

TECOGEN INC.
Form 10-Q
August 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
b QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended June 30, 2016

or
o 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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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, August 9, 2016

Common Stock, \$0.001 par value 19,836,579

TECOGEN INC.

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FOR THE PERIOD ENDED JUNE 30, 2016
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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 June 30, 2016 and December 31, 2015

(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,069,660	\$5,486,526
Short-term investments	—	294,802
Accounts receivable, net	6,241,054	5,286,863
Unbilled revenue	1,214,218	1,072,391
Inventory, net	4,940,315	5,683,043
Due from related party	391,443	1,177,261
Prepaid and other current assets	487,138	353,105
Total current assets	17,343,828	19,353,991
Property, plant and equipment, net	560,868	543,754
Intangible assets, net	1,046,812	1,044,611
Goodwill	40,870	40,870
Other assets	58,425	58,425
TOTAL ASSETS	\$19,050,803	\$21,041,651
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,618,285	\$3,311,809
Accrued expenses	1,036,782	1,066,860
Deferred revenue	808,832	996,941
Total current liabilities	4,463,899	5,375,610
Long-term liabilities:		
Deferred revenue, net of current portion	296,085	273,162
Senior convertible promissory note, related party	3,124,061	2,951,011
Total liabilities	7,884,045	8,599,783
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Tecogen Inc. stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 19,161,579 and 18,478,990 issued and outstanding at June 30, 2016 and December 31, 2015	19,162	18,479
Additional paid-in capital	34,203,702	34,501,640
Accumulated deficit	(23,056,106)	(21,682,437)
Total Tecogen Inc. stockholders' equity	11,166,758	12,837,682
Noncontrolling interest	—	(395,814)
Total stockholders' equity	11,166,758	12,441,868
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$19,050,803	\$21,041,651

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

TECOGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months months ended June 30, 2016 and 2015

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Products	\$2,408,860	\$3,345,571	\$4,675,008	\$6,883,446
Services	3,278,448	3,038,260	6,087,815	5,603,819
Total revenues	5,687,308	6,383,831	10,762,823	12,487,265
Cost of sales				
Products	1,767,052	2,224,415	3,319,768	4,778,053
Services	1,817,362	2,018,526	3,620,817	3,343,347
Total cost of sales	3,584,414	4,242,941	6,940,585	8,121,400
Gross profit	2,102,894	2,140,890	3,822,238	4,365,865
Operating expenses				
General and administrative	2,002,172	1,890,503	3,894,392	4,077,632
Selling	335,089	324,384	850,121	818,058
Research and development	151,663	228,318	370,621	404,481
Total operating expenses	2,488,924	2,443,205	5,115,134	5,300,171
Loss from operations	(386,030)	(302,315)	(1,292,896)	(934,306)
Other income (expense)				
Interest and other income	2,770	685	5,661	9,788
Interest expense	(44,053)	(30,351)	(86,434)	(60,410)
Total other expense, net	(41,283)	(29,666)	(80,773)	(50,622)
Loss before income taxes	(427,313)	(331,981)	(1,373,669)	(984,928)
Consolidated net loss	(427,313)	(331,981)	(1,373,669)	(984,928)
Less: (Income) loss attributable to the noncontrolling interest	11,774	(30,858)	64,962	4,625
Net loss attributable to Tecogen Inc.	\$(415,539)	\$(362,839)	\$(1,308,707)	\$(980,303)
Net loss per share - basic and diluted	\$(0.02)	\$(0.02)	\$(0.07)	\$(0.06)
Weighted average shares outstanding - basic and diluted	19,088,828	16,338,909	18,783,909	16,282,027

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

TECOGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2016 and 2015

(unaudited)

	June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net loss	\$(1,373,669)	\$(984,928)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	131,941	138,828
Provision (recover) for inventory reserve	(40,000)	23,000
Stock-based compensation	88,177	51,497
Non-cash interest expense	23,050	24,899
Loss (gain) on sale of assets	640	(5,073)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Short term investments	294,802	291,047
Accounts receivable	(954,191)	237,989
Unbilled revenue	(141,827)	(896,001)
Inventory, net	782,728	280,480
Due from related party	785,818	(372,570)
Prepaid expenses and other current assets	(134,033)	(160,964)
Other non-current assets	—	(5,100)
Increase (decrease) in:		
Accounts payable	(693,524)	915,942
Accrued expenses	(30,078)	331,447
Deferred revenue	(165,186)	(712,759)
Net cash used in operating activities	(1,425,352)	(842,266)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(100,925)	(12,935)
Proceeds from sale of assets	—	16,874
Purchases of intangible assets	(50,970)	(95,086)
Net cash used in investing activities	(151,895)	(91,147)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) on demand notes payable and line of credit to related party	150,000	—
Payment of stock issuance costs	(8,544)	—
Proceeds from sale of restricted common stock, net	—	996,874
Proceeds from the exercise of stock options	18,925	360,225
Net cash provided by financing activities	160,381	1,357,099
Net increase (decrease) in cash and cash equivalents	(1,416,866)	423,686
Cash and cash equivalents, beginning of the period	5,486,526	1,186,033
Cash and cash equivalents, end of the period	\$4,069,660	\$1,609,719
Supplemental disclosures of cash flows information:		
Cash paid for interest	\$72,199	\$60,410
Stock exchange for non-controlling interest in Ilios	330,852	—

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

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Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015

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, 2015 in conjunction with our 2015 Annual Report on Form 10-K, or our Annual Report, filed with the Securities and Exchange Commission, or SEC, on March 30, 2016. 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 June 30, 2016, and of operations and cash flows for the interim periods ended June 30, 2016 and 2015. The results of operations for the interim periods ended June 30, 2016 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 (see Note 4).

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 three months ended June 30, 2016, revenues of \$2,186,698 were recorded as bill and hold transactions. For the same period in 2015, no 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

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Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015

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 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 June 30, 2016, a recovery of approximately \$89,000 from a loss recorded in the three month period ended March 31, 2015 of approximately \$155,000, and \$0 in the same period in 2015. During the six months ended June 30, 2016 and 2015, a loss of approximately \$66,000 and \$0 was recorded, respectively. The loss recorded for six months ending June 30, 2016 was reduced due to a change in project scope. 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 year. Bad debts are written off against the allowance when identified. At June 30, 2016 and December 31, 2015 the allowance for doubtful accounts was approximately \$44,000 and \$50,000, respectively.

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 June 30, 2016 and December 31, 2015, inventory reserves were \$253,000 and \$293,000, 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 and six months ended June 30, 2016 and 2015, depreciation expense was \$39,543 and \$43,956, and \$83,171 and \$87,409, respectively.

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.

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Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015

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 six months of 2016, the Company determined that no interim impairment test was necessary.

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 June 30, 2016 and 2015 and six months ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Products				
Cogeneration	\$1,270,499	\$2,526,812	\$2,688,471	\$5,098,740
Chiller & Heat Pump	1,138,361	818,759	1,986,537	1,784,706
Total Product Revenue	2,408,860	3,345,571	4,675,008	6,883,446
Services				
Service contracts	2,082,644	2,035,041	4,270,966	3,907,407
Installations	1,195,804	1,003,219	1,816,849	1,696,412
Total Service Revenue	3,278,448	3,038,260	6,087,815	5,603,819
Total Revenue	\$5,687,308	\$6,383,831	\$10,762,823	\$12,487,265

Reclassification

Certain prior period balances have been reclassified to conform with current period presentation. The interest expense includes the amortization of the deferred financing costs, and this has been adjusted in the comparable periods. The balance of deferred financing cost on the balance sheet under ASU 2015-03 is netted with the associated debt and is retrospectively shown for prior period balances.

Note 2 – Loss per common share

All shares issuable for both periods were anti-dilutive because of the reported net loss. Basic and diluted loss per share for the three months ended June 30, 2016 and 2015, and six months ended June 30, 2016 and 2015, respectively, were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net loss attributable to stockholders	\$(415,539)	\$(362,839)	\$(1,308,707)	\$(980,303)
Weighted average shares outstanding - Basic and diluted	19,088,828	16,338,909	18,783,909	16,282,027
Basic and diluted loss per share	\$(0.02)	\$(0.02)	\$(0.07)	\$(0.06)
Anti-dilutive shares underlying stock options outstanding	1,196,776	1,186,325	1,196,776	1,186,325
Anti-dilutive convertible debentures	889,830	555,556	889,830	555,556
Anti-dilutive warrants outstanding	1,150,000	—	1,150,000	—

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015

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 and six months ended June 30, 2016 and 2015

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 June 30, 2016, 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 June 30, 2016 was 1,676,957.

Stock option activity for the six months ended June 30, 2016 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, 2015	1,268,200	\$1.20-\$5.39	\$ 3.06	6.01 years	\$985,578
Granted	87,701	\$0.79-\$3.93	2.56		
Exercised	(12,125)	\$1.20-\$2.60	1.56		
Canceled and forfeited	(150,125)	\$3.39-\$4.50	3.39		
Expired	—	—	—		
Outstanding, June 30, 2016	1,193,651	\$0.79-\$5.39	\$ 3.00	5.19 years	\$2,517,999
Exercisable, June 30, 2016	941,826		\$ 2.54		\$2,412,166
Vested and expected to vest, June 30, 2016	1,193,651		\$ 3.00		\$2,517,999

Stock-Based Compensation - Ilios

In 2009, Ilios adopted the 2009 Stock Incentive Plan, or the 2009 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 maximum number of shares allowable for issuance under the 2009 Plan is 2,000,000 shares of common stock. The 2009 Plan had 1,325,000 available for grant as of March 31, 2016. At the time of the merger between Ilios and the Company, stock options vested with an acceleration of the unvested portion upon the change in control event, as defined in the Plan. These options were exchanged for options for Tecogen stock at the same ratio and price as the share exchange described in Note 4. The grant was for a total of 82,701 options. The impact of the option exchange was immaterial.

Consolidated stock-based compensation expense for the six months ended June 30, 2016 and 2015 was \$88,177 and \$51,497, 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.

Note 7 – Related party transactions

The Company has two affiliated companies, namely American DG Energy Inc., or American DG Energy, and EuroSite Power Inc. or EuroSite Power. These companies are affiliates because several of the major stockholders of those companies, have a significant ownership position in the Company. Neither American DG Energy nor EuroSite Power own any shares of the Company, and the Company does not own any shares of American DG Energy or EuroSite Power.

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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).

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TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015

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.

Note 8 - Intangible assets other than goodwill

As of December 31, 2015 and June 30, 2016 the Company has the following amounts related to intangible assets:

	Product Certifications	Patents	Developed Technology	Trademarks	Total
Balance at December 31, 2015					
Intangible assets	\$ 514,616	\$603,915	\$ 240,000	\$ 4,775	\$1,363,306
Less - accumulated amortization	(182,931)	(91,764)	(44,000)	—	(318,695)
	\$ 331,685	\$512,151	\$ 196,000	\$ 4,775	\$1,044,611
Balance at June 30, 2016					
Intangible assets	\$ 514,616	\$650,311	240,000	9,350	\$1,414,277
Less - accumulated amortization	(208,433)	(107,032)	(52,000)	—	(367,465)
	\$ 306,183	\$543,279	\$ 188,000	\$ 9,350	\$1,046,812

The aggregate amortization expense of the Company's intangible assets for the three and six months ended June 30, 2016 and 2015 was \$24,480 and \$28,136 and \$48,770 and \$51,419, respectively.

Note 9 - Joint ventures

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 Ltd., 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. Using equity method accounting, these losses will not be included in Tecogen's financial statements since Tecogen does not guarantee obligations of the JV and is not otherwise obligated to provide further financial support of the JV. In August 2016, Tecogen exercised its warrants in the JV for a total investment of \$2,000,000.

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 maintenance 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.

TECOGEN INC.

Notes to Interim Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015

Note 10 - Subsequent Events

On August 2, 2016, Tecogen Inc. (the "Company") exercised 2,000,000 warrants (the "Ultratek Warrants"), in their joint venture Ultra Emissions Technologies Limited (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 650,000 Tecogen Warrants with a \$4.00 exercise price, resulting in an influx of \$2.7 million to the Company, which the Company then used some of the proceeds to invest in their JV.

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 second quarter of 2016 were \$5,687,308 compared to \$6,383,831 for the same period in 2015, a decrease of \$696,523 or 10.9%. Product revenues in the second quarter of 2016 were \$2,408,860 compared to \$3,345,571 for the same period in 2015, a decrease of \$936,711 or 28.0%. This decrease was the aggregate of a decrease in cogeneration sales of \$1,256,313 and an increase in chiller and heat pump sales, which include the Ilios products, of \$319,602. Service revenues in the second quarter of 2016 were \$3,278,448 compared to \$3,038,260 for the same period in 2015, an increase of \$240,188 or 7.9%. This increase in the second quarter is the due to an increase in installation activity of \$192,585 and an increase of \$47,603 in service contracts.

Revenues in the first six months of 2016 were \$10,762,823 compared to \$12,487,265 for the same period in 2015, a decrease of \$1,724,442 or 13.8%. Product revenues in the first six months of 2016 were \$4,675,008 compared to \$6,883,446 for the same period in 2015, a decrease of \$2,208,438 or 32.1%. This decrease was the aggregate of a

decrease in cogeneration sales of \$2,410,269 and an increase in chiller and heat pump sales of \$201,831. Service revenues in the first six months of 2016 were \$6,087,815 compared to \$5,603,819 for the same period in 2015, an increase of \$483,996 or 8.6%. This increase in the first six months of 2016 is due to an increase in installation activity of \$120,437 and an increase of \$363,559 in the service contracts.

Cost of Sales

Cost of sales in the second quarter of 2016 was \$3,584,414 compared to \$4,242,941 for the same period in 2015 a decrease of \$658,527, or 15.5%. During the second quarter of 2016 our overall gross profit margin was 37.0% compared to 33.5% for the same period in 2015, an increase of 3.5%. Management expects growth in sales volume and product upgrades to continue to improve gross margins going forward.

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TECOGEN INC.

Cost of sales in the first six months of 2016 was \$6,940,585 compared to \$8,121,400 for the same period in 2015 a decrease of \$1,180,815, or 14.5%. During the first six months of 2016 our overall gross profit margin was 35.5% compared to 35.0% for the same period in 2015, an increase of 0.5%. Management expects growth in sales volume and product upgrades to continue to improve gross margins 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 second quarter ending June 30, 2016 were \$2,002,172 compared to \$1,890,503 for the same period in 2015, an increase of \$111,669 or 5.9%. The majority of the increase was for the mergers and acquisition activities including equity compensation expense and were one time increases over the same period last year.

General and administrative expenses in the first six months of 2016 were \$3,894,392 compared to \$4,077,632 for the same period in 2015, a decrease of \$183,240 or 4.5%. This decrease is the result of managements continued efforts to contain and reduce our administrative expenses.

Selling expenses consist of sales staff, commissions, marketing, travel and other selling related expenses. Selling expenses for the second quarter of 2016 were \$335,089 compared to \$324,384 for the same period in 2015, an increase of \$10,705 or 3.3%. This small difference is the result of outside sales representative commissions.

Selling expenses for the first six months of 2016 were \$850,121 compared to \$818,058 for the same period in 2015, an increase of \$32,063 or 3.9%. This small difference is the result of timing of commissions.

Research and development expenses consist of engineering and technical staff, materials, outside consulting and other related expenses. Research and development expenses in the second quarter ending June 30, 2016 were \$151,663 compared to \$228,318 for the same period in 2015, a decrease of \$76,655 or 33.6%. This decrease was due to the completion of a product development cycle.

Research and development expenses for the first six months of 2016 were \$370,621 compared to \$404,481 for the same period in 2015, a decrease of \$33,860 or 8.4%. This decrease was due to the timing of the completion of projects including product improvement programs.

Loss from Operations

Loss from operations for the second quarter of 2016 was \$386,030 compared to \$302,315 for the same period in 2015, an increase of \$83,715. The increase in the loss was due to a reduction in gross profit resulting from lower revenues. Loss from operations for the first six months of 2016 was \$1,292,896 compared to \$934,306 for the same period in 2015, an increase of \$358,590. The increase in the loss was due to a reduction in gross profit resulting from lower revenues.

Other Income (Expense), net

Other expense, net for the three months ended June 30, 2016 was \$41,283 compared to \$29,666 for the same period in 2015. Other income (expense) includes interest income and other income of \$2,770, net of interest expense on notes payable of \$44,053 for the second quarter of 2016. For the same period in 2015, interest and other income was \$685 and interest expense was \$30,351.

Other expense, net for the six months ended June 30, 2016 was \$80,773 compared to \$50,622 for the same period in 2015. Other income (expense) includes interest income and other income of \$5,661, net of interest expense on notes payable of \$86,434 for the first six months of 2016. For the same period in 2015, interest and other income was \$9,788 and interest expense was \$60,410.

Provision for Income Taxes

The Company did not record any benefit or provision for income taxes for the three months ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the income tax benefits generated from the Company's net losses have been fully reserved.

Noncontrolling Interest

The noncontrolling interest in the loss of Ilios was \$11,774 for the three months ended June 30, 2016 compared to income of \$30,858 for the same period in 2015, an increase of \$42,632 or 138.2%. The decrease was due to the losses realized by the noncontrolling interest in Ilios for the first month of the second quarter of 2016. The result of an

exchange of Tecogen stock for the noncontrolling shareholders of Ilios reduced the noncontrolling interest to 0.0%.

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TECOGEN INC.

Net loss

Net loss attributable to Tecogen for the three months ended June 30, 2016 was \$415,539 compared to \$362,839 for the same period in 2015, an increase of \$328,404. The increase in net loss was the result of the reduction in gross profit resulting from lower in revenues as described above.

Net loss attributable to Tecogen for the six months ended June 30, 2016 was \$1,308,707 compared to \$980,303 for the same period in 2015, an increase of \$328,404. The increase in net loss was the result of the reduction in gross profit resulting from lower in revenues as described above.

Liquidity and Capital Resources

Consolidated working capital at June 30, 2016 was \$12,879,929 compared to \$13,978,381 at December 31, 2015, a decrease of \$1,098,452. Included in working capital were cash and cash equivalents of \$4,069,660 and \$0 in short-term investments at June 30, 2016, compared to \$5,486,526 in cash and cash equivalents and \$294,802 in short-term investments at December 31, 2015, a decrease of \$1,711,668. The decrease in working capital and cash was mainly due to the loss in the period net of non-cash items.

Cash used in operating activities for the six months ended June 30, 2016 was \$1,425,352 compared to \$842,266 for the same period in 2015. Our accounts receivable balance increased to \$6,241,054 at June 30, 2016 compared to \$5,286,863 at December 31, 2015, using \$954,191 of cash due to timing of billing, shipments, and collections. In addition, amounts due from related parties decreased by \$785,818 providing cash due to timing of billing and collections. Our inventory decreased to \$4,940,315 as of June 30, 2016 compared to \$5,683,043 as of December 31, 2015, a decrease of \$742,728. Although lowering inventory is a goal, management expects inventory to vary significantly based on production and customer delivery requirements.

As of June 30, 2016, the Company's backlog of product and installation projects, excluding service contracts, was \$14 million, consisting of \$6 million of purchase orders received by us and \$8 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 decreased to \$2,618,285 as of June 30, 2016 from \$3,311,809 at December 31, 2015, using \$693,524 in cash flow from operations. Accrued expenses decreased to \$1,036,782 as of June 30, 2016 from \$1,066,860 as of December 31, 2015, using \$30,078 of cash from operations. The Company expects accounts payable and accrued expenses to fluctuate with changes in operations.

During the first six months of 2016 our investing activities used \$151,895 of cash and included purchases of property and equipment of \$100,925 and expenditures related to intangible assets of \$50,970.

During the first six months of 2016 our financing activities included \$150,000 in proceeds from the amendment of our debt, \$18,925 in proceeds from the exercise of stock options, and the payment of expenses from the issuance of our common stock of \$8,544. This includes the issuance of stock related to the acquisition of the noncontrolling interest in Ilios.

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 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.

TECOGEN INC.

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.

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 June 30, 2016, no changes have been made to the Company's process.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities.

On April 11, 2016, April 13, 2016, and May 2, 2016 the Company entered into a series of private placement share exchange agreements ("Share Exchange Agreements") with shareholders of Ilios Inc. ("Exchanging Shareholders"), a majority owned subsidiary of the Company ("Ilios"). 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 connection with this series of transactions, the Company issued a total of 670,464 shares of Company restricted common stock. In addition, the Company granted each Exchanging Shareholder the right to have the restricted Company common stock they received registered. This series of transactions were conducted as a series of private placement without registration under the Securities Act of 1933, as amended, or the Securities Act, and in reliance upon an exemption from registration pursuant to Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder.

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TECOGEN INC.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
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)
4.6	Tecogen Ultratek Warrant signed August 2, 2016. ^(j)
10.8	Second Amendment to Lease between Atlantic-Waltham Investment II, LLC dated Jan 16, 2013. ^(a)
10.19	Form of Common Stock Purchase Agreement. ^(a)
10.21	Senior Convertible Promissory Note, dated December 23, 2013, by Tecogen Inc. in favor of Michaelson Capital Special Finance Fund LP. ^(a)
10.24	Facilities and Support Services Agreement between American DG Energy Inc. and Tecogen Inc., dated Aug 8, 2014. ^(c)
10.26+	Tecogen 2006 Stock Incentive Plan, as amended on January 24, 2014 with stockholder approval on July 15, 2014. ^(e)
10.27	Non-Revolving Line of Credit Agreement between the Company and John N. Hatsopoulos, dated June 15, 2015. ^(e)
10.28	Form of Common Stock Purchase Agreement dated August 3, 2015. ^(d)
10.29	Registration Rights Agreement dated August 3, 2015. ^(d)
10.30	First amendment to the Facilities and Support Services Agreement between American DG Energy Inc. and Tecogen Inc., dated Aug 7, 2015. ^(f)
10.35	Share Exchange Agreement for the Ilios private placements dated April 11, 2016 and April 13, 2016. ^(g)
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⁾
21.1	List of subsidiaries ^(a)
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.

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- (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) 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.

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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 August 10, 2016.

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)

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ENDORSEMENT# 14 (continued)

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

Solely with respect to this endorsement, the following definitions shall apply:

“Application” means each and every signed application, any attachments to such applications, other materials submitted therewith or incorporated therein and any other documents submitted in connection with the underwriting of this policy or the underwriting of any other directors and officers (or equivalent) liability policy issued by the Company, or any of its affiliates, of which this policy is a renewal, replacement or which it succeeds in time; and any public documents filed by an Entity Insured with the Securities and Exchange Commission (SEC) (or any similar federal, state, local or foreign regulatory agency) twelve (12) months prior to the inception date of this policy, including, but not limited to, the Entity Insured’s Annual Report(s), 10Ks, 10Qs, 8Ks and proxy statements and certifications relating to the accuracy of the foregoing.

“Non-Indemnifiable Loss” means all sums which the Individual Insured is legally obligated to pay as damages, settlements and Defense Costs arising from any claim made against the Individual Insured for any Wrongful Act of

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the Individual Insured for which the Entity Insured has neither indemnified nor is permitted or required to indemnify an Individual Insured pursuant to law or contract or the charter, bylaws, operating agreement or similar documents of the Entity Insured.

ALL OTHER TERMS, CONDITIONS, AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 15

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

AMEND FEE EXCLUSION

In consideration of the premium charged, it is hereby understood and agreed that the policy is hereby amended as follows:

I.

Clause 4. EXCLUSIONS (II)(6) is hereby deleted in its entirety and replaced by the following:

(6)to any claim arising out of a dispute involving a fee or charge for any Insured's service, including but not limited to any fee or charge pursuant to a 12b-1 plan of distribution adopted by a Fund pursuant to Rule 12b-1 ("Fee Claim"); provided, however, the foregoing exclusion shall not apply to:

- 1) Non-Indemnifiable Loss of any Individual Insured.
- 2) Defense Costs

II.

Clause 2. DEFINITIONS is hereby amended to include the following definition at the end thereof:

(j) "Non-Indemnifiable Loss" means Loss for which an Entity Insured has neither indemnified nor is permitted or required to indemnify an Individual Insured pursuant to law or contract or the charter, bylaws, operating agreement or similar documents of an Entity Insured.

III.

Solely for the purpose of the applicability of the coverage provided by this endorsement, the Named Insured will be conclusively deemed to have indemnified the Individual Insured to the fullest extent that the Named Insured is permitted or required to indemnify the Individual Insured pursuant to law, common or statutory, or contract, or the charter or by-laws of the Named Insured.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND

REGULATIONS.

ENDORSEMENT# 16

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

ORDER OF PAYMENTS ENDORSEMENT

In consideration of the premium charged, it is hereby understood and agreed that following Clause is added to the end of the policy:

ORDER OF PAYMENTS

In the event of payment of any sums which the Named Insured shall become legally obligated to pay as damages resulting from any claim for which payment is due under the provisions of this policy ("Loss"), then the Insurer shall in all events:

- (a) first, pay Loss for which the Insured is not permitted by common or statutory law to indemnify any Individual Insured, or is permitted or required to indemnify such Individual Insured but does not do so by reason of Financial Impairment; and then
- (b) only after payment of Loss has been made pursuant to Clause (a) above, with respect to whatever remaining amount of the Limited of Liability is available after such payment, at the written request of the chief executive officer of the Named Insured, either pay or withhold payment of such other Loss for which the Named Insured is permitted or required to indemnify any Individual Insured; and then
- (c) only after payment of Loss has been made pursuant to Clause (a) and (b) above, with respect to whatever remaining amount of the Limited of Liability is available after such payment, at the written request of the chief executive officer of the Named Insured, either pay or withhold payment of such other Loss for which coverage is provided under this policy.

In the event the Company withholds payment pursuant to Clause (b) and/or Clause (c) above, then the Company shall, at such time and in such manner as shall be set forth in written instructions of the chief executive officer of the Named Insured, remit such payment to the Named Insured or directly to or on behalf of an Individual Insured.

The bankruptcy or insolvency of any Named Insured shall not relieve the Company of any of its obligations to prioritize payment of covered Loss under this policy pursuant to this Clause.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 17

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

SETTLEMENT OPPORTUNITY ENDORSEMENT

;In consideration of the premium charged, it is hereby understood and agreed that CLAUSE 1. INSURING AGREEMENTS, Section II, paragraph 3 is deleted in its entirety and replaced by:

;

;If the Insurer recommends a settlement within the policy's applicable Limit of Liability which is acceptable to the claimant (a "Settlement Opportunity"), and the Insureds consent to such settlement, then the Insured's applicable retention amount shall be retroactively reduced by ten percent (10%) for such Loss. It shall be a condition to such reduction that the Insureds must consent to such settlement within thirty (30) days of the date the Insureds are first made aware of the Settlement Opportunity, or in the case of a Settlement Opportunity which arises from a settlement offer by the claimant, then within the time permitted by the claimant to accept such settlement offer, but in all events no later than thirty (30) days after the settlement offer was made.

However, if a Settlement Opportunity arises and the Insureds do not consent to the settlement within the time frame described above, the retention amount shall remain the applicable amount set forth in Item 5 of the Declarations even if consent is given to a subsequent settlement.

Furthermore, in the event the Insureds do not consent to the Settlement Opportunity within the time frame described above, then the Insurer's liability for all Loss on account of such Claim shall not exceed: (1) the amount for which the Insurer could have settled such Claim plus Defense Costs incurred as of the date such settlement was proposed in writing by the Insurer, ("Total Settlement Amount"), plus (2) 60% of covered Loss in excess of such Total Settlement Amount, it being a condition of this insurance that the remaining 40% of such Loss excess of the Total Settlement Amount shall be carried by the Company and the Insureds at their own risk and be uninsured. Notwithstanding the foregoing, this paragraph shall not apply unless the Total Settlement Amount exceeds the Retention amount stated in Item 5 of the Declarations.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 18

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

CANCELLATION AMENDATORY (PRO RATA)

Wherever used herein: (1) "Policy" means the policy or bond to which this endorsement or rider is made part of; (2) "Insurer" means the "Insurer," "Underwriter," "Company" or other name specifically ascribed in this Policy as the insurance company or underwriter for this Policy; (3) "Company" means the "Named Entity," "Named Corporation," "Named Organization," "Named Sponsor," "Named Insured," "First Named Insured," "Insured's Representative," "Policyholder" or equivalent term stated in Item 1 of the Declarations; and (4) "Period" means the "Policy Period," "Bond Period" or equivalent term stated in the Declarations.

In consideration of the premium charged, it is hereby understood and agreed that notwithstanding anything to the contrary in any CANCELLATION or TERMINATION clause of this Policy (and any endorsement or rider amending such cancellation or termination clause, including but not limited to any state cancellation/non-renewal amendatory attached to this policy), if this Policy shall be canceled by the Company, the Insurer shall retain the right to the premium amount for the portion of the Period during which the Policy was in effect.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 19

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

STATE AMENDATORY INCONSISTENT

In consideration of the premium charged, it is hereby understood and agreed as follows:

1. In the event that there is an inconsistency between any: (a) state amendatory attached to this policy, or any other wording attached to this policy to comply with applicable law; and (b) any other term, condition or limitation of this policy; then, to the extent permitted by law, subject to the limitations below, the Insurer will resolve the inconsistency by applying the terms, conditions or limitations that are more favorable to the policyholder.
2. This endorsement shall not apply to the extent that: (a) any state amendatory or other wording expressly limits coverage in order to comply with applicable law, or (b) any such amendatory or other compliance wording amends language applicable to premium. In such events, the state amendatory or other compliance wording will govern over any other term, condition or limitation of the policy.
3. "Policyholder" means the first Named Entity, Named Organization, Named Corporation, Named Sponsor, Named Insured or other policyholder designated in Item 1 of the Declarations of this policy.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 20

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

COST OF CORRECTIONS ENDORSEMENT

In consideration of the premium charged, it is hereby understood and agreed that the Company shall pay on behalf of the Insured all loss or damage incurred by the Insured's consent to correct any situation arising out of any actual Wrongful Act(s) of an Insured provided that: (i) such Wrongful Act is reported to Raymond DeCarlo, Financial Institutions Claims Divisional Senior Vice President, A.I. Management and Professional Liability Claim Adjusters within twenty-four (24) hours of the discovery of the Wrongful Act and the Company shall have given its written consent prior to such correction; and (ii) if not corrected, such Wrongful Act would have resulted in a claim by any customer or client of the Insured for loss or damage for which the Insured would be liable and which, in the absence of any correction, have constituted a valid covered claim for which the Company would be liable under this policy.

Coverage under this endorsement is subject to all of the following additional conditions:

1. such Wrongful Act arises solely out of the Insured's failure to follow directions from a customer or client in connection with the investment of the customer's or client's assets; and
2. such Wrongful Act occurs during the Policy Period or Discovery Period (if applicable); and
3. such Wrongful Act arises in the ordinary course of the Insured's operations and, if not corrected, would automatically result in damage to a customer or client of the Insured or if the customer or client is a mutual fund, result in a claim by the shareholders of the mutual fund; and
4. The, applicable RETENTION amount shall be equal to 200% of the amount set forth in Item 4. of the Declarations. Such Retention amount shall apply to each Wrongful Act or related Wrongful Act.
5. Coinsurance of 0% will apply after satisfaction of the applicable RETENTION.
6. The Limit of Liability set forth in Item 3. of the Declarations shall not be applicable. The applicable Limit of Liability shall be: \$10,000,000 (aggregate for all losses submitted under this endorsement). Such Limit of Liability shall be part of and not in addition to the applicable Limit of Liability set forth in Item 3 of the Declarations.

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 20 (continued)

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

7. The Insured shall provide a sworn proof of loss setting forth all the circumstances of the loss and explaining why the Insured believes it is entitled to coverage under this endorsement. At the request of the Company, the Insured shall make its officers and employees available for interview by the Company in connection with the submission of the claim under this endorsement and/or the proof of loss.

Nothing contained in this Endorsement shall obligate the Insurer to reimburse the Insured for loss or damages arising out of:

- 1) any known Wrongful Act; or
- 2) any Wrongful Act for which the Insured would not be liable pursuant to any contractual provision defining the scope of the Insured's liability or providing protection from liability including, without limitation, any applicable exculpatory provision;
- 3) any wire or electronic transfer of funds; or
- 4) any contractual obligation to a customer or client of the Insured, guaranteeing any rate of return or the fulfillment of any minimum performance standards.
- 5) the diminution in value of the money, securities, property or any other item of value, unless caused by a Wrongful Act of any person or entity insured under this policy in the execution or implementation of investment advice or any investment decision; or
- 6) arising out of the loss of money, securities or other property in the custody or control of the insured.
- 7) that portion position of Loss or damages which is not otherwise covered under the Policy.

In the event of coverage under this endorsement, the giving of the notice by the Insured shall be deemed to be notice of a claim made against an Insured at the time the notice is given to the Insurer.

Any disputes in connection with the coverage afforded by this Endorsement shall be submitted to the American Arbitration Association under and in accordance with its then prevailing commercial arbitration rules. It is further understood and agreed that the arbitration rules.

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 20 (continued)

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

It is further understood and agreed that the arbitration will be held in New York, U.S.A. and that the award rendered by the arbitrator(s) shall be final and binding upon the parties and judgment thereon may be entered in any court having jurisdiction thereof.

ALL OTHER TERMS, CONDITIONS, AND EXCLUSIONS SHALL REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 21

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

EXCLUSION II.7 AMENDED ENDORSEMENT

In consideration of the premium charged it is hereby understood and agreed that Clause 4. EXCLUSIONS, Section II, paragraph 7) is deleted in its entirety and replaced with the following:

- 7) which is brought by or on behalf of an Insured in any respect and whether or not collusive, or which is brought by any security holder or member of, or investor in an Entity Insured, whether directly or derivatively, unless such security holder's, member's, or investor's claim is instigated and continued totally independent of, and totally without the solicitation of, or assistance of, or active participation of, or intervention of, any Executive Insured or Entity Insured; provided, however, that this exclusion shall not apply to any claim brought by:
- (1) a Fund, where in the opinion of independent legal counsel selected by and at the expense of an Entity Insured (selection of such counsel being subject to approval by the Insurer, which approval shall not be unreasonably withheld), the failure to make such claim would result in liability upon an Executive Insured or Employee of such Fund for failure to assert such claim;
 - (2) an Investment Advisor against a Fund, or an Executive Insured or Employee of a Fund, who is not employed by, or is not a director of, such Investment Advisor;
 - (3) an Insured against any Independent Director or Advisory Board Member, or against a Fund so long as the Fund remains a co-defendant in a claim against one or more Independent Directors;
 - (4) an Executive Insured or Employee of a Fund who is not employed by, or a director of, an Investment Advisor, against any Investment Advisor;
 - (5) an Executive Insured or Employee in the form of a cross-claim or third-party claim for contribution or indemnity which is part of, and results directly from a claim that is covered by this policy;
 - (6) or on behalf of an Entity Insured in bankruptcy, by the examiner, trustee, receiver, liquidator or rehabilitator (or any assignee thereof) of such Insured, if any;

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ENDORSEMENT# 21 (continued)

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

(7) a past Executive Insured who has not served as a duly elected or appointed director, officer, trustee, management committee member, Advisory Board Member, general partner, managing member or member of the board of managers of an Entity Insured for at least two (2) years prior to such Claim being first made against such Executive; or

(8) an Executive Insured of an Entity Insured formed and operating in a foreign jurisdiction against such Entity Insured or any Executive Insured thereof, provided that such Claim is brought and maintained outside the United States of America, Canada or any other common law country (including any territories thereof);

As used herein, "Advisory Board Member" means an individual serving on an advisory board or advisory committee of an Entity Insured, which advisory board or advisory committee was created pursuant to a partnership agreement, operating agreement or equivalent governing documents of such Entity Insured.

As used herein, "Employee" means any natural person that is a past, present or future employee of an Entity Insured, whether such employee is in a supervisory, co-worker or subordinate position or otherwise, including any full-time, part-time, seasonal and temporary employee. An individual who is leased to an Entity Insured, or is contracted to perform work for an Entity Insured, or who is an independent contractor for an Entity Insured shall also be an Employee, but only if the Entity Insured provides indemnification to such individual in the same manner as is provided to the Entity Insured's Employees.

As used herein, "Independent Director" means any individual who is a director or trustee of a Fund, if such individual is not an "interested person" of such Fund within the meaning of Section 2(a)(19) of the Investment Company Act of 1940 (as amended).

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 22

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

AMEND NAMED INSURED

In consideration of the premium charged, it is hereby understood and agreed that ITEM 1. NAMED INSURED of the DECLARATIONS page is amended to include the following:

NOMURA ASSET MANAGEMENT USA, INC.
NOMURA ASSET MANAGEMENT - HONG KONG (effective 07-10-1999)
NOMURA ASSET MANAGEMENT - SINGAPORE (effective 07-10-1999)
NOMURA ASSET MANAGEMENT - MALAYSIA (effective 05-01-2007)

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 23

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

COVERAGE TERRITORY ENDORSEMENT

Payment of loss under this policy shall only be made in full compliance with all United States of America economic or trade sanction laws or regulations, including, but not limited to, sanctions, laws and regulations administered and enforced by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC").

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 24

This endorsement, effective 12:01 am July 30, 2009 forms a part of
 policy number 06-283-44-37
 issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

FORMS INDEX ENDORSEMENT

The contents of the Policy is comprised of the following forms:

FORM NUMBER	EDITION DATE	FORM TITLE
74649	11/99	INVESTMENT MANAGEMENT INSURANCE POLICY
81285	01/03	TRIA DEC DISCLOSURE FORM
74650	01/00	INVESTMENT MANAGEMENT INSURANCE POLICY
69898	09/06	NEW YORK AMENDATORY - CANCELLATION/NONRENEWAL
99758	08/08	NOTICE OF CLAIM (REPORTING BY E-MAIL) INVESTIGATION ENDORSEMENT INVESTMENT MANAGEMENT INSURANCE ENDORSEMENT NUCLEAR ENERGY LIABILITY EXCLUSION ORGANIZATION ENTITY COVERAGE P&P LITIGATION EXCLUSION FOR HIGHER LIMITS PATENT INFRINGEMENT EXCLUSION RUN-OFF ENDORSEMENT AMEND DEFINITION OF FUND PARENT COMPANY EXCLUSION ADDITIONAL INSURED ENDORSEMENT - LIST FUNDS PUNITIVE DAMAGES ENDORSEMENT SEVERABILITY OF THE APPLICATION ENDORSEMENT AMEND FEE EXCLUSION ORDER OF PAYMENTS ENDORSEMENT SETTLEMENT OPPORTUNITY ENDORSEMENT CANCELLATION AMENDATORY (PRO RATA) STATE MANDATORY INCONSISTENT COST OF CORRECTIONS ENDORSEMENT

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 24 (continued)

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

FORMS INDEX ENDORSEMENT

The contents of the Policy is comprised of the following forms:

FORM NUMBER	EDITION DATE	FORM TITLE
		EXCLUSION 11.7 AMENDED ENDORSEMENT
		AMEND NAMED INSURED
89644	07/05	COVERAGE TERRITORY ENDORSEMENT (OFAC)
78859	10/01	FORMS INDEX ENDORSEMENT

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS.

ENDORSEMENT# 25

This endorsement, effective 12:01 am July 30, 2009 forms a part of
policy number 06-283-44-37
issued to NOMURA ASSET MANAGEMENT USA, INC.

by National Union Fire Insurance Company of Pittsburgh, Pa.

DELETE ENDORSEMENT #9

In consideration of the premium charged, it is hereby understood and agreed that ENDORSEMENT # 9, RUN-OFF
ENDORSEMENT, is deleted in its entirety.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS SHALL REMAIN UNCHANGED.

/s/ John Doyle
AUTHORIZED REPRESENTATIVE

NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMPT FROM THE FILING
REQUIREMENTS OF THE NEW YORK STATE INSURANCE DEPARTMENT. HOWEVER, SUCH FORMS
AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND
REGULATIONS.

FIDELITY BOND AGREEMENT

AGREEMENT made as of July 31, 2007, by and among JAPAN SMALLER CAPITALIZATION FUND, INC., and KOREA EQUITY FUND, INC. each of which is a Maryland corporation.

WITNESSETH

WHEREAS, the above-named registered investment companies (the "Funds") are joint named insureds under a bond issued by the Vigilant Insurance Company of the Chubb Group of Insurance Companies (the "Bond");

WHEREAS, Rule 17g-1 under the Investment Company Act of 1940 requires that each registered investment company named as an insured on a joint insured bond enter into an agreement with the other named insureds containing certain provisions regarding the respective shares to be received by said insured in the event recovery is received under the joint insured bond as a result of a loss sustained by them;

NOW, THEREFORE, the parties hereto, in consideration of the premises and the mutual covenants contained herein, hereby agree as follows:

1. Joint Insured Bond. The Funds shall maintain in effect a joint fidelity insurance bond from one or more reputable fidelity insurance companies which shall be authorized to do business in the place where the bond is issued, insuring the Funds against larceny and embezzlement and covering such of their officers and employees who may, singly or jointly with others, have access, directly or indirectly, to their securities or funds. The Bond shall name each party as an insured and shall comply with the requirements of such bonds established by Rule 17g-1.
2. Allocation of Premium. Each party hereto shall pay a percentage of the total premium of the Bond which equals the portion of the aggregate amount of coverage allocated to such party.
3. Allocation of Proceeds.
 - a) If one or more parties sustain a single loss for which recovery is received under the Bond, each party shall receive that portion of the recovery which is sufficient in amount to indemnify that party in full for the loss sustained by it, unless the recovery is inadequate to fully indemnify all parties sustaining a single loss.
 - (b) If the recovery is inadequate to indemnify fully all parties sustaining a single loss, the recovery shall be allocated among the parties as follows:
 - (i) Each party sustaining a loss shall be allocated an amount equal to the lesser of its actual loss or the minimum amount of the fidelity bond coverage which would be required to be maintained by such party under a single insured bond (determined as of the time of the loss in accordance with the provisions of Rule 17g-1); and
 - (ii) The remaining portion of the recovery (if any) shall be allocated to each party sustaining a loss not fully indemnified by the allocation under subparagraph (i) in the same proportion as the portion of each party's loss which is not fully indemnified bears to the sum of the unindemnified losses of all parties. If such allocation would result in any party's receiving a portion of the recovery in excess of the loss actually sustained by it, the aggregate of such excess portion shall be reallocated to the other parties whose losses would not be fully indemnified as a result of the foregoing allocation.
4. Claims and Settlements. Each party shall, within ten days after the making of any claim under the Bond, provide the other parties with written notice of the amount and nature of such claim. Each party shall, within ten days after the receipt thereof, provide the other parties with written notice of the terms of settlement of any claim made under the Bond by such party.

5. Modification and Withdrawal. Each party hereby consents to additional investment companies advised by Nomura Asset Management U.S.A. Inc. being named as a joint insured under the Bond and this Agreement. If pursuant to Rule 17g-1, any party shall determine that the coverage described herein should otherwise be modified, it shall so notify the other parties hereto, indicating the nature of the modification which it believes to be appropriate. This Agreement shall be so modified with the written consent of a majority of the parties. Any party may withdraw from this Agreement at any time and cease to be a party hereto (except with respect to losses occurring prior to such withdrawal) by giving not less than thirty days' prior written notice to the other parties of such withdrawal. Upon withdrawal, such party shall cease to be a named insured on the Bond and shall be entitled to receive any premium rebated by the fidelity company with respect to such withdrawal.

6. Governing Law. This Agreement shall be construed in accordance with the laws of the State of New York.

7. No Assignment. This Agreement is not assignable.

8. Notices. All Notices and other communications hereunder shall be in writing and shall be addressed to the appropriate party at Two World Financial Center, Building B, New York, New York 10281.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the day and year first above written.

JAPAN SMALLER CAPITALIZATION FUND, INC.

By /s/ Rita Chopra-Brathwaite
Treasurer

KOREA EQUITY FUND, INC.

By /s/ Rita Chopra-Brathwaite
Treasurer

JAPAN SMALLER CAPITALIZATION FUND, INC.

KOREA EQUITY FUND, INC.

Special Meeting of the Boards of Directors

July 28, 2009

RESOLVED, that the terms and amount of joint insured fidelity bond to be obtained from Continental Insurance Company in the aggregate amount of \$1,050,000 covering the Funds, be, and they hereby are approved;

FURTHER RESOLVED, that the proper officers of the Funds be, and they hereby are, authorized to cause the Japan Fund to pay 57.14 percent of the total premium payable with respect to such bond and the Korea Fund to pay the remaining 42.86 per cent of such premium payable with respect to such bond;

FURTHER RESOLVED, that the amount of the fidelity bond coverage be, and it hereby is, approved after consideration of all factors deemed relevant by the Board, including, but not limited to, the other parties named as insureds, the nature of the business activities of such other parties, the amount of the joint insured bond, the amount of the premium for such bond, the value of the assets of each Fund, the type and terms of the arrangement made for custody of each Fund's assets, and the nature of the securities in each Fund's portfolio;

FURTHER RESOLVED, that the form of Joint Fidelity Bond Agreement between each Fund and the other named joint insureds utilized with respect to the current year is approved for another year;

FURTHER RESOLVED, that the proper officers of the Funds be, and they hereby are, authorized and directed to take such action as they deem necessary and appropriate with respect to obtaining additional fidelity bond coverage pursuant to Rule 17g-1 under the Investment Company Act of 1940, as amended (the "1940 Act"); and

FURTHER RESOLVED, that the Secretary be, and he hereby is, designated as the officer responsible for making the necessary filings and giving the notices with respect to such bond required by paragraph (g) of Rule 17g-1 under the 1940 Act.
