Committee.

Tecogen's Board has determined that Mr. Ghoniem's prior experience as a Professor of Mechanical Engineering at MIT and his prior experience in the energy sector qualify him to be a member of the Board of Directors in light of the Company's business and structure.

Charles T. Maxwell, age 86, has been a member of the Company's board of directors since 2001. Mr. Maxwell is a widely recognized expert in the energy sector, with over 40 years of experience with major oil companies and investment banking firms. From 1999 until his retirement in 2012, Mr. Maxwell was a Senior Energy Analyst with Weeden & Co. of

Greenwich, Connecticut, where he developed strategic data and forecasts on oil, gas, and power markets. Mr. Maxwell was a member of the Board of Directors of ADGE until the completion of the ADGE Merger. Mr. Maxwell holds a B.S. in Political Science from Princeton University and holds a B.A. from Oxford University as a Marshall Scholar in Middle East literature and history. Mr. Maxwell is currently serving a one year term as a Tecogen director. Mr. Maxwell is also a member of Tecogen's Audit Committee and a member of Tecogen's Nominating and Governance Committee.

Tecogen's Board has determined that Mr. Maxwell's prior experience in the energy sector and his extensive experience as a director of public companies qualifies him to be a member of our Board in light of the Company's business and structure.

Deanna Petersen, age 56, has been a member of the Company's board of directors since 2017. Ms. Petersen has been Chief Business Officer at AvroBio since January of 2016. She was Vice President of Business Development for Shire Human Genetic Therapies from 2009 until 2015, where she initiated and managed partnering, licensing and merger and acquisition activities worldwide. From 2002 to 2009, Ms. Petersen was Vice President of Business Development for Agenus Inc., and from 1998 to 2002 she was Vice President and Executive Director of Business Development at Coley Pharmaceutical Group, Inc. Ms. Petersen was on the board of ADGE until completion of the ADGE Merger. Ms. Petersen is on the board of directors for the Massachusetts Biotechnology Association and was previously the Treasurer of the board of directors for the Healthcare Business Women's Association, Boston Chapter. Ms. Petersen holds a B.S. in Biology from Iowa State University and a M.B.A. from the University of Iowa. Ms. Petersen is currently serving a one year term as a director of Tecogen. Ms. Petersen is also a member of Tecogen's Audit Committee and Compensation Committee.

Tecogen's Board has determined that Ms. Petersen's prior experience in senior operating positions at various companies, where she demonstrated leadership capability and garnered extensive expertise involving complex financial matters, qualify her to be a member of the Board in light of the Company's business and structure.

Each executive officer is elected or appointed by, and serves at the discretion of our Board. The elected officers of the Company will hold office until their successors are duly elected and qualified, or until their earlier resignation or removal.

There are no arrangements or understandings between any of Tecogen's directors or officers and any other individuals regarding why that Tecogen director or officer was selected to serve as a director.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 20, 2018, certain information with respect to the beneficial ownership of Tecogen's shares of common stock by (1) any person (including any "group" as set forth in Section 13(d)(3) of the Exchange Act) known by us to be the beneficial owner of more than five percent (5%) of any class of Tecogen's voting securities, (2) each director, (3) each of the named executive officers and (4) all of our current directors and executive officers as a group. The percentages in the following table are based on 24,814,646 shares of common stock issued and outstanding as of April 20, 2018.

Name and address of beneficial owner <sup>(1)</sup>	Number of Shares Beneficially Owned <sup>(2)</sup>	% of Shares Beneficially Owned	
5% Stockholders:			
John N. Hatsopoulos <sup>(3)</sup>	2,322,596	9.35	%
Tryfon Natsis and Despina Pantopoulou Natsis <sup>(4)</sup>	1,616,673	6.51	%
George N. Hatsopoulos <sup>(5)</sup>	1,967,230	7.93	%
Yiannis Monovoukas <sup>(6)</sup>	2,617,905	10.55	%
Directors & Officers:			
John N. Hatsopoulos <sup>(3)</sup>	2,322,596	9.35	%
Robert Panora <sup>(7)</sup>	276,573	1.1	%
Charles T. Maxwell <sup>(8)</sup>	249,590	1.1	%
Benjamin Locke <sup>(9)</sup>	213,393	*%	
Angelina M. Galiteva <sup>(10)</sup>	75,000	*%	
Ahmed Ghoniem <sup>(11)</sup>	62,723	*%	
Bonnie Brown <sup>(12)</sup>	10,962	*%	
Keith Davidson <sup>(13)</sup>	52,794	*%	
Deanna Petersen <sup>(14)</sup>	9,200	*%	
All executive officers and directors as a group (9 persons)	3,272,831	13.2	%

(1) The address of the executive officers and directors listed in the table above is: c/o Tecogen Inc., 45 First Avenue, Waltham, Massachusetts, 02451.

Unless otherwise noted in these footnotes, the Company believes that all shares referenced in this table are owned of record by each person named as beneficial owner and that each person has sole voting and dispositive power with respect to the shares of Common Stock owned by each of them. In accordance with Rule 13d-3 under the Exchange Act, each person's percentage ownership is determined by assuming that the options and warrants to purchase common stock that are held by that person, and which are exercisable within 60 days, have been exercised.

Based solely upon: (a) the Schedule 13G/A filed by Mr. John N. Hatsopoulos on February 12, 2018 and the Form 4/A filed by Mr. Hatsopoulos on April 11, 2018. Based on the Schedule 13G/A and Form 4/A the beneficial ownership of Mr. Hatsopoulos is the following: (1) 155,351 shares of common stock held directly by Mr. Hatsopoulos; (2) 1,039,480 shares of common stock held by the Nia M. Hatsopoulos Jephson 2011 Irrevocable Trust, for which Mr. Hatsopoulos is the trustee; (3) 1,039,480 shares of common stock held by the Alexander J. Hatsopoulos 2011 Irrevocable Trust, for which Patricia Hatsopoulos, Mr. Hatsopoulos' wife, is the trustee; (4) 3,325 shares of common stock held in an individual retirement account for Mrs. Hatsopoulos; (5) 44,012 shares held in Pat Ltd., a joint account maintained by Mr. Hatsopoulos and Mrs. Hatsopoulos; (6) 28,225 shares of common stock held by Mrs. Hatsopoulos; and (7) options to purchase 12,723 shares of common stock held directly by Mr. Hatsopoulos.

(4) Based solely upon the Schedule 13G filed by Tryfon Natsis and Despina Pantopoulou Natsis on February 1, 2017. The Schedule 13G states the beneficial ownership as the following: 1,616,673 owned jointly by Tryfon Natsis and Despina Pantopoulou Natsis as spouses and joint tenants with the right of survivorship. The address for each holder



is 36 Chemin Du Milieu, Collonge-Bellerive, Geneva, Switzerland 1245.

Based solely upon the Schedule 13G/A filed by Dr. George Hatsopoulos for the Company on December 14, 2016 and the Schedule 13G/A filed by Dr. George Hatsopoulos for American DG Energy Inc. on December 14, 2016.

- (5) The Schedule 13G/A for the Company states the beneficial ownership of Dr. Hatsopoulos as the following: (1) 1,276,604 shares of common stock held directly by Dr. Hatsopoulos; and (2) 78,937 shares of common stock held by Dr. Hatsopoulos and

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his wife Daphne Hatsopoulos as joint tenants. The Schedule 13G/A for American DG Energy Inc. states the beneficial ownership of Dr. Hatsopoulos as the following: (1) 5,824,619 shares of common stock held directly by Dr. Hatsopoulos; and (2) 824,177 shares of common stock held by Dr. Hatsopoulos and his wife Daphne Hatsopoulos as joint tenants. After the merger between the Company and American DG Energy, Dr. Hatsopoulos exchanged his American DG Energy Inc. common stock for Tecogen common stock at the exchange ratio of 0.092, resulting in the issuance to him of an additional 611,689 shares of Tecogen's common stock. The address of the holder is 233 Tower Road, Lincoln, MA 01773.

- Based solely upon the Schedule 13G filed by Mr. Yiannis Monovoukas on June 23, 2017. This Schedule 13G states the beneficial ownership as the following: (1) 1,620,665 shares of common stock held by the John Hatsopoulos 1989 Family Trust for the benefit of Alexander J. Hatsopoulos and Nia Marie Hatsopolous, where Mr. Monovoukas is the sole trustee; (2) 989,859 shares of common stock held by the John N. Hatsopoulos Family Trust of 2007, of which Mr. Monovoukas is the sole trustee; and (3) 7,381 shares of common stock held directly by Mr. Monovoukas. The address for the holder is c/o Tecogen Inc., 45 First Ave., Waltham, MA 02451.
- (6) Includes: (a) 138,850 shares of Common Stock, directly held by Mr. Robert Panora; and (b) options to purchase 137,723 shares of Common Stock.
- (7) Includes: (a) 224,590 shares of Common Stock, directly held by Mr. Charles Maxwell, and (b) options to purchase 25,000 shares of Common Stock.
- (8) Includes: (a) 3,418 shares of Common Stock, directly held by Mr. Benjamin Locke; and (b) 209,975 options to purchase Common Stock.
- (9) Includes: (a) 50,000 shares of Common Stock, directly held by Ms. Angelina Galiteva and (b) options to purchase 25,000 shares of Common Stock.
- (10) Includes: (a) 25,000 shares of Common Stock, directly held by Mr. Ahmed Ghoniem; and (b) options to purchase 37,723 shares of Common Stock.
- (11) Includes: (a) 1,762 shares of Common Stock, held directly by Ms. Bonnie Brown; and (b) options to purchase 9,200 shares of Common Stock.
- (12) Includes: (a) 9,044 shares of Common Stock, directly held by Mr. Keith Davidson; and (b) options to purchase 43,750 shares of Common Stock.
- (13) Includes options to purchase 9,200 shares of Common Stock.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2017, regarding Common Stock that may be issued under the Company's 2006 Stock Incentive Plan, as amended, or the Plan.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	1,061,552	\$ 3.60	2,123,747
Equity compensation plans not approved by security holders	—	—	—
Total	1,061,552	\$ 3.60	2,123,747

The Plan is intended to provide incentives to Company officers, directors, employees, and consultants by providing such individuals with opportunities to purchase stock in the Company pursuant to options granted which do not

qualify as “Incentive Stock Options,” or “ISO” or “ISOs,” under Section 422(b) of the Internal Revenue Code of 1986, as amended, or the “Code;” such options being an “NSO” or “NSOs”.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than five percent of any publicly traded class of the Company's equity securities, to file reports of ownership and changes in ownership of equity securities of the Company with the SEC and the NASDAQ. Officers, directors, and greater-than-five-percent stockholders are required by the SEC's regulations to furnish the Company with copies of all Section 16(a) forms that they file.

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Based solely upon a review of Forms 3 and Forms 4 furnished to the Company during the most recent fiscal year, and Forms 5 with respect to its most recent fiscal year, the Company believes that all such forms required to be filed pursuant to Section 16(a) of the Exchange Act were timely filed, as necessary, by the executive officers, directors, and security holders required to file the same during the fiscal year ended December 31, 2017, except for the following: (1) one Form 3 was filed late by Ms. Deanna Petersen; and (2) one Form 4 was filed late by Mr. Charles Maxwell regarding one transaction.

#### CORPORATE GOVERNANCE

##### The Board of Directors

The number of directors of the Company is established by the Board in accordance with the Company's By-laws. The directors are elected to serve for one year terms, with the term of directors expiring each year at the annual meeting of stockholders or until the election and qualification of a successor or such director's earlier death, resignation or removal.

The Company's Certificate of Incorporation and By-laws provide that the authorized number of directors may be changed only by resolution of the Board, and also provide that directors may be removed only for cause by the affirmative vote of the holders of at least two thirds of the votes that all stockholders would be entitled to cast in an annual election of directors, and that any vacancy on the Board, including a vacancy resulting from an enlargement of the Board of Directors, may be filled only by vote of a majority of our directors then in office.

Members of the Board discussed various business matters informally on numerous occasions throughout the year. There were three formal board meetings during 2017. All current directors attended all Board meetings, except for Deanna Petersen who missed one formal meeting. Independent directors endeavor to meet on a regular basis as often as necessary to fulfill their responsibilities, including at least twice annually in executive sessions without the presence of non-independent directors and management. All Members of the Board who were members at the time of last years annual meeting attended the 2017 Annual Meeting of Stockholders of the Company.

##### Board Leadership Structure and Role in Risk Oversight

The Company separates the roles of Chief Executive Officer and Chairman in recognition of the differences between the two roles. Our Chief Executive Officer is responsible for setting the strategic direction for the Company and the overall leadership and performance of the Company. Our Chairman provides guidance to the Chief Executive Officer, sets the agenda for Board meetings, presides over meetings of the full Board and leads all executive meetings of the independent directors. We are a small company with a small management team, and we feel the separation of these roles enhances high-level attention to our business. Our Board has no lead independent director.

Our Board oversees our risk management processes directly and through its committees. Our management is responsible for risk management on a day-to-day basis. The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and discusses policies with respect to risk assessment and risk management, including guidelines and policies to govern the process by which the Company's exposure to risk is handled. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The Nominating and Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, succession planning for our directors, and corporate governance.

##### Committees of the Board of Directors

Our Board directs the management of our business and affairs and conducts its business through meetings of the Board and the following standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee.

**Audit Committee.** The Audit Committee is presently composed of three members of the Board: Mr. Charles T. Maxwell (Chairman), Ms. Angelina M. Galiteva and Ms. Deanna Petersen. The Audit Committee assists the Board in the oversight of the audit of the Company's financial statements and the quality and integrity of its accounting, auditing and financial reporting processes. The Audit Committee also has the responsibility of reviewing the qualifications,

independence and performance of the Company's independent registered public accounting firm and is responsible for the appointment, retention, oversight and, where appropriate, termination of the independent registered public accounting firm. During fiscal year 2017, the Audit Committee held four meetings. The Board has determined that each of the members of the Audit Committee meets the criteria for independence under the applicable listing standards of NASDAQ, Section 10A-3 of the Exchange Act, and that Mr. Maxwell also qualifies as an "audit committee financial expert," as defined by the rules adopted by the SEC. The Board has adopted a written charter for the Audit Committee, which is reviewed annually by the Audit Committee. The current Audit Committee Charter is available on the Company's web site, <http://investors.tecogen.com/audit-committee-charter>.

Compensation Committee. The Compensation Committee is presently composed of two members of the Board: Ms. Angelina M. Galiteva (Chairwoman) and Ms. Deanna Petersen. The principal functions of the Compensation Committee are reviewing with management cash and other compensation policies for employees, making recommendations to the Board regarding compensation matters and determining compensation for the Executive Officers. Our Co-Chief Executive Officers have been instrumental in the design and recommendation to the Compensation Committee of compensation plans and awards for our directors and executive officers including our President and Chief Operating Officer and Chief Accounting Officer. All compensation decisions for the Chief Executive Officers and all other executive officers are reviewed and approved by the Compensation Committee, and can be subject to ratification by the Board of Directors. The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In 2017, no compensation consultant was engaged for employee or executive compensation. During fiscal year 2017, the Compensation Committee held no formal meetings. The Board has determined that each of the members of the Compensation Committee meets the criteria for independence under the applicable NASDAQ listing standards. The current Compensation Committee Charter is available on the Company's web site at <http://investors.tecogen.com/compensation-committee-charter>.

Nominating and Governance Committee. The Nominating and Governance Committee is presently composed of three members of the Board: Mr. Ahmed F. Ghoniem (Chairman), Mr. Charles T. Maxwell and Ms. Deanna Petersen, each of whom is an independent director as independence is defined by the NASDAQ rules and regulations. The Nominating and Governance Committee functions are to identify persons qualified to serve as members of the Board, to recommend to the Board of Directors persons to be nominated by the Board for election as directors at the annual meeting of stockholders and persons to be elected by the Board to fill any vacancies, and recommend to the Board persons to be appointed to each of its committees. Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of our Board. However, minimum qualifications include high level leadership experience in business activities, breadth of knowledge about issues affecting the Company, experience on other boards of directors, preferably public company boards, and time available for meetings and consultation on Company matters. In addition, the Nominating and Governance Committee is responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company (as well as reviewing and reassessing the adequacy of such guidelines as it deems appropriate from time to time) and overseeing the annual self-evaluation of the Board. The committee held no formal meetings in 2017. The charter of the Nominating and Governance Committee is available on the Company's website at <http://investors.tecogen.com/nominating-and-governance-committee-charter>.

#### Nominations and Proposals of Stockholders

The Company's Nominating and Governance Committee identifies new director candidates through recommendations from members of the Committee, other Board members and executive officers of the Company and will consider candidates who are recommended by security holders, as described below. Although the Board does not have a formal diversity policy, the Committee and the Board will consider such factors as it deems appropriate to assist in developing a Board and committees that are diverse in nature and comprised of experienced and seasoned advisors. These factors focus on skills, expertise or background and may include decision-making ability, judgment, personal integrity and reputation, experience with businesses and other organizations of comparable size, experience as an executive with a publicly traded company, and the extent to which the candidate would be a desirable addition to the Board and any committees of the Board.

A stockholder who, in accordance with Rule 14a-8, under the Securities Exchange Act of 1934, as amended, or the Exchange Act, wants to present a proposal for inclusion in the Company's 2019 Proxy Statement and proxy card relating to the 2019 Annual Meeting of Stockholders must submit the proposal by December 20, 2018. In order for the proposal to be included in the Proxy Statement, the stockholder submitting the proposal must meet certain eligibility standards and comply with certain regulations established by the SEC.

Stockholders who wish to present a business proposal or nominate persons for election as directors at the Company's 2019 Annual Meeting of Stockholders must provide a notice of the business proposal or nomination in accordance with Section 1.11 of our By-laws, in the case of business proposals, or Section 1.10 of our By-laws, in the case of director nominations. In order to be properly brought before the 2019 Annual Meeting of Stockholders, Sections 1.10 and 1.11 of our By-laws require that a notice of the business proposal the stockholder wishes to present (other than a matter brought pursuant to Rule 14a-8), or the person or persons the stockholder wishes to nominate as a director, must be received at our principal executive office not less than 90 days, and not more than 120 days, prior to the first anniversary of the Company's prior year's annual meeting. Therefore, any notice intended to be given by a stockholder with respect to the Company's 2019 Annual Meeting of Stockholders pursuant to our By-laws must be received at our principal executive office no earlier than February 6, 2019 and no later than March 8, 2019. However, if the date of our 2019 Annual Meeting of Stockholders occurs more than 30 days before or 30 days after June 6, 2019, the anniversary of the 2018 Annual Meeting of Stockholders, a stockholder notice will be timely if it is received at our principal executive office by the later of (1) the 120th day prior to such annual meeting or (2) the close of business on the tenth day following the day on which public disclosure of the date of the meeting was made. To be in proper form, a stockholder's notice must include

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the specified information concerning the stockholder and the business proposal or nominee, as described in Sections 1.10 and 1.11 of our By-laws.

All proposals must be mailed to the Company's principal executive office, at the address stated herein, and should be directed to the attention of the Secretary of the Company.

The Nominating and Corporate Governance Committee will evaluate new director candidates in view of the criteria described above, as well as other factors the Committee deems to be relevant, through reviews of biographical and other information, input from others, including members of the Board and executive officers of the Company, and personal discussions with the candidate when warranted by the results of these other assessments. The Committee will evaluate any director candidates recommended by security holders under the same process. In determining whether to recommend to the Board the nomination of a director who is a member of the Board, the Committee will review the Board performance of such director and solicit feedback about the director from other Board members.

#### Code of Conduct and Ethics

The Company has adopted a code of business conduct and ethics that applies to the Company's directors, officers and employees. The Company's code of business conduct and ethics is intended to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the SEC and in other public communications made by the Company; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the code of business conduct and ethics to an appropriate person or persons identified in the code of business conduct and ethics; and accountability for adherence to the code of business conduct and ethics. The Company's code of business conduct and ethics is available on the Company's website at <http://ir.tecogen.com/governance-docs>. A printed copy of the Company's code of business conduct and ethics is also available free of charge to any person who requests a copy by writing to our Secretary, Tecogen Inc., 45 First Avenue, Waltham, MA 02451.



#### REPORT OF THE AUDIT COMMITTEE

The information contained in this Proxy Statement with respect to the Audit Committee Report and charter and the independence of the members of the Audit Committee shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the “Securities Act”, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference in such filing.

The Company has an Audit Committee that is comprised of independent Directors. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the accounting firm that is engaged as the Company’s independent registered public accounting firm. The Company’s management is responsible for the Company’s internal controls, disclosure controls and financial reporting process. The Company’s independent registered public accounting firm is responsible for performing an independent audit of the Company’s consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States.

In the performance of the Audit Committee’s oversight function, we have reviewed and discussed with management the Company’s audited financial statements of the Company for the fiscal year ended December 31, 2017 and management’s assessment of the effectiveness of the Company’s internal control over financial reporting. We have also discussed with the Company’s independent registered public accounting firm the matters requiring discussion pursuant to Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees) and as adopted by the Public Company Accounting Oversight Board in Rule 3200T and such other matters as we have deemed to be appropriate. We have also discussed with the Company’s independent registered public accounting firm matters relating to its independence, and have received the written disclosures and letter from it required by the applicable requirements of the Public Company Accounting Oversight Board.

On the basis of the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company’s audited consolidated financial statements for the year ended December 31, 2017 be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for filing with the Securities and Exchange Commission.

By the Members of the Audit Committee,

Mr. Charles T. Maxwell, its Chair

Ms. Angelina M. Galiteva

Ms. Deanna Petersen

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

## Summary Compensation Table

The following table sets forth information regarding annual and long-term compensation with respect to the fiscal years ended December 31, 2017 and 2016, paid or accrued by the Company to or on behalf of those persons who were, during the fiscal year ended December 31, 2017, the Company's Chief Executive Officer, Chief Accounting Officer and the Company's most highly compensated executive officers serving as such as of December 31, 2017 whose compensation was in excess of \$100,000 (the "Named Executive Officers").

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)(1)	All other compensation (\$)	Total (\$)
John N. Hatsopoulos Co-Chief Executive Officer (Principal Executive Officer)	2017	1	—	—	—	—	1
	2016	1	—	—	—	—	1
Benjamin M. Locke <sup>(2)</sup> Co-Chief Executive Officer (Principal Executive Officer)	2017	210,000	—	—	—	—	210,000
	2016	210,000	—	—	—	630	210,630
Robert A. Panora <sup>(3)</sup> Chief Operating Officer and President	2017	200,000	50,000	—	—	648	250,648
	2016	200,001	—	—	3,158	2,772	205,931
Bonnie J. Brown <sup>(4)</sup> Chief Accounting Officer, Treasurer and Secretary (Principal Financial Officer)	2017	110,769	—	—	—	—	110,769
	2016	—	—	—	—	—	—
David A. Garrison <sup>(4)</sup> Former Chief Financial Officer, Treasurer and Secretary	2017	93,201	—	—	—	—	93,201
	2016	180,000	—	—	858	558	181,416

The amounts in the "Stock Option Awards" column reflect the aggregate grant date fair value of the awards computed in accordance with FASB ASC Topic 718. The assumptions used by us with respect to the valuation of stock and option awards are set forth in "Note 12 – Stockholders' equity" to our 2017 Annual Report reported on

- (1) Form 10-K filed with the Securities And Exchange Commission on March 21, 2018. These grants include stock option award granted May 12, 2016 in connection with the merger of Ilios Inc. and the Company, or the Ilios Merger. Upon completion of the Ilios Merger, all Ilios Inc. options were exchanged for fully vested options of the Company according to an exchange ratio. The exchange ratio affected the number of Company options received and their strike price.

Mr. Locke became the Company's Co-Chief Executive Officer on October 30, 2014 and became the sole Chief Executive Officer on March 29, 2018. In 2016 and part of 2017, until the Company's acquisition of American DG

- (2) Energy Inc. in May of 2017 (the "Merger"), he was also the Co-CEO of American DG Energy Inc., and devoted part of his business time to the affairs of American DG Energy. In 2017, \$44,884 of his salary was reimbursed by American DG Energy according to the requirements of the business in a given week at a fully burdened rate.

Mr. Panora became the Director of Operations of American DG Energy Inc. in August 2015, and remained the Director of Operations until the Merger, devoting part of his business time to the affairs of American DG Energy.

- (3) In 2017, \$44,884 of his salary was reimbursed by the American DG Energy according to the requirements of the business in a given week at a fully burdened rate. The \$50,000 bonus is from Ultra Emissions Ltd., which was paid by the Company and then reimbursed by Ultra Emissions Ltd.

- (4) Ms. Brown became the Company's Chief Accounting Officer upon completion of the Merger and the resignation of Mr. Garrison in May of 2017.

See "Employment Contracts and Termination of Employment and Change in Control Arrangements" below for the terms of certain agreements and change-in-control provisions.

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## Executive Officer Outstanding Equity Awards at Fiscal-Year End

The following table sets forth information with respect to outstanding equity awards held by Tecogen's executive officers as of December 31, 2017.

Name	Option Awards		Stock awards
	Number of securities underlying unexercised		
	12/31/2011 (restated) (1)	12/31/2010 (restated)	
Revenue	100.0%	100.0%	
Cost of sales	82.9%	78.6%	
Gross profit	17.1%	21.4%	
Selling, general and administrative	28.3%	30.9%	
Amortization of intangibles	0.6%	0.7%	
Restructuring charge	1.3%	0.0%	
Impairment loss	5.9%	0.0%	
Operating loss	-19.1%	-10.3%	
Total other income	0.0%	0.2%	
Net Loss	-19.1%	-10.0%	

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(1) 2011 consolidated results as originally filed in the Form 10-K, presented the Public Sector and Asset Development businesses as discontinued operations. For the comparison of 2011 consolidated results to 2010 consolidated results in the Form 10-K/A, presentation is made on a pre-discontinued operations basis. This was done for improved comparability purposes.

### ***Revenue***

Our revenue for the twelve-month period ended December 31, 2011, increased \$16.0 million, or 19.2%, to \$99.4 million from \$83.3 million for the same period during 2010. During 2011 revenue from our utility clients, the FRR contract and our Public Sector clients increased approximately 63%, 100% and 3%, respectively, as a result of new contracts in these areas. These increases were partially offset by a 37% decline in revenue from our C&I clients. The economic environment during 2011 continued to cause many of our C&I clients to postpone decisions to move forward with significant projects. Revenue from our C&I clients in banking, an industry that has been responsible for a significant portion of our C&I revenue in prior years, saw significant contraction during 2011.

GES-Port Charlotte contributed revenue of approximately \$270 thousand during 2011 from the startup of the Zemel Road generating facility during the fourth quarter of the year.

### **Gross Profit**

Our gross profit declined \$826 thousand, or 4.6%, to \$17.0 million during the twelve months ended December 31, 2011, when compared to the \$17.8 million earned during 2010. Our gross profit margin declined from 21.4% in 2010 to 17.1% in 2011. The decline in our gross profit was largely due to a 42% decline in the gross profit earned from our C&I market, which was impacted by lower revenue and an increase in competition during the period. During the year, many of our larger C&I clients, particularly banking clients, deferred significant retrofit projects, as a result most of our revenue from this market was derived from smaller, regional clients, where we had to compete with local contractors willing to accept lower margins in order to win the work.

### ***Selling, General & Administrative Expense***

Our SG&A expense increased \$2.4 million, or 9.3%, to \$28.2 million during the twelve months ended December 31, 2011 from \$25.8 million during the year earlier period. SG&A as a percent of revenue declined from 30.9% in 2010 to 28.3% in 2011, as SG&A expense grew at a slower rate than revenue. The \$2.4 million increase in SG&A expense during 2011 was primarily driven by higher expense associated with our utility program management and asset development businesses, partially offset by lower SG&A expense from our C&I market and corporate overhead. SG&A expense for the utility program management business increased at a slightly slower rate than the increase in revenue for this business as we staffed up for the new Long Island Power contract and expanded the National Grid and New Jersey Direct programs. Our Asset Development activities were new in 2010, so the increase in SG&A for Asset Development was the result of inclusion of a full year of expense as well as an expansion of our marketing efforts in this area.

SG&A expense for our C&I market and corporate overhead for 2011 declined by approximately \$2 million when compared to 2010 levels. These savings were largely due to the restructuring implemented in the middle of 2011.

*Amortization of Intangibles*

Amortization expense increased \$46 thousand, to \$635 thousand during 2011, from \$589 thousand during 2010. The increase was due to a scheduled increase in the amortization of certain

intangibles associated with the acquisition of Applied Energy Management, and to the inclusion of amortization of the Zemel Road gas rights.

### ***Restructuring Charge***

During 2011, we initiated a restructuring to reduce costs, streamline our organization and better integrate our operations. As part of this we moved our corporate headquarters to Huntersville, North Carolina, sold our building in Elk Grove Village, Illinois and consolidated certain accounting and administrative functions in Huntersville. In connection with this restructuring we incurred a restructuring charge of approximately \$1.3 million consisting primarily of severance-related costs and costs associated with the sale of our building. Included in the \$1.3 million charge is approximately \$487 thousand of non-cash share-based compensation expense incurred when the vesting of equity based compensation was accelerated due to involuntary terminations.

### ***Impairment Loss***

During the fourth quarter of 2011 we completed an analysis of our C&I reporting unit and determined, that due to the significant decline its performance, that the value of its goodwill had declined to \$923,000. To reduce the carrying value of its goodwill from \$6.7 million, we recorded a \$5.8 million, non-cash impairment loss.

### ***Other Income***

Other non-operating income declined \$160 thousand to \$12 thousand during the twelve months ended December 31, 2011 from \$172 thousand during the twelve months ended December 31, 2010. Interest expense increased \$96 thousand during 2011 to \$129 thousand from \$33 thousand during 2010. The components of interest expense for the years ended December 31, 2011 and 2010 are as follows (in thousands):

	Year ended December 31,	
	2011	2010
Line of credit	\$ 17	\$ 20
Term note payable	15	13
Mortgage	15	33
Other	7	
Total contractual interest	54	33
Amortization of deferred issuance costs and debt discount	32	
Decrease in value of interest rate swap	43	
Total Interest Expense	\$ 129	\$ 33

Total contractual interest expense (the interest on outstanding loan balances) increased \$21,000, from \$33,000 in 2010 to \$54,000 in 2011. The increase in contractual interest expense was the result of unused line fees associated with the new line of credit established in March 2011 and a new term loan secured in November 2011 to finance the Zemel Road landfill-gas to electricity generating facility. We repaid our mortgage in October 2011, which resulted in the decline in the mortgage interest expense during the period.





During 2011, we deferred certain costs associated with the issuance of the term loan and our line of credit. These costs are being amortized over the terms of the associated debt. During 2011, we recognized \$32 thousand of amortization expense.

In December 2011, we entered into an interest rate swap agreement to fix the interest rate on \$1.9 million of the \$3.6 million term note. This interest rate swap was not designated for hedge accounting under ASC 815, therefore we record changes in its fair value as non-operating interest income or expense with an offsetting entry to a swap asset or swap liability. During the year ended December 31, 2011, we recorded expense of \$43 thousand due to a decline in the fair market value of this interest rate swap.

Our interest income decreased \$64 thousand to \$141 thousand during 2011 from \$205 thousand during 2010. Approximately \$137 thousand of the 2011 interest income was amortization of the discount on our long-term receivables, a decrease of \$24 thousand, or 15.0%, from the \$161 thousand recognized during 2010. The balance of the decrease in interest income was due to lower average invested balances during the period.

**Twelve-Month Period Ended December 31, 2010 (restated)**

**Compared With the Twelve-Month Period Ended December 31, 2009 (restated)**

**Consolidated Results**

	Twelve Months Ended				
	12/31/2010	12/31/2009		Change	
	(restated)	(restated)	\$		%
Revenue	\$ 83,341	\$ 65,811	\$ 17,530		26.6%
Cost of sales	65,542	49,830	15,712		31.5%
Gross profit	17,799	15,981	1,818		11.4%
Selling, general and administrative	25,753	24,009	1,744		7.3%
Amortization of intangibles	589	1,221	(632)		-51.8%
Impairment loss		2,652	(2,652)		-100.0%
Operating loss	(8,543)	(11,901)	3,358		-28.2%
Total other (expense) income	172	(3,073)	3,245		-105.6%
Loss from continuing operations	(8,371)	(14,974)	6,603		-44.1%
Loss from operation of discontinued business		(1,786)	1,786		100.0%
Loss before income taxes	(8,371)	(16,760)	8,389		-50.1%
Income tax benefit		1,034	(1,034)		100.0%
Net Loss	\$ (8,371)	\$ (15,726)	\$ 7,355		-46.8%
Preferred Dividend		(1,499)	1,499		100.0%
Net Loss Available to Common	\$ (8,371)	\$ (17,225)	\$ 8,854		-51.4%

The following table presents the percentage of certain items to revenue:

	Twelve Months Ended	
	12/31/2010 (restated)	12/31/2009 (restated)
Revenue	100.0%	100.0%
Cost of sales	78.6%	75.7%
Gross profit	21.4%	24.3%
Selling, general and administrative	30.9%	36.5%
Amortization of intangibles	0.7%	1.9%
Impairment loss	0.0%	4.0%
Operating loss	-10.3%	-18.1%
Total other income	0.2%	-4.7%
Loss from continuing operations	-10.0%	-22.8%
Loss from operation of discontinued business	0.0%	-2.7%
Loss before income taxes	-10.0%	-25.5%
Income tax benefit	0.0%	1.6%
Net Loss	-10.0%	-23.9%
Preferred Dividend	0.0%	-2.3%
Net Loss Available to Common	-10.0%	-26.2%

### **Revenue**

Our revenue for the twelve-month period ended December 31, 2010 increased \$17.5 million or 26.6%, to \$83.3 million when compared to \$65.8 million earned for 2009. Contributing to this increase was revenue generated by our utility program management business and FRR contract. Both of these were new business initiatives we began in late 2009 and neither of them generated significant revenue during 2009. The higher revenue generated by the utility business and FRR contract was partially offset by lower revenue from our C&I and public sector markets

***Gross Profit***

Our gross profit increased \$1.8 million, or 11.4%, to \$17.8 million during 2010 from \$16.0 million in 2009. Our gross profit margin declined from 24.3% in 2009 to 21.4% in 2010. The decline in our gross margin was due primarily to a shift in the mix of our business.

*Selling General & Administrative Expense*



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Our selling, general and administrative expense increased \$1.7 million or 7.3%, to \$25.8 million during the twelve-month period ended December 31, 2010, when compared to \$24.0 million for the same period during 2009. All of the increase in our SG&A expense was related to our three new business initiatives: the utility program management business, the FRR contract and the Asset Development and Management business. We started the utility program management business and won the FRR contract late in 2009, so neither of these businesses had significant expenses during 2009. We began the Asset Development and Management business during 2010 and it had no expenses during 2009. We reduced our SG&A expense during 2010 through realignment of resources and headcount reductions in areas that support our public sector and C&I markets and in our corporate overhead.

Our SG&A expense as a percentage of revenue declined from 36.5% in 2009 to 30.9% during 2010 as our revenue grew at a faster rate than our SG&A in 2010.

### *Amortization of Intangibles*

Amortization expense declined \$0.6 million to \$0.6 million in 2010 from \$1.2 million in 2009. Amortization expense declined as certain intangible assets associated with prior acquisitions became fully amortized.

### *Impairment Loss*

During 2009 we determined that the Parke trade name was impaired due to our decision to operate the business under the Lime Energy name. As a result, we reduced the carrying value of this intangible asset to \$0, incurring a \$2.6 million impairment loss during the fourth quarter of 2009. This loss was partially offset by the reversal of a \$1 million deferred tax liability associated with this indefinite-lived asset, which was reported as an income tax benefit.

### *Other Income (Expense)*

Other non-operating income (expense) declined \$3.2 million to income of \$172,000 during the twelve months ended December 31, 2010 from expense of \$3.1 million during the twelve months ended December 31, 2009. Interest expense decreased \$3.2 million during 2010 to \$33,000 from \$3.2 million during 2009. The components of interest expense for the years ended December 31, 2010 and 2009 are as follows (in thousands):

	Year ended December 31,	
	2010	2009
Line of credit	\$	\$ 51
Note payable		76
Mortgage	20	19
Subordinated convertible notes		329
Other	13	73
Total contractual interest	33	548
Amortization of deferred issuance costs and debt discount		1,724
Beneficial value of change in conversion price		938

Total Interest Expense	\$	33	\$	3,210
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Total contractual interest expense (the interest on outstanding loan balances) decreased \$515,000 or 94.0%, from \$548,000 in 2009 to \$33,000 in 2010. The decline in interest expense was the result of the repayment of all of our debt except for the mortgage on our building and various vehicle loans following the public offering of our common stock in September 2009.

Amortization of deferred issuance costs in 2009 included \$1.4 million of debt discount amortization and \$4,000 of deferred issuance cost amortization, both of which were associated with the subordinated convertible notes.

In August 2009 we issued warrants in connection with the bridge line of credit. These warrants were valued at \$309,000 using a trinomial option pricing model and the value was recorded as a debt discount, which we began to amortize over the scheduled term of the facility. We terminated the bridge line of credit in October 2009 following the completion of a follow-on offering of common stock, at which time we expensed the remaining unamortized debt discount.

In addition, during 2009 we incurred a \$938,000 non-cash charge resulting from the conversion of the subordinated convertible notes to common stock at a conversion price which was lower than their stated conversion price.

Our interest income increased \$68,000 to \$205,000 during 2010 from \$137,000 during 2009. Approximately \$168,000 of the 2010 interest income was amortization of the discount on our long-term receivables, an increase of \$55,000, or 48.7%, from the \$113,000 recognized on these receivables during 2009.

#### ***Discontinued Operations***

The \$1.8 million loss from discontinued operations reported in 2009 represents the results from our Energy Technology business, which we sold in August 2009.

#### ***Dividend Expense.***

The preferred dividend expense reported in 2009 was associated with our Series A-1 convertible preferred stock, which was converted into common stock on August 10, 2009.

**Twelve-Month Period Ended December 31, 2009 (restated)**

**Compared With the Twelve-Month Period Ended December 31, 2008 (restated)**

**Consolidated Results**

	Twelve Months Ended				
	12/31/2009 (restated)	12/31/2008 (restated)	\$	Change	%
Revenue	\$ 65,811	\$ 54,674	\$ 11,137		20.4%
Cost of sales	49,830	42,367	7,463		17.6%
Gross profit	15,981	12,307	3,674		29.9%
Selling, general and administrative	24,009	17,758	6,251		35.2%
Amortization of intangibles	1,221	1,568	(347)		-22.1%
Impairment loss	2,652		2,652		0.0%
Operating loss	(11,901)	(7,019)	(4,882)		69.6%
Total other (expense) income	(3,073)	(2,581)	(492)		19.1%
Loss from continuing operations	(14,974)	(9,600)	(5,374)		56.0%
Loss from operation of discontinued business	(1,786)	(2,480)	694		-28.0%
Loss before income taxes	(16,760)	(12,080)	(4,680)		38.7%
Income tax benefit	1,034		1,034		0.0%
Net Loss	\$ (15,726)	\$ (12,080)	\$ (3,646)		30.2%
Preferred Dividend	(1,499)	(288)	(1,211)		420.5%
Net Loss Available to Common	\$ (17,225)	\$ (12,368)	\$ (4,857)		39.3%

The following table presents the percentage of certain items to revenue:

	Twelve Months Ended	
	12/31/2009 (restated)	12/31/2008 (restated)
Revenue	100.0%	100.0%
Cost of sales	75.7%	77.5%
Gross profit	24.3%	22.5%
Selling, general and administrative	36.5%	32.5%
Amortization of intangibles	1.9%	2.9%
Impairment loss	4.0%	0.0%
Operating loss	-18.1%	-12.8%
Total other income	-4.7%	-4.7%
Loss from continuing operations	-22.8%	-17.6%
Loss from operation of discontinued business	-2.7%	-4.5%
Loss before income taxes	-25.5%	-22.1%
Income tax benefit	1.6%	0.0%
Net Loss	-23.9%	-22.1%
Preferred Dividend	-2.3%	-0.5%
Net Loss Available to Common	-26.2%	-22.6%

### **Revenue**

Our consolidated revenue for the twelve-month period ended December 31, 2009 increased \$11.1 million or 20.4%, to \$65.8 million from \$54.7 million recognized during the twelve-month period ended 2008. The increase was primarily due to the inclusion of a full twelve months of revenue from Applied Energy Management, Inc., which was acquired in June 2008. This increase was partially offset by a \$4.0 million decline in revenue derived from our C&I market, where customers deferred projects due to concerns regarding the economy.

***Gross Profit***

**Our gross profit increased \$3.7 million or 29.9% to \$16.0 million during 2009 from \$12.3 million during 2008. Our gross profit margin was 24.3% during 2009 compared to 22.5% for 2008. The improvement in our gross margin was due to a change in our shift of business that included higher margin projects from our public sector.**





*Selling General & Administrative Expense*



**Our selling, general and administrative expenses increased \$6.3 million or 35.2% during 2009 to \$24.0 million from \$17.8 million for 2008. The majority of the increase in our SG&A was due to the**



inclusion of twelve months of expense from AEM, which was acquired in June 2008. Our SG&A as a percent of revenue increased during 2009 to 36.5% from 32.5% in 2008 on a historical basis. The increase in SG&A expense was primarily the result of the investment in the utility program management and FRR initiatives during 2009. Neither of these initiatives generated material revenue during 2009. The 2009 SG&A expense also included a one-time reserve of \$300,000 for a legal settlement. Other changes in SG&A included a \$1.9 million decline in our share based compensation expense, which was largely offset by increases in wages, outside services, franchise taxes and rent expense. A significant portion of the increase in outside services was related to implementation of a new accounting system at AEM and a new corporate email system.

### *Amortization of Intangibles*

Amortization expense declined \$347,000, or 22.1%, to \$1.2 million during 2009 from \$1.6 million in 2008. Amortization expense has declined as certain intangible assets associated with past acquisitions have become fully amortized.

### *Impairment Loss*

During 2009 we determined that the Parke trade name was impaired due to our decision to operate the business under the Lime Energy name. As a result, we reduced the carrying value of this intangible asset to \$0, incurring a \$2.6 million impairment loss during the fourth quarter of 2009. This loss was partially offset by the reversal of a \$1 million deferred tax liability associated with this indefinite-lived asset.

### *Other Income (Expense)*

Other non-operating expense increased \$492,000 to \$3,073,000 in 2009 from \$2,581,000 in 2008. Interest expense increased \$542,000 during 2009 to \$3,210,000 from \$2,668,000 in 2008. The components of interest expense for the years ended December 31, 2009 and 2008 are as follows (in thousands):

	Year ended December 31,	
	2009	2008
Line of credit	\$ 51	\$ 953
Note payable	76	67
Mortgage	19	27
Subordinated convertible notes	329	500
Other	73	117
Total contractual interest	548	1,664
Amortization of deferred issuance costs and debt discount	1,724	1,004
Beneficial value of change in conversion price	938	
Total Interest Expense	\$ 3,210	\$ 2,668

Total contractual interest expense (the interest on outstanding loan balances) decreased \$1,116,000 or 67.1% from \$1,664,000 in 2008 to \$548,000 in 2009. The decline in interest expense was primarily due to reduced use of our line of credit and the conversion of the subordinated notes. In November 2008, \$14.5 million outstanding on the line of credit was converted to common stock and the line of credit was terminated in March 2009 when we acquired Advanced Biotherapy, Inc. The subordinated notes were converted to common stock during the third quarter of 2009.

Amortization of deferred issuance costs and debt discount increased \$720,000 to \$1,724,000 in 2009 from \$1,004,000 in 2008. The 2009 expense included a \$1,411,000 debt discount of which \$756,000 and \$2,000 of deferred issuance costs were expensed when the subordinated notes converted to common stock during the third quarter of 2009.

In August 2009 we issued warrants in connection with the new bridge line of credit. These warrants were valued at \$309,000 using a trinomial tree option pricing model and the value was recorded as a debt discount, which we began to amortize over the schedule term of the facility. We terminated the bridge line of credit in October 2009, following the completion of a follow-on offering of common stock, at which time we expensed the remaining unamortized debt discount.

We used a portion of the proceeds from the 2009 follow-on offering to repay most of our remaining outstanding debt. As of December 31, 2009 our outstanding debt totaled \$731,000, which was comprised a mortgage and various vehicle loans, and there was no remaining unamortized debt discount or deferred issuance costs.

Our interest income increased \$50,000 to \$137,000 during 2009 from \$87,000 for 2008. Approximately \$113,000 of the 2009 interest income was amortization of the discount on our long-term receivables, compared to \$39,000 of amortization recognized on these receivables during 2008.

#### ***Discontinued Operations***

Our loss from discontinued operations declined \$694,000 or 28% to \$1,786,000 in 2009 from \$2,480,000 in 2008. Discontinued Operations represents the results from our Energy Technology business, which we sold in August 2009.

#### ***Dividend Expense.***

Dividend expense increased \$1,211,000 during 2009 to \$1,499,000 from \$288,000 during 2008. The dividend expense was related to our Series A-1 preferred stock which was created when \$14.5 million of our line of credit was converted into shares of the Series A-1 on November 14, 2008. The Series A-1 was converted into common stock on August 10, 2009, at which time we stopped accruing dividends. There were no shares of preferred stock outstanding as of December 31, 2009.

#### **Liquidity and Capital Resources**

##### ***Overview***

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During the twelve-month period ended December 31, 2012, we incurred a net loss of \$31.8 million and used \$13.6 million of cash for operating activities. Primarily as a result of our continuing losses and lack of liquidity, our independent registered public accounting firm modified their opinion on our December 31, 2012 Consolidated Financial Statement to contain a paragraph wherein they expressed a substantial doubt about our ability to continue as a going concern. We have taken steps to reduce our losses and improve our liquidity, the most significant of which was to sell our ESCO business. We provide additional insight into our strategy for strengthening our financial position below.

As of December 31, 2012, we had cash and cash equivalents of \$2.9 million, including \$500 thousand of restricted cash, compared to cash of \$9.0 million, including restricted cash of \$725 thousand as of December 31, 2011. Our contractual obligations as of December 31, 2012 totaled \$16.4 million, and include \$12.1 million of debt (including expected interest payments of \$2.5 million) and \$4.2 million in



future lease obligations. Our contractual commitments for 2013 total approximately \$1.8 million, which we believe we will be able to satisfy through operating cash flows and our cash reserve.

Our principal cash requirements are for operating expenses, including employee costs, the cost of outside services including those providing accounting, legal and contracting services, and the funding of accounts receivable, and capital expenditures. We have financed our operations since inception primarily through the sale of our common and preferred stock, as well as through various forms of secured debt.

The following table summarizes, for the periods indicated, selected items in our consolidated statement of cash flows (in thousands):

Year ended December 31	2012	2011
Net cash used in operating activities	\$ (13,577)	\$ (4,246)
Net cash used in investing activities	(761)	(3,404)
Net cash provided by financing activities	8,440	2,924
Net Decrease in Cash and Cash Equivalents	(5,898)	(4,726)
Cash and Cash Equivalents, at beginning of period	8,290	13,016
Cash and Cash Equivalents, at end of period	\$ 2,392	\$ 8,290

#### 2012 Compared to 2011

Net cash declined \$5.9 million during the twelve-month period ended December 31, 2012, compared to declining \$4.7 million during twelve-month period ended December 31, 2011.

#### *Operating Activities*

Operating activities consumed \$13.6 million of cash during the twelve-month period ended December 31, 2012, compared to consuming \$4.3 million during twelve-month period ended December 31, 2011.

Whether cash is consumed or generated by operating activities is a function of the profitability of our operations and changes in working capital. To get a better understanding of cash sources and uses, management splits the cash used or provided by operating activities into two pieces: the cash consumed (or generated) by operating activities before changes in assets and liabilities; and the cash consumed (or generated) from changes in assets and liabilities. By splitting the cash used or provided by operating activities this way our management believes it gets a better understanding of how much of our operating cash flow is the result of the Company's current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

	Year ended December 31, 2012	Year ended December 31, 2011 (Restated)
Net Loss	\$ (31,812)	\$ (18,933)
Provision for bad debts	866	361
Share-based compensation	1,784	2,191
Depreciation and amortization	1,821	1,325
Amortization of original issue discount	50	
Amortization of deferred financing costs	57	32
Issuance of stock and warrants in exchange for services received	20	6
PIK notes issued for interest	137	
Asset impairment	5,282	
Loss on disposition of fixed assets	(2)	107
Goodwill impairment	1,435	5,846
Cash consumed by operating activities before changes in assets and liabilities	\$ (20,362)	\$ (9,065)
Changes in assets and liabilities, net of business acquisitions and dispositions:		
Accounts receivable	\$ 9,272	\$ (12,511)
Inventories	(17)	
Costs in excess uncompleted contracts	(2,357)	5,911
Prepaid expenses and other current assets	337	(201)
Assets of discontinued operations	7,361	2,401
Accounts payable	(6,727)	5,317
Accrued expenses	771	1,259
Billings in excess uncompleted contracts	(3,516)	2,451
Other current liabilities	5,110	(545)
Liabilities of discontinued operations	(3,449)	737
Cash generated (consumed) from changes in assets and liabilities	\$ 6,785	\$ 4,819

The reconciliation to net cash used in operating activities as reported on our Consolidated Statement of Cash Flows is as follows (in thousands):

	Year ended December 31, 2012	Year ended December 31, 2011 (Restated)
Cash consumed by operating activities before changes in assets and liabilities	\$ (20,362)	\$ (9,065)
Cash generated from changes in assets and liabilities	6,785	4,819
Net cash used in operating activities	\$ (13,577)	\$ (4,246)

The cash consumed by operating activities before changes in assets and liabilities increased \$11.3 million, or 124.6%, to \$20.4 million during the twelve months ended December 31, 2012 from \$9.1 million for the same period during 2011. The increase in cash consumed was the result of the increase in cash SG&A expense for the period due to the combination of the restatement related expenses and the start-up of new utility programs.

We believe that expected growth in our revenue resulting from implementation of recently won contracts, in combination with an improvement in our gross margin and continued reductions in our SG&A as a percentage of revenue, will result in a significant reduction in cash use during 2013. If we are successful in executing the strategy outlined below, we believe that we could begin to generate cash from operating activities before changes in assets and liabilities during the second half of 2013.

Cash generated from changes in assets and liabilities increased \$2.0 million, or 41.4%, to \$6.8 million during the twelve months ended December 31, 2012, from \$4.8 million for the twelve months ended December 31, 2011. The change in business mix resulting from the slowdown in activity at our public sector business, which generally has higher working capital requirements, and the continued growth of our utility business, which generally has lower working capital requirements, led to the increase in cash generated from changes in assets and liabilities during 2012. With the sale of the public sector business in February 2013, we expect to see additional improvement in the amount of working capital required to support the business in the future.

#### *Investing Activities*

Cash used in investing activities declined \$2.6 million, or 77.6%, to \$761 thousand during the year ended December 31, 2012, compared to using \$3.4 million during the same period during 2011. During 2012, we used \$986 thousand for the purchase of property and equipment, compared to using \$5.3 million during 2011. Approximately \$3.8 million of the 2011 expenditures were used to construct the Zemel Road landfill-gas to electricity facility. The balance of the 2012 and 2011 capital expenditures were for computers, software and office equipment, primarily for the expansion of our utility business. These expenditures were partially offset during 2011 by \$765 thousand received from the sale of our former headquarters in Elk Grove Village, IL. Reductions in restricted cash also helped to offset the purchase of property and equipment during both 2012 and 2011. During 2012 restricted cash used to support bonds declined by \$225 thousand while in 2011 there was a \$1.2 million reduction in restricted cash.

### *Financing Activities*

Financing activities generated cash of \$8.4 million during 2012, compared to generating \$2.9 million during 2011. In May 2012, we sold 1 million shares of our common stock, raising \$2.5 million and in October we raised \$6.1 million through the issuance of subordinated convertible notes. During the year we also raised \$171 thousand from the sale of stock to employees under our Employee Stock Purchase Plan. These 2012 sources of cash were partial offset by scheduled principal payments of \$234 thousand and \$37 thousand of costs incurred in the issuance of the subordinated notes and \$60 thousand incurred in the issuance of the common stock. During 2011, we received \$3.6 million from a term loan used to finance a portion of the cost of the Zemel Road landfill-gas to electricity facility, and \$65 thousand from the issuance of shares of our stock under employee benefit plans. This was partially offset by \$481 thousand used to repay the mortgage on our former headquarters and other scheduled debt payments, and \$260 thousand of debt issuance costs.

### **2011 Compared to 2010**

Net cash declined \$4.7 million during the twelve-month period ended December 31, 2011, compared to declining \$9.9 million during twelve-month period ended December 31, 2010.

### *Operating Activities*

Operating activities consumed \$4.2 million during both the twelve-month period ended December 31, 2011, and the twelve-month period ended December 31, 2010. Changes in current assets and liabilities generated cash of \$4.8 million during 2011, which was offset by the operating loss and non-cash charges totaling \$9.1 million. During 2010 changes in current assets and liabilities generated cash of \$1.7 million, which was offset by an operating loss and non-cash charges totaling \$5.9 million.

### *Investing Activities*

Cash used in investing activities declined \$2.2 million, or 39.3%, to \$3.4 million during the year ended December 31, 2011, compared to using \$5.6 million during the same period during 2010. During 2011, we used \$5.4 million to purchase equipment, compared to using \$4.2 million in 2010 to purchase equipment and the Zemel Road gas rights. Approximately \$3.8 million of the 2011 expenditures were used to construct the Zemel Road landfill-gas to electricity facility, compared to \$3.5 million that was spent on equipment and the gas rights during 2010. The balance of the 2011 and 2010 capital expenditures were for computers, software and office equipment, primarily for the expansion of our utility program management business. The Zemel Road facility was completed and began generating electricity in October 2011, therefore we anticipate a significant reduction in our purchases of property and equipment during 2012. These expenditures were partially offset during 2011 by \$765 thousand received from the sale of real estate and a \$1.2 million reduction in restricted cash as collateral supporting surety bonds was released. During 2010, our restricted cash used to support surety bonds increased by \$1.4 million and we realized \$16 thousand from the sale of assets.

### *Financing Activities*

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Financing activities generated cash of \$2.9 million during 2011 compared to consuming cash of \$56 thousand during 2010. During 2011, we received \$3.6 million from a term loan used to finance a portion of the cost of the Zemel Road landfill-gas to electricity facility, and \$65 thousand from the issuance of shares of our stock under employee benefit plans. This was partially offset by \$481 thousand used to repay the mortgage on a building we sold and other scheduled debt payments, and \$260 thousand of debt issuance costs. During 2010, we used \$198 thousand for schedule principal payments on our debt and received \$142 thousand from the issuance of shares of our stock under employee benefit plans.

## **2010 Compared to 2009**

Net cash declined \$9.9 million during 2010 compared to increasing \$19.1 million during 2009.

### *Operating Activities*

Operating activities consumed \$4.2 million and \$12.7 million during 2010 and 2009, respectively. The net loss, less non-cash charges consumed cash of \$5.9 million during 2010, compared to consuming \$7.4 million during 2009. Changes in current assets and current liabilities generated cash of \$1.7 million during 2010, compared to generating \$5.3 million in 2009.

### *Investing Activities*

Cash consumed by investing activities increased \$3.6 million to \$5.6 million during 2010, from \$1.9 million during 2009. Approximately \$3.5 million of this increase was related to the acquisition of the gas rights to the Zemel Road landfill and costs to construct the generating facility on that site. The balance of the fixed asset purchases during 2010 were for computers, software and office equipment, primarily in support of our new business initiatives.

### *Financing Activities*

Financing activities consumed \$56 thousand during 2010 as compared to generating \$33.8 million during 2009. During 2010 we made \$198 thousand in scheduled payments on our outstanding debt and received \$142 thousand from the sale of shares of our common stock to employees participating in our Employee Stock Purchase Plan.

During 2009 we completed three offerings of our common stock, raising gross proceeds of \$42.3 million. The proceeds from these offerings were partially offset by \$3.1 million in offering related costs. We used \$4.0 million during 2009 to repay our line of credit and \$1.6 million to repay other notes. We also received \$91 thousand from the issuance of shares under our Employee Stock Purchase Plan, \$45 thousand on the exercise of certain options and warrants and \$27 thousand through the financing of vehicle purchases.

## **2009 Compared to 2008**

Net cash increased \$19.1 million during 2009 compared to a decline of \$1.0 million during 2008.

*Operating Activities*

Operating activities consumed \$12.7 million during 2009 and \$13.4 million during 2008. The net loss, less non-cash charges consumed cash of \$7.4 million during 2009, compared to consuming \$4.1 million during 2008. Changes in current assets and current liabilities generated cash of \$5.3 million in 2009, compared to consuming \$9.3 million during 2008.

*Investing Activities*

The cash consumed by investing activities declined \$2.3 million to \$1.9 million during 2009 from \$4.2 million during 2008. Cash used for acquisitions declined \$2.8 million to \$1 million during 2009, compared to \$3.8 million used during 2008. During 2009 we made an earn-out payment to the former stockholders of AEM and we acquired the FRR contract. Capital expenditures declined \$25,000 during 2009 to \$378,000 from \$403,000 during 2008. Our capital expenditures during both years were for

construction vehicles, primarily vans, and office equipment. During 2009 we received \$11,000 in proceeds from the sale of certain fixed assets compared to receiving \$3,000 during 2008.

#### *Financing Activities*

We generated \$33.8 million from financing activities during 2009, compared to generating \$16.6 million during 2008. We completed three offerings of our common stock, raising gross proceeds of \$42.3 million. The proceeds from these offerings were partially offset by \$3.1 million in offering related costs. We used \$4.0 million during 2009 to repay our line of credit and \$1.6 million to repay other notes. We also received \$91,000 from the issuance of shares under our Employee Stock Purchase Plan, \$45,000 on the exercise of certain options and warrants and \$27,000 through the financing of vehicle purchases.

#### **Sources of Liquidity**

Our primary sources of liquidity are our available, unrestricted cash reserves.

Our ability to continue to expand the sales of our products and services will require the continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors, including the amount, timing and profitability of future revenues, working capital requirements, the level and amount of product marketing and sales efforts, among other things.

We have raised a significant amount of capital since our formation through the issuance of shares of our common and preferred stock and notes, which has allowed us to continue to execute our business plan. Most of these funds have been consumed by operating activities, either to fund our losses or for working capital requirements.

We incurred a \$31.8 million loss during 2012 and consumed \$13.6 million of cash in operating activities during the 2012, as we dealt with the impact on the business of the announcement regarding our discovery of improper revenue recognition, the inability of our Asset Development business to secure the financing required to fund its projects and the start-up of five new utility programs. Late last year our management, in consultation with our Board of Directors, decided that we needed to shed businesses that we could not finance, narrow our focus to our most promising business and reduce overhead costs. Consistent with this strategy, we shut down the asset development business, sold the ESCO business and made significant reductions in remaining headcount.

Approximately 88% of our 2013 revenue is expected to be generated by our utility business, which has been our fastest growing business for the past three years. It is also a business in which we believe we are the market leader, in a market we believe has good prospects for future growth. The other remaining businesses will either be integrated into the utility business, if integration makes strategic sense, sold or operated until we have met all our obligations under our contracts and then shut down. We most likely will not resolve the future of these other businesses until sometime in 2014. Fortunately, they are each fairly autonomous and not expected to be a drain on cash.



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We have experienced a marked improvement in cash flow as we have begun to implement this strategy. We expect continued improvements as new utility programs start to achieve profitability and restatement related costs decline. We believe that as a result of these changes, there is a chance we will achieve profitability on a consolidated basis before the end of the year, though it is likely we will report a loss for full year 2013. We continue to closely monitor our cash position and are prepared to attempt to raise additional capital if it is necessary to meet day-to-day operating needs. If we do determine it necessary to raise additional capital there is no assurance we will be able to do so, or it may only be available on terms that are not favorable to the Company or our existing shareholders. We believe that we would be more likely to receive less onerous terms from a financing source the further we are along in

executing our strategy of focusing on our utilities business when attempting to raise capital. Therefore, we will continue to focus on the execution of that strategy, while closely monitoring cash and deferring any capital raise as long as possible.

*The information set forth above represents certain expectations of our business over time based on our business model. We caution you that these expectations may not materialize and are not indicative of the actual results we will achieve. See Risk Factors and Cautionary Statement On Forward-Looking Information.*

#### *Off-Balance Sheet Arrangements*

None.

#### **Recent Accounting Pronouncements**

We do not believe any recently issued, but not yet effective, accounting standards will have a material effect on our consolidated financial position, results of operations, or cash flows.

#### **PART IV**

#### **Item 15. Exhibits and Financial Statement Schedules.**

##### **(a)(3) Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
31.1 *	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1 *	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2*	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

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\* Filed herewith



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIME ENERGY CO.

By: /s/ John O Rourke  
John O Rourke  
Chief Executive Officer  
October 11, 2013