

TECOGEN INC.
Form 10-Q
May 11, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-36103

TECOGEN INC.

(Exact name of Registrant as specified in its charter)

Delaware

04-3536131

(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)

45 First Avenue

Waltham, Massachusetts

02451

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (781) 622-1120

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
						Emerging Growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Title of each class Outstanding, April 30, 2017

Common Stock, \$0.001 par value 20,043,052

TECOGEN INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED MARCH 31, 2017
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets - March 31, 2017 and December 31, 2016 (unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations - three months ended March 31, 2017 and 2016 (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows - three months ended March 31, 2017 and 2016 (unaudited)</u>	<u>3</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>4</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>13</u>
<u>Item 4. Controls and Procedures</u>	<u>13</u>

PART II - OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>14</u>
<u>Item 1A. Risk Factors</u>	<u>14</u>
<u>Item 6. Exhibits</u>	<u>15</u>
<u>Signatures</u>	<u>16</u>

References in this Form 10-Q to "we", "us", "our", the "Company" and "Tecogen" refers to Tecogen Inc. and its consolidated subsidiary, unless otherwise noted.

TECOGEN INC.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

As of March 31, 2017 and December 31, 2016

(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,148,753	\$3,721,765
Accounts receivable, net	9,102,078	8,630,418
Unbilled revenue	2,347,055	2,269,645
Inventory, net	6,075,277	4,774,264
Due from related party	336,693	260,988
Prepaid and other current assets	601,437	401,876
Total current assets	20,611,293	20,058,956
Property, plant and equipment, net	548,111	517,143
Intangible assets, net	1,094,747	1,065,967
Goodwill	40,870	40,870
Other assets	2,128,300	2,058,425
TOTAL ASSETS	\$24,423,321	\$23,741,361
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$4,011,804	\$3,367,481
Accrued expenses	1,153,864	1,378,258
Deferred revenue	907,445	876,765
Total current liabilities	6,073,113	5,622,504
Long-term liabilities:		
Deferred revenue, net of current portion	489,959	459,275
Senior convertible promissory note, related party	3,148,712	3,148,509
Total liabilities	9,711,784	9,230,288
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Tecogen Inc. stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 20,043,052 and 19,981,912 issued and outstanding at March 31, 2017 and December 31, 2016, respectively	20,043	19,982
Additional paid-in capital	37,490,389	37,334,773
Accumulated deficit	(22,798,895)	(22,843,682)
Total stockholders' equity	14,711,537	14,511,073
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$24,423,321	\$23,741,361

The accompanying notes are an integral part of these consolidated financial statements.

TECOGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months ended March 31, 2017 and 2016

(unaudited)

	Three months ended March 31,	
	2017	2016
Revenues		
Products	\$2,807,347	\$2,266,148
Services	4,039,420	2,809,367
Total revenues	6,846,767	5,075,515
Cost of sales		
Products	1,756,849	1,552,716
Services	2,175,245	1,803,455
Total cost of sales	3,932,094	3,356,171
Gross profit	2,914,673	1,719,344
Operating expenses		
General and administrative	2,208,905	1,892,220
Selling	447,452	515,032
Research and development	180,614	218,958
Total operating expenses	2,836,971	2,626,210
Income (loss) from operations	77,702	(906,866)
Other income (expense)		
Interest and other income (expense)	(1,213)	2,891
Interest expense	(31,702)	(42,381)
Total other expense, net	(32,915)	(39,490)
Income (loss) before income taxes	44,787	(946,356)
Consolidated net income (loss)	44,787	(946,356)
Less: Loss attributable to the noncontrolling interest	—	53,188
Net income (loss) attributable to Tecogen Inc.	\$44,787	\$(893,168)
Net income (loss) per share - basic	\$0.00	\$(0.05)
Net income (loss) per share - diluted	\$0.00	\$(0.05)
Weighted average shares outstanding - basic	20,037,795	18,478,990
Weighted average shares outstanding - diluted	20,317,142	18,478,990

The accompanying notes are an integral part of these consolidated financial statements.

TECOGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2017 and 2016

(unaudited)

	March 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income (loss)	\$44,787	\$(946,356)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	64,281	65,456
Recovery of inventory reserve	(36,000)	14,000
Stock-based compensation	48,842	27,243
Non-cash interest expense	203	12,382
Loss on sale of assets	2,909	640
Provision for losses on accounts receivable	—	(6,154)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Short term investments	—	(73)
Accounts receivable	(471,660)	(595,293)
Unbilled revenue	(77,410)	213,121
Inventory, net	(1,265,013)	367,511
Due from related party	(75,705)	582,662
Prepaid expenses and other current assets	(199,561)	(1,786)
Other non-current assets	(69,875)	—
Increase (decrease) in:		
Accounts payable	644,323	(934,598)
Accrued expenses	(224,394)	13,109
Deferred revenue	61,364	37,021
Net cash used in operating activities	(1,552,909)	(1,151,115)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(73,330)	(47,371)
Purchases of intangible assets	(53,608)	(27,959)
Net cash used in investing activities	(126,938)	(75,330)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of stock issuance costs	—	(6,150)
Proceeds from the exercise of stock options	106,835	—
Net cash provided by financing activities	106,835	(6,150)
Net increase (decrease) in cash and cash equivalents	(1,573,012)	(1,232,595)
Cash and cash equivalents, beginning of the period	3,721,765	5,486,526
Cash and cash equivalents, end of the period	\$2,148,753	\$4,253,931
Supplemental disclosures of cash flows information:		
Cash paid for interest	\$31,150	\$29,999

The accompanying notes are an integral part of these consolidated financial statements.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

Note 1 – Description of business and summary of significant accounting policies

Description of business

Tecogen Inc., or the Company, was organized as a Delaware Corporation on November 15, 2000, and acquired the assets and liabilities of the Tecogen Products division of Thermo Power Corporation. The Company produces commercial and industrial, natural-gas-fueled engine-driven, combined heat and power (CHP) products that reduce energy costs, decrease greenhouse gas emissions and alleviate congestion on the national power grid. The Company's products supply electric power or mechanical power for cooling, while heat from the engine is recovered and purposefully used at a facility. The majority of the Company's customers are located in regions with the highest utility rates, typically California, the Midwest and the Northeast. The Company's common stock is listed on the NASDAQ under the ticker symbol TGEN.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and notes necessary for a complete presentation of our financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. We filed audited financial statements which included all information and notes necessary for such presentation for the two years ended December 31, 2016 in conjunction with our 2016 Annual Report on Form 10-K, or our Annual Report, filed with the Securities and Exchange Commission, or SEC, on March 23, 2017. This form 10-Q should be read in conjunction with our Annual Report.

The accompanying unaudited condensed consolidated balance sheets, statements of operations and statements of cash flows reflect all adjustments (consisting only of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of financial position at March 31, 2017, and of operations and cash flows for the interim periods ended March 31, 2017 and 2016. The results of operations for the interim period ended March 31, 2017 are not necessarily indicative of the results to be expected for the year.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Ilios Inc. or Ilios, whose business focus is on advanced heating systems for commercial and industrial applications. In May 2016, the Company completed an exchange of common stock with the shareholders of Ilios and effected a statutory merger. Ilios is no longer a separate subsidiary.

The Company's operations are comprised of one business segment. Our business is to manufacture and support highly efficient CHP products based on engines fueled by natural gas.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Generally, sales of cogeneration and chiller units and parts are recognized when shipped and services are recognized over the term of the service period. Payments received in advance of services being performed or as a deposit on equipment are recorded as deferred revenue.

The Company recognizes revenue in certain circumstances before delivery has occurred (commonly referred to as bill and hold transactions). In such circumstances, among other things, risk of ownership has passed to the buyer, the buyer has made a written fixed commitment to purchase the finished goods, the buyer has requested the finished goods be held for future delivery as scheduled and designated by them, and no additional performance obligations exist by the Company. For these transactions, the finished goods are segregated from inventory and normal billing and

credit terms are granted. For the period ended March 31, 2017, revenues of \$1,140,699 were recorded as bill and hold transactions. For the same period in 2016, \$140,600 revenues were recorded as bill and hold transactions. For those arrangements that include multiple deliverables, the Company first determines whether each service or deliverable meets the separation criteria of FASB ASC 605-25, Revenue Recognition—Multiple-Element Arrangements. In general, a deliverable (or a group of deliverables) meets the separation criteria if the deliverable has stand-alone value to the customer and if the arrangement includes a general right of return related to the delivered item and delivery or performance of the undelivered item(s) is considered probable and substantially in control of the Company. Each deliverable that meets the separation criteria is considered a separate “unit of accounting”. The Company allocates the total arrangement consideration to each unit of accounting

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

using the relative fair value method. The amount of arrangement consideration that is allocated to a delivered unit of accounting is limited to the amount that is not contingent upon the delivery of another unit of accounting.

When vendor-specific objective evidence or third-party evidence is not available, adopting the relative fair value method of allocation permits the Company to recognize revenue on specific elements as completed based on the estimated selling price. The Company generally uses internal pricing lists that determine sales prices to external customers in determining its best estimate of the selling price of the various deliverables in multiple-element arrangements. Changes in judgments made in estimating the selling price of the various deliverables could significantly affect the timing or amount of revenue recognition. The Company enters into sales arrangements with customers to sell its cogeneration and chiller units and related service contracts and occasionally installation services. Based on the fact that the Company sells each deliverable to other customers on a stand-alone basis, the Company has determined that each deliverable has a stand-alone value. Additionally, there are no rights of return relative to the delivered items; therefore, each deliverable is considered a separate unit of accounting.

After the arrangement consideration has been allocated to each unit of accounting, the Company applies the appropriate revenue recognition method for each unit of accounting based on the nature of the arrangement and the services included in each unit of accounting. Cogeneration and chiller units are recognized when shipped and services are recognized over the term of the applicable agreement, or as provided when on a time and materials basis.

In some cases, our customers may choose to have the Company design, engineer and install the system for them rather than simply purchase the cogeneration and/or chiller units. In this case, the Company accounts for revenue, or turnkey revenue, and costs using the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, revenues are recognized by applying percentages of completion to the total estimated revenues for the respective contracts. Costs are recognized as incurred. The percentages of completion are determined by relating the actual cost of work performed to date to the current estimated total cost at completion of the respective contracts. When the estimate on a contract indicates a loss, the Company's policy is to record the entire expected loss, regardless of the percentage of completion. During the three months ended March 31, 2017 and 2016, a loss of approximately \$35,000 and \$155,200, respectively was recorded. The excess of contract costs and profit recognized to date on the percentage-of-completion accounting method in excess of billings is recorded as unbilled revenue. Billings in excess of related costs and estimated profit is recorded as deferred revenue.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the period. Bad debts are written off against the allowance when identified. At March 31, 2017 and December 31, 2016, the allowance for doubtful accounts was approximately \$30,000.

Inventory

Raw materials, work in process, and finished goods inventories are stated at the lower of cost, as determined by the average cost method, or net realizable value. The Company periodically reviews inventory quantities on hand for excess and/or obsolete inventory based primarily on historical usage, as well as based on estimated forecast of product demand. Any reserves that result from this review are charged to cost of sales. At March 31, 2017 and December 31, 2016, inventory reserves were \$230,000 and \$266,000, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the asset, which range from three to fifteen years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the term of the related leases. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. For the three months ended March 31, 2017 and 2016, depreciation expense was \$39,453 and \$41,166.

Intangible Assets

Intangible assets are amortized on a straight-line basis over the estimated economic life of the intangible asset. The Company reviews intangible assets for impairment when the circumstances warrant.

Goodwill

The Company tests its recorded goodwill for impairment in the fourth quarter, or more often if indicators of potential impairment exist, by determining if the carrying value of the Company's single reporting unit exceeds its estimated fair value. During the first three months of 2017, the Company determined that no interim impairment test was necessary.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the estimated fair value of the award and is recognized as an expense in the consolidated statements of operations over the requisite service period. The fair value of stock options granted is estimated using the Black-Scholes option pricing valuation model. The Company recognizes compensation on a straight-line basis for each separately vesting portion of the option award. The determination of the fair value of share-based payment awards is affected by the Company's stock price. The Company uses the simplified method for awards of stock-based compensation since it does not have the necessary historical exercise and forfeiture data to determine an expected life for stock options (see Note 5).

Revenues by Product

The following table summarizes net revenue by product line and services for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,	
	2017	2016
Products		
Cogeneration	\$2,296,637	\$1,417,972
Chiller & Heat Pump	510,710	848,176
Total Product Revenue	2,807,347	2,266,148
Services		
Service contracts	2,361,582	2,188,322
Installations	1,677,838	621,045
Total Service Revenue	4,039,420	2,809,367
Total Revenue	\$6,846,767	\$5,075,515

Note 2 – Income (Loss) per common share

Basic and diluted income (loss) per share for the three months ended March 31, 2017 and 2016, respectively, were as follows:

	Three months ended March 31,	
	2017	2016
Net income (loss) attributable to stockholders	\$44,787	\$(893,168)
Weighted average shares outstanding - Basic	20,037,798	18,478,990
Basic income (loss) per share	\$0.00	\$(0.05)
Weighted average shares outstanding - Diluted	20,317,142	18,478,990
Diluted income (loss) per share	\$0.00	\$(0.05)
Anti-dilutive shares underlying stock options outstanding	—	1,123,200
Anti-dilutive convertible debentures	889,830	890,207
Anti-dilutive warrants outstanding	—	—

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

Note 3 – Demand notes payable, convertible debentures and line of credit agreement to related parties

On December 23, 2013, the Company entered into a Senior Convertible Promissory Note or the Note, with Michaelson Capital Special Finance Fund LP or Michaelson, for the principal amount of \$3,000,000 with interest at 4% per annum for a term of three years. In the event of default such interest rate shall accrue at 8% after the occurrence of the event of default and during continuance plus 2% after the occurrence and during the continuance of any other event of default. The Note is a senior unsecured obligation which pays interest only on a monthly basis in arrears at a rate of 4% per annum, unless earlier converted in accordance with the terms of the agreement prior to such date. Effective April 1, 2016, the Note was amended increasing the principal amount by \$150,000 for a total of \$3,150,000 and extending the maturity date. The principal amount, if not converted, is now due on the fifth anniversary of the Note, December 28, 2018. The Note is senior in right of payment to any unsecured indebtedness that is expressly subordinated in right of payment to the Note.

The principal balance of the Note, together with any unpaid interest, is convertible into shares of the Company's common stock at 282.49 shares of the Company's common stock per \$1,000 principal amount of Note (equivalent to a conversion price of \$3.54 per share) at the option of Michaelson. If at any time the common stock of the Company is (1) trading on a national securities exchange, (2) qualifies for unrestricted resale under federal securities laws and (3) the arithmetic average of the volume weighted average price of the Common Stock for twenty consecutive trading days preceding the Company's notice of mandatory conversion exceeds \$150,000, the Company shall have the right to require conversion of all of the then outstanding principal balance together with unpaid interest of this Note into the Company's common stock based on the conversion price of \$3.54 per share. The Company may prepay all of the outstanding principal and interest due and payable under this Note in full, at any time prior to the maturity date for an amount equal to 120% of the then outstanding principal and interest due and payable as of the date of such prepayment.

Upon change of control, as defined by the Note, at Michaelson's option, the obligations may be assumed, on the terms and conditions in this Note, through an assignment and assumption agreement, or the Company may prepay all of the then outstanding principal and unpaid interest under this Note in full at the optional 120% prepayment amount. This provision creates an embedded derivative in accordance with FASB ASC 815, Derivatives and Hedging. As such it is required to be bifurcated and accounted for separately from the Note. However, the Company has determined that the fair value of the embedded derivative is immaterial to the consolidated financial statements. Debt issuance costs are netted against the principal balance of the debt.

As per an amendment to the Note dated April 1, 2016, the conversion price was increased from \$3.37 to \$3.54 and the number of shares issuable upon conversion decreased from 890,207 at December 31, 2015 to 889,830 at April 1, 2016. The Company has determined that changes resulting from this modification were immaterial to the consolidated financial statements.

On June 15, 2015, the Company entered into a Non-Revolving Line of Credit Agreement, or the Agreement, with John N. Hatsopoulos, the Company's Co-Chief Executive Officer and a Company Director. Under the terms of the Agreement, Mr. Hatsopoulos has agreed to lend the Company up to an aggregate of \$2,000,000, with a withdrawal limit of \$250,000 per financial calendar quarter, at the written request of the Company. Any amounts borrowed by the Company pursuant to the Agreement will bear interest at 6% per year. Interest is due and payable quarterly in arrears. The term of the Agreement is from July 1, 2015 to July 1, 2017. Repayment of the principal amount borrowed pursuant to the Agreement will be due on July 1, 2017, or the Maturity Date. Prepayment of any amounts due under the Agreement may be made at any time without penalty. The Agreement terminates on the Maturity Date. The Company has not yet borrowed any amounts pursuant to the Agreement.

Note 4 - Stockholders' Equity and Ilios subsidiary

Beginning on April 11, 2016 through its conclusion on May 3, 2016, the Company entered into numerous private placement share exchange agreements ("Share Exchange Agreements") with shareholders of Ilios ("Exchanging Shareholders"), a majority owned subsidiary of the Company. Pursuant to the Share Exchange Agreements, the

Exchanging Shareholders agreed to exchange every 7.86 of their restricted Ilios shares of common stock for 1 share of the Company's restricted common stock. In addition, the Company granted each Exchanging Shareholder registration rights of the Company's common stock they received in exchange for their Ilios shares. The Company issued a total of 670,464 shares of its common stock in exchange for Ilios shares of common stock. Pursuant to the Registration Rights Agreement, the Company filed a registration statement covering the resale of the shares.

Upon execution of the exchange agreements for 100% of the shares of Ilios, the Company no longer had a non-controlling interest in its subsidiary. On April 30, 2016, Ilios was merged into the Company, and accounting for the noncontrolling interest in the subsidiary ended.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

Note 5 - Stock-based compensation

Stock-Based Compensation

In 2006, the Company adopted the 2006 Stock Option and Incentive Plan or the Plan, under which the Board of Directors may grant incentive or non-qualified stock options and stock grants to key employees, directors, advisors and consultants of the Company. The Plan was amended at various dates by the Board of Directors to increase the reserved shares of common stock issuable under the Plan to 3,838,750 as of March 31, 2017, or the Amended Plan. Stock options vest based upon the terms within the individual option grants, with an acceleration of the unvested portion of such options upon a change in control event, as defined in the Amended Plan. The options are not transferable except by will or domestic relations order. The option price per share under the Amended Plan cannot be less than the fair market value of the underlying shares on the date of the grant. The number of shares remaining available for future issuance under the Amended Plan as of March 31, 2017 was 2,186,424.

Stock option activity for the three months ended March 31, 2017 was as follows:

Common Stock Options	Number of Options	Exercise Price Per Share	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Outstanding, December 31, 2016	1,117,918	\$0.79-\$5.39	\$ 3.10	5.00 years	\$1,415,150
Granted	3,000	\$3.72	3.72		
Exercised	(61,140)	\$0.79-\$2.00	1.75		
Canceled and forfeited	—	—	—		
Expired	—	—	—		
Outstanding, March 31, 2017	1,059,778	\$0.79-\$5.39	\$ 3.18	5.12 years	\$1,000,757
Exercisable, March 31, 2017	783,153		\$ 2.73		\$993,591
Vested and expected to vest, March 31, 2017	1,018,284		\$ 3.13		\$999,682

Consolidated stock-based compensation expense for the three months ended March 31, 2017 and 2016 was \$48,842 and \$27,243, respectively. No tax benefit was recognized related to the stock-based compensation recorded during the periods.

Note 6 – Commitments and contingencies

Letters of Credit

On January 28, 2016, the letter of credit from Enterprise Bank and Trust Company required for collateral with an outstanding performance bond was closed as the Company had met the performance obligations of the bond.

Legal Proceedings

Tecogen is not currently a party to any material litigation arising from its operations, and it is not aware of any pending or threatened litigation against it from its operations that could have a material adverse effect on its business, operating results or financial condition. However, it is a party to a claim in the Superior Court of the Commonwealth of Massachusetts and named as a defendant in a case in the United States District Court for the District of Massachusetts, described below, related to the Merger.

Massachusetts Superior Court Action

On or about February 6, 2017, ADGE, John Hatsopoulos, George N. Hatsopoulos, Charles T. Maxwell, Deanna M. Petersen, Christine Klaskin, John Rowe, Joan Giacinti, Elias Samaras, Tecogen, and Merger Sub were served with a Verified Complaint by William C. May ("May"), individually and on behalf of the other shareholders of ADGE as a class. The action was commenced in the Business Litigation Session of the Superior Court of the Commonwealth of Massachusetts, Civil Action No. 17-0390. The complaint alleges the proposed Merger is subject to certain conflicts of interest; that ADGE's board failed to protect its shareholders by failing to conduct an auction or market check; that the Exchange Ratio undervalues ADGE's outstanding shares; that ADGE's directors breached their fiduciary duties in approving the Merger proposal; that the registration statement on Form S-4 contained material omissions; that

Tecogen aided and abetted ADGE's board's breaches of its fiduciary duties; and other claims. The plaintiff is seeking preliminary and permanent injunctions related to the Merger, rescissory damages, compensatory damages, accounting, and other relief.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

United States District Court Action

On or about February 15, 2017, a lawsuit was filed in the United States District Court for the District of Massachusetts by Lee Vardakas (“Vardakas”), individually and on behalf of other stockholders of ADGE, naming ADGE, John N. Hatsopoulos, George N. Hatsopoulos, Benjamin Locke, Charles T. Maxwell, Deanne M. Petersen, Christine M. Klaskin, John Rowe, Joan Giacinti, Elias Samaras, Tecogen Inc., Tecogen.ADGE Acquisition Corp., and Cassel Salpeter and Co., LLC, as defendants. In the complaint related to the matter, Vardakas claims: that the defendants violated Section 14(a)(1) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), and Rule 14a-9 thereunder, in that the Form S-4 registration statement, as amended, filed by Tecogen contained certain material misstatements or omissions related to the valuation analysis in support of the fairness opinion, certain financial projections, and information related to certain conflicts of interest; that the directors and officers of ADGE have control person liability for the alleged material misstatements and omissions pursuant to Section 20(a) of the Exchange Act; that the directors of ADGE breached their fiduciary duties to ADGE’s stockholders related to the merger transactions, including that they failed to take steps to obtain the highest possible consideration for ADGE stockholders in the transaction; that Mr. John Hatsopoulos and Mr. George Hatsopoulos, acting in concert and as a group, as controlling stockholders of ADGE, violated their fiduciary duties to the stockholders of ADGE; and that Mr. George Hatsopoulos, Tecogen.ADGE Acquisition Corp., Cassel Salpeter aided and abetted breaches of fiduciary duties by the directors and officers of ADGE. Vardakas is seeking a preliminary injunction, damages, costs and disbursements, including reasonable attorneys’ fees, and such other relief as the court deems just and proper. As of the date of this report, none of the persons named as defendants in this action have been served with the complaint in the matter.

At this time the Company believes these cases are not material to its financial statements.

Note 7 – Related party transactions and Joint Ventures

The Company has three affiliated companies, namely American DG Energy Inc., or American DG Energy, Ultra Emissions Technologies Ltd, and TTcogen LLC. These companies are related because either several of the major stockholders of those companies, have a significant ownership position in the Company or they joint ventures between Tecogen and other parties. Neither American DG Energy own any shares of the Company, nor does the Company own any shares of American DG Energy.

On December 23, 2013, the Company entered into a Senior Convertible Promissory Note with Michaelson Capital Special Finance Fund LP (see Note 3). This agreement came with board observation rights causing the related party status.

On June 15, 2015, the Company entered into a Non-Revolving Line of Credit Agreement with John N. Hatsopoulos, the Company's Co-Chief Executive Officer and a Company Director (see Note 3).

The Company provides office space and certain utilities to American DG Energy based on a monthly rate set at the beginning of each year. This sublease was signed on July 1, 2014 and subsequently amended. The lease will expire on July 1, 2017. The agreement contains an automatic monthly renewal at expiration. In addition, the Company pays certain operating expenses, including benefits and insurance, on behalf of American DG Energy. The Company is reimbursed for these costs. In January of 2017, Tecogen purchased a large quantity of used equipment from American DG Energy for approximately \$985,000. Tecogen plans to sell this equipment to specific customers in the coming quarters.

Ultra Emissions Technologies Ltd.

On December 28, 2015, the Company entered into a joint venture agreement relating to the formation of a joint venture company (the “JV”) organized to develop and commercialize Tecogen’s patented technology (“Ultra Technology”) designed to reduce harmful emissions generated by engines using fossil fuels. The joint venture company, called Ultra Emissions Technologies Limited, was organized under the laws of the Island of Jersey, Channel Islands.

The Company received a 50% equity interest in the JV in exchange for a fully paid-up worldwide license to use Tecogen's Ultra emissions control technology in the field of mobile vehicles burning fossil fuels. The other half of the joint venture equity interests were purchased for \$3,000,000 by a small group of offshore investors. Warrants to purchase additional equity securities in the JV were granted to all parties pro rata. If the venture is not successful, all licensed intellectual property rights will revert to Tecogen.

The JV is expected to have losses as it performs the necessary research and development with the Ultra technology. On August 2, 2016, Tecogen exercised 2,000,000 warrants (the "Ultratek Warrants"), in the JV, at \$1.00 per share, for an aggregate amount of \$2 million. The funds used to exercise the Ultratek Warrants were acquired by the Company from the holders of certain Company warrants (the "Tecogen Warrant Holders"), when they partially exercised their Tecogen warrants (the "Tecogen Warrants"), in July of 2016. The Tecogen Warrant Holders exercised a total of 675,000 Tecogen Warrants with a \$4.00 exercise price, resulting in cash proceeds of \$2,700,000 to the Company, which the Company then used some of the proceeds to invest in the JV. An additional \$6,500,000 was raised from other outside investors for a total equity investment to date of \$13,500,000. Due to this additional capital raise, Tecogen's ownership has decreased to 43%.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

The Company is accounting for its interest in the JV using the equity method. Income and losses will be recorded consistent with an agreement between the JV shareholders as to how income and losses will be allocated. These allocations are consistent with the allocation of cash distributions and liquidating distributions of the JV. The shareholder agreement calls for Tecogen's investment to be returned before any other shareholder if the venture does not achieve commercialization. As a result, as of March 31, 2017, Tecogen has not recorded any of the income or losses of the JV.

TTcogen LLC

On May 19, 2016, the Company along with Tedom a.s., a corporation incorporated in the Czech Republic and a European combined heat and power product manufacturer, ("Tedom") entered into a joint venture, where the Company will hold a 50% participating interest and the remaining 50% interest will be with Tedom. As part of the joint venture, the parties agreed to create a Delaware limited liability company, TTcogen LLC ("TTcogen"), to carry out the business of the venture. Tedom granted TTcogen the sole and exclusive right to market, sell, offer for sale, and distribute certain products as agreed to by the parties throughout the United States. The product offerings of the joint venture expand the current Tecogen product offerings to the MicroCHP of 35kW to large 4,000kW plants. Tecogen agreed to refer all appropriate sale leads to TTcogen regarding the products agreed to by the parties and Tecogen shall have the first right to repair and maintain the products sold by TTcogen.

The TTcogen operations will be accounted for using equity method accounting. Any losses on the initial operation of the entity will not be consolidated in Tecogen's financial statements. Since Tecogen does not guarantee obligations of TTcogen, losses or liabilities of the joint venture are not recorded on the Company's financial statements. Using equity method accounting, as the venture becomes profitable with the expected growth, realized gains from profits will be added to the an investment asset account on the consolidated balance sheet.

Note 8 - Intangible assets other than goodwill

As of December 31, 2016 and March 31, 2017 the Company has the following amounts related to intangible assets:

	Product Certifications	Patents	Developed Technology	Trademarks	Total
Balance at December 31, 2016					
Intangible assets	\$ 544,651	\$ 681,155	\$ 240,000	\$ 17,165	\$ 1,482,971
Less - accumulated amortization	(233,992)	(123,012)	(60,000)	—	(417,004)
	\$ 310,659	\$ 558,143	\$ 180,000	\$ 17,165	\$ 1,065,967
Balance at March 31, 2017					
Intangible assets	\$ 582,166	\$ 696,498	240,000	\$ 17,915	\$ 1,536,579
Less - accumulated amortization	(246,830)	(131,002)	(64,000)	—	(441,832)
	\$ 335,336	\$ 565,496	\$ 176,000	\$ 17,915	\$ 1,094,747

The aggregate amortization expense of the Company's intangible assets for the three months ended March 31, 2017 and 2016 was \$24,828 and \$24,290, respectively.

Note 9 - Subsequent Events

On November 1, 2016, the Company entered into an agreement and plan of merger, dated as of November 1, 2016 with American DG Energy (NYSE MKT: ADGE) ("American DG"), and Tecogen.ADGE Acquisition Corp Inc., a Delaware corporation and a wholly-owned subsidiary of Tecogen ("Merger Subsidiary").

Under the terms of the Merger Agreement, Merger Subsidiary will merge with and into American DG, with American DG becoming a wholly-owned subsidiary of Tecogen and the surviving corporation of the transaction (the "Merger"). The Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986. Subject to the terms and conditions of the Merger Agreement and shareholder approval, at the closing of the Merger, each outstanding share of American DG common stock will be converted into the right to receive approximately 0.092 shares of common stock of Tecogen ("the Exchange Ratio").

Consummation of the Merger is subject to customary closing conditions, including, among other things, approval by the stockholders of Tecogen and American DG. The Merger Agreement does not contain any termination, prohibitions on termination, no-shop clause, or reimbursements of Merger related expenses. As part of the Merger Agreement, American DG and Tecogen have made customary mutual representations and warranties.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2017 and 2016

The Company filed a registration statement on Form S-4, which contains a proxy statement of the Company and a prospectus of the Company (the “Registration Statement”), with the Securities and Exchange Commission (the “SEC”). On April 12, 2017, the Registration Statement was declared effective by the SEC, and the Company announced that a special meeting of the Company’s stockholders (the “Special Meeting”) is scheduled to be held on May 18, 2017, at 11 a.m., Eastern Time, at the Company’s principal executive offices at 45 First Avenue, Waltham, Massachusetts 02451, to consider and vote on (1) a proposal to approve the issuance of the shares of common stock, par value \$.001 per share, of the Company pursuant to the Agreement and Plan of Merger, dated as of November 1, 2016, as subsequently amended (the “Merger Agreement”), among the Company, Tecogen.ADGE Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of the Company (“Merger Sub”), and American DG Energy Inc. (“ADGE”), pursuant to which Merger Sub will merge with and into ADGE, with ADGE as the surviving entity such that ADGE will become a wholly-owned subsidiary of the Company (the “Merger”), and (2) a proposal to approve the adjournment or postponement of the Special Meeting, if necessary or appropriate, to solicit additional proxies. Stockholders of record of the Company at the close of business on April 24, 2017, will be entitled to vote by proxy or in person at the Special Meeting. The proxy statement is expected to be mailed to stockholders of record on or about May 4, 2017. Completion of the Merger is subject to certain conditions, including approval by the Company’s stockholders and other customary closing conditions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements are made throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include, among other things, statements regarding our current and future cash requirements, our expectations regarding suppliers of cogeneration units, and statements regarding potential financing activities in the future. While the Company may elect to update forward-looking statements in the future, it specifically disclaims any obligation to do so, even if the Company’s estimates change, and readers should not rely on those forward-looking statements as representing the Company’s views as of any date subsequent to the date of the filing of this Quarterly Report. There are a number of important factors that could cause the actual results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading “Risk Factors” in this Quarterly Report.

Overview

Tecogen Inc., or the Company, or Tecogen, designs, manufactures and sells industrial and commercial cogeneration systems that produce combinations of electricity, hot water and air conditioning using automotive engines that have been specially adapted to run on natural gas. In some cases, our customers may choose to have the Company engineer and install the system for them rather than simply purchase the cogeneration and/or chiller units, which we refer to as “turnkey” projects. Cogeneration systems are efficient because in addition to supplying mechanical energy to power electric generators or compressors – displacing utility supplied electricity – they provide opportunity for the facility to incorporate the engine’s waste heat into onsite processes such as space and portable water heating. We produce standardized, modular, small-scale products, with a limited number of product configurations that are adaptable to multiple applications. We refer to these combined heat and power products as CHP (electricity plus heat) and MCHP (mechanical power plus heat).

In addition to being a smaller reporting company, Tecogen is an emerging growth company as that term is defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act).

Results of Operations

Revenues

Revenues in the first quarter of 2017 were \$6,846,767 compared to \$5,075,515 for the same period in 2016, an increase of \$1,771,252 or 34.9%. Product revenues in the first quarter of 2017 were \$2,807,347 compared to

\$2,266,148 for the same period in 2016, an increase of \$541,199 or 23.9%. This increase was the aggregate of an increase in cogeneration sales of \$878,665 and a decrease in chiller and heat pump sales, which include the Ilios products, of \$337,466. Service revenues in the first quarter of 2017 were \$4,039,420 compared to \$2,809,367 for the same period in 2016, an increase of \$1,230,053 or 43.8%. This increase in the first quarter is the due to an increase in installation activity of \$1,056,793 and an increase of \$173,260 in service contract revenues.

Table of Contents
TECOGEN INC.

Cost of Sales

Cost of sales in the first quarter of 2017 was \$3,932,094 compared to \$3,356,171 for the same period in 2016, an increase of \$575,923, or 17.2%. During the first quarter of 2017 our overall gross profit margin was 42.6% compared to 33.9% for the same period in 2016, an increase of 25.7%. The increase in margins was the direct result of product upgrades and improvements. Management expects growth in sales volume to maintain this gross margin going forward.

Operating Expenses

General and administrative expenses consist of executive staff, accounting and legal expenses, office space, general insurance and other administrative expenses. General and administrative expenses in the quarter ending March 31, 2017 were \$2,208,905 compared to \$1,892,220 for the same period in 2016, an increase of \$316,685 or 16.7%. The majority of the increase was for the mergers and acquisition activities over the same period this year.

Selling expenses consist of sales staff, commissions, marketing, travel and other selling related expenses. Selling expenses for the first quarter of 2017 were \$447,452 compared to \$515,032 for the same period in 2016, a decrease of \$67,580 or 13.1%. This difference is due to a higher mix of in-house sales versus representation commissions and lowered public relations fees.

Research and development expenses consist of engineering and technical staff, materials, outside consulting and other related expenses. Research and development expenses in the quarter ending March 31, 2017 were \$180,614 compared to \$218,958 for the same period in 2016, a decrease of \$38,344 or 17.5%. This decrease was due to the completion of a product development cycle.

Income (Loss) from Operations

Income from operations for the first quarter of 2017 was \$77,702 compared to a loss of \$906,866 for the same period in 2016, an increase of \$984,568. The increase was due to a reduction in cost of goods sold and increased revenues from high margin products and services.

Other Income (Expense), net

Other expense, net for the three months ended March 31, 2017 was \$32,915 compared to \$39,490 for the same period in 2016. Other income (expense) includes interest income and other expense of \$1,213, and interest expense on notes payable of \$31,702 for the first quarter of 2017. For the same period in 2016, interest and other income of \$2,891 and interest expense was \$42,381.

Provision for Income Taxes

The Company did not record any benefit or provision for income taxes for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 and 2016, the income tax benefits generated from the Company's net losses have been fully reserved.

Noncontrolling Interest

The loss attributable to the noncontrolling interest was \$0 in the three months ended March 31, 2017 as a result of the Company's acquisition of the noncontrolling interest in May 2016. For the same period in 2016, the loss attributable to the noncontrolling interest was \$53,188.

Net Income (Loss)

Net income attributable to Tecogen for the three months ended March 31, 2017 was \$44,787 compared to a loss of \$893,168 for the same period in 2016, an increase of \$937,955. The increase in income was the result of the reduction of cost of goods sold and higher margin product sales.

Liquidity and Capital Resources

Consolidated working capital at March 31, 2017 was \$14,538,180 compared to \$14,436,452 at December 31, 2016, an increase of \$101,728. Included in working capital were cash and cash equivalents of \$2,148,753 at March 31, 2017, compared to \$3,721,765 in cash and cash equivalents at December 31, 2016, a decrease of \$1,573,012. The increase in working capital and decrease in cash was the result of non-cash expense and income for the period.

Cash used in operating activities for the three months ended March 31, 2017 was \$1,552,909 compared to \$1,151,115 for the same period in 2016. Our accounts receivable balance increased to \$9,102,078 at March 31, 2017 compared to \$8,630,418 at December 31, 2016, using \$471,660 of cash due to timing of billing, shipments, and collections. In

addition, amounts due from related parties decreased by \$75,705 providing cash due to timing of billing and collections. Our inventory increased to \$6,075,277 as of March 31, 2017 compared to \$4,774,264 as of December 31, 2016, an increase of \$1,301,013. This increase is primarily due to the purchase of used equipment from American DG. Although lowering inventory is a goal, management expects inventory to vary significantly based on production and customer delivery requirements.

Table of Contents
TECOGEN INC.

As of March 31, 2107, the Company's backlog of product and installation projects, excluding service contracts, was \$14 million, consisting of \$5 million of purchase orders received by us and \$9 million of projects in which the customer's internal approval process is complete, financial resources have been allocated and the customer has made a firm verbal commitment that the order is in the process of execution. Backlog at the beginning of any period is not necessarily indicative of future performance. Our presentation of backlog may differ from other companies in our industry.

Accounts payable increased to \$4,011,804 as of March 31, 2017 from \$3,367,481 at December 31, 2016, providing \$644,323 in cash flow from operations. Accrued expenses decreased to \$1,153,864 as of March 31, 2017 from \$1,378,258 as of December 31, 2016, using \$224,394 of cash from operations. The Company expects accounts payable and accrued expenses to fluctuate with routine changes in operations.

During the first three months of 2017, our investing activities used \$126,938 of cash and included purchases of property and equipment of \$73,330, expenditures related to intangible assets of \$53,608.

During the first three months of 2017, our financing activities included \$106,835 in proceeds from the exercise of stock options.

Significant Accounting Policies and Critical Estimates

The Company's significant accounting policies are discussed in the Notes to the Condensed Consolidated Financial Statements above and in our Annual Report. The accounting policies and estimates that can have a significant impact upon the operating results, financial position and footnote disclosures of the Company are described in the above notes and in our Annual Report.

Seasonality

We expect that the majority of our heating systems sales will be in the winter and the majority of our chilling systems sales will be in the summer. Our cogeneration and chiller system sales are not generally affected by the seasons, although customer goals will be to have chillers installed and running in the spring. Our service team does experience higher demand in the warmer months when cooling is required. These units are generally shut down in the winter and started up again in the spring. This "busy season" for the service team generally runs from May through the end of September.

Off-Balance Sheet Arrangements

Currently, we do not have any material off-balance sheet arrangements, including any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. We do not engage in trading activities involving non-exchange traded contracts.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Management's Evaluation of Disclosure Controls and Procedures:

The Company maintains "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed by the Company in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to the Company's management, including our principal executive officers and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures are designed to provide reasonable assurance that the control system's objectives will be met. Our management, including our Co-Chief Executive Officers and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, have concluded that our disclosure controls and procedures were not effective due to material weaknesses in financial reporting relating to lack of personnel with a sufficient level of accounting knowledge and a small number of employees dealing with general controls over information technology. Management will continue to evaluate the above weaknesses, and as the Company grows and resources become available, the Company plans to take the

necessary steps in the future to remediate the weaknesses.

Table of Contents
TECOGEN INC.

Changes in Internal Control over Financial Reporting:

The Company currently does not have personnel with a sufficient level of accounting experience and training in the selection, application and implementation of generally accepted accounting principles as it relates to complex transactions and financial reporting requirements. The Company also has a small number of employees dealing with general controls over information technology security and user access. This constitutes a material weakness in financial reporting.

In connection with the material weaknesses referred to in the foregoing paragraph, we will make changes in our internal controls over financial reporting as soon as the resources become available. During the period ended March 31, 2017, no changes have been made to the Company's process.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On or about February 6, 2017, Tecogen was served with a Verified Complaint by William C. May ("May"), individually and on behalf of the other shareholders of American DG Energy ("ADGE"). The complaint names Tecogen as a defendant, along with ADGE, John Hatsopoulos, George N. Hatsopoulos, Charles T. Maxwell, Deanna M. Petersen, Christine Klaskin, John Rowe, Joan Giacinti, Elias Samaras, and ADGE.Acquisition Corp. The action was commenced in the Business Litigation Session of the Superior Court of the Commonwealth of Massachusetts, Civil Action No. 17-0390. The complaint alleges that the proposed Merger is subject to certain conflicts of interest; that the Exchange Ratio undervalues ADGE's outstanding shares; that Tecogen's registration statement on Form S-4 contained material omissions and that Tecogen aided and abetted ADGE's board of directors breaching of their fiduciary duties. Among other things, the complaint also alleged that ADGE's board failed to protect their stockholders by failing to conduct an auction or market check and that ADGE's directors breached their fiduciary duties in approving the Merger proposal. The plaintiff is seeking preliminary and permanent injunctions related to the Merger, rescissory damages, compensatory damages, accounting, and other relief.

The May action is in its earliest stages. The state court denied May's motion for expedited discovery. The defendants have not yet answered or otherwise responded to the complaint, and May has not yet filed a motion for injunctive relief.

On or about February 15, 2017, a lawsuit was filed in the United States District Court for the District of Massachusetts by Lee Vardakas ("Vardakas"), individually and on behalf of other shareholders of ADGE, naming Tecogen as a defendant, along with ADGE, John N. Hatsopoulos, George N. Hatsopoulos, Benjamin Locke, Charles T. Maxwell, Deanne M. Petersen, Christine M. Klaskin, John Rowe, Joan Giacinti, Elias Samaras, Tecogen.ADGE Acquisition Corp., and Cassel Salpeter & Co., LLC. Among other things, the complaint alleges (1) the merger is the result of a flawed and conflicted sales process and that the Exchange Ratio undervalues ADGE's outstanding shares and (2) Tecogen's registration statement on Form S-4 contains materially incomplete and misleading information concerning: (a) the financial analyses performed by ADGE's financial advisor, (b) financial projections for ADGE and Tecogen, and (c) conflicts of interest in the sales process. The complaint also asserts that defendants violated Section 14(a)(1) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and Rule 14a-9 thereunder, as a result of the alleged materially incomplete and misleading information; that the directors and officers of ADGE have control person liability for the alleged material misstatements and omissions pursuant to Section 20(a) of the Exchange Act; that the directors of ADGE breached their fiduciary duties to ADGE's stockholders related to the merger, including that they failed to take steps to obtain the highest possible consideration for ADGE shareholders in the transaction; that Mr. John Hatsopoulos and Mr. George Hatsopoulos, acting in concert and as a group, as controlling shareholders of ADGE, violated their fiduciary duties to the shareholders of ADGE; and that Mr. George Hatsopoulos, Tecogen.ADGE Acquisition Corp., and ADGE's financial advisor aided and abetted breaches of fiduciary duties by the directors and officers of ADGE. Vardakas is seeking to certify a class action, a preliminary injunction, damages, costs and disbursements, including reasonable attorneys' fees, and such other relief as the court deems just and proper. The Vardakas action is in its earliest phase. The defendants have not yet answered or otherwise responded to the complaint, and Vardakas has not yet filed a motion for injunctive relief.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under “Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

Table of Contents

TECOGEN INC.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated November 1, 2016, among the Company, Tecogen, Inc. and Tecogen.ADGE Acquisition Corp. ^(k)
2.2	Amendment 1 to the Agreement and Plan of Merger, dated as of March 23, 2017, by and among registrant, American DG Energy Inc. and Tecogen.ADGE Acquisition Corp. ^(k)
3.1	Amended and Restated Certificate of Incorporation. ^(a)
3.2	Amended and Restated Bylaws. ^(a)
4.1	Specimen Stock Certificate of Tecogen, Inc. ^(a)
4.2	Form of Restricted Stock Purchase Agreement. ^(b)
4.3+	Form of Stock Option Agreement. ^(a)
4.5	Warrant to Subscribe for Shares between Ultra Emissions Technology, Ltd and registrant. ^(m)
4.6	Tecogen Ultratek Warrant signed August 2, 2016. ⁽ⁱ⁾
10.8	Second Amendment to Lease between Atlantic-Waltham Investment II, LLC dated Jan 16, 2013. ^(a)
10.21	Senior Convertible Promissory Note, dated December 23, 2013, by Tecogen Inc. in favor of Michaelson Capital Special Finance Fund LP. ^(a)
10.26	Tecogen 2006 Stock Incentive Plan, as amended on January 24, 2014 with stockholder approval on July 15, 2014. ^(e)
10.27	Non-Revolver Line of Credit Agreement between the Company and John N. Hatsopoulos, dated June 15, 2015. ^(e)
10.36	Amendment No. 1 to the Senior Convertible Promissory Note effective April 1, 2016. ^(g)
10.37	Tedom Joint Venture Agreement dated May 19, 2016. ^(h)
10.38	Tedom Joint Venture LLC Agreement dated May 19, 2016. ^(h)
10.39	Form of a Warrant Amendment dated June 27, 2016. ⁽ⁱ⁾
10.40+	Employment Agreement dated December 1, 2016 between registrant and David A. Garrison. ^(l)
21.1	List of Subsidiaries. ^(k)
31.1*	Rule 13a-14(a) Certification of Co-Chief Executive Officer
31.2*	Rule 13a-14(a) Certification of Co-Chief Executive Officer
31.3*	Rule 13a-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications of Co-Chief Executive Officers and Chief Financial Officer
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
100.CAL**	XBRL Taxonomy Extension Calculation Linkbase
100.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

**Furnished herewith

+Compensatory plan or arrangement

(a) incorporated by reference from the Company's Registration Statement on Form S-1/A (Registration No. 333-193791), filed with the SEC on June 27, 2014.

(b) incorporated by reference from the Company's Registration Statement on Form S-1 (Registration No. 333-178697), originally filed with the SEC on December 22, 2011.

(c) incorporated by reference from the Company's 10-Q Report for the period ending June 30, 2014, originally filed with the SEC on August 14, 2014.

(d) incorporated by reference from the Company's form 8-K Report originally filed with the SEC on August 6, 2015.

(e)

Edgar Filing: TECOGEN INC. - Form 10-Q

incorporated by reference from the Company's 10-Q Report for the period ending June 30, 2015, originally filed with the SEC on August 6, 2015.

- (f) incorporated by reference from the Company's form 8-K Report originally filed with the SEC on August 13, 2015.
- (g) incorporated by reference from the Company's form 8-K Reports originally filed with the SEC on April 15, 2016.
- (h) incorporated by reference from the Company's form 8-K Reports originally filed with the SEC on May 24, 2016.
- (i) incorporated by reference from the Company's form 8-K Reports originally filed with the SEC on June 30, 2016.
- (j) incorporated by reference from the Company's form 8-K Reports originally filed with the SEC on August 8, 2016.
- (k) incorporated by reference from the Company's Registration Statement on Form S-4 (Registration No. 333-215231), as amended, originally filed with the SEC on December 21, 2016.
- (l) incorporated by reference from the Company's form 8-K Reports originally filed with the SEC on December 2, 2016.
- (m) Incorporated by reference to the registrant's Annual Report on Form 10-K, as filed with the SEC on March 29, 2016.

Table of Contents

TECOGEN INC.

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, on May 11, 2017.

TECOGEN INC.

(Registrant)

By: /s/ John N. Hatsopoulos
Co-Chief Executive Officer
(Principal Executive
Officer)

By: /s/ Benjamin M. Locke
Co-Chief Executive Officer
(Principal Executive
Officer)

By: /s/ David A. Garrison
Chief Financial Officer,
Treasurer and Secretary
(Principal Financial and
Accounting Officer)