APEX SILVER MINES LTD
Form S-3/A
May 09, 2005

As filed with the Securities and Exchange Commission on May 9, 2005.

Registration No. 333-122285

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

AMENDMENT NO. 1
TO
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

APEX SILVER MINES LIMITED
(Exact name of registrant as specified in its charter)

Cayman Islands, British West Indies	**N/A**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Walker House
Mary Street
George Town, Grand Cayman
Cayman Islands, British West Indies
(345) 949-0050
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Mark A. Lettes
Chief Financial Officer
Apex Silver Mines Corporation
1700 Lincoln Street, Suite 3050
Denver, Colorado 80203
Telephone: (303) 839-5060

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

Deborah J. Friedman
Davis Graham & Stubbs LLP
1550 Seventeenth Street, Suite 500
Denver, Colorado 80202
Telephone: (303) 892-9400

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. The selling shareholders may not sell these securities pursuant to this prospectus until the registration statement filed with the Securities and Exchange Commission becomes effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

Subject to Completion, dated May 9, 2005

6,413,713 ORDINARY SHARES

APEX SILVER MINES LIMITED

The 6,413,713 ordinary shares, par value $0.01 per share, offered hereby are being offered from time to time by certain Apex Silver Mines Limited shareholders. See "Selling Shareholders." The price at which the selling shareholders may sell the shares will be determined by the prevailing market price for the shares, in negotiated transactions or otherwise as set forth herein. See "Plan of Distribution."

Our ordinary shares are traded on the American Stock Exchange under the symbol "SIL." On May 2, 2005, the last reported sales price of our ordinary shares on the American Stock Exchange was $12.86.

We are filing this registration statement pursuant to a registration rights agreement made as of October 28, 1997 among Apex Silver Mines Limited, Silver Holdings LDC, Argentum LLC, Consolidated Commodities Ltd., Thomas S. Kaplan, Litani Capital Management LDC and Aurum LLC.

Investing in the securities offered in this prospectus involves risk. See "Risk Factors" beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is ____________, 2005.

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As used in this prospectus, the terms “Apex Silver,” “we,” “our,” “ours” and “us” may, depending on the context, refer to Apex Silver Mines Limited or to one or more of Apex Silver Mines Limited’s consolidated subsidiaries or to all of them taken as a whole. When we refer to “ordinary shares” throughout this prospectus, we include all rights attaching to our ordinary shares under any shareholder rights plan then in effect.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any of these documents at the SEC's public reference room at 450 Fifth Street N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC's website at http://www.sec.gov.

The SEC allows us to "incorporate by reference" the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered part of this prospectus, and information that we file later with the SEC will automatically update and supersede the information in this prospectus.

The following documents, which were previously filed with the SEC pursuant to the Securities Exchange Act of 1934, or the Exchange Act, are hereby incorporated by reference:

- our Annual Report on Form 10-K for the year ended December 31, 2004, as amended;
- our Current Reports on Form 8-K, filed on January 13, 2005 (two reports); and
- the description of the ordinary shares and other classes or series of shares contained under the caption "Description of Ordinary Shares" in our registration statement on Form S-1, as amended (File No. 333-34685), and incorporated by reference into the Registration Statement on Form 8-A under the Securities Exchange Act of 1934 filed with the SEC on November 18, 1997.

All reports and other documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference into this prospectus and shall be a part hereof from the date of filing of such reports and documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed modified, superseded or replaced for purposes of this prospectus to the extent that a statement contained in this prospectus, or in any subsequently filed document that also is deemed to be incorporated by reference in this prospectus, modifies, supersedes or replaces such statement. Any statement so modified, superseded or replaced shall not be deemed, except as so modified, superseded or replaced, to constitute a part of this prospectus. Subject to the foregoing, all information appearing in this prospectus is qualified in its entirety by the information appearing in the documents incorporated by reference.

Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance we refer you to the copy of the contract or document filed as an exhibit to the registration statement or the documents incorporated by reference in this prospectus, each such statement being qualified in all respects by such reference.

You may receive a copy of any of these filings (excluding exhibits to those documents unless they are specifically incorporated by reference in those documents), at no cost, by writing or calling Apex Silver Mines Corporation, 1700 Lincoln Street, Suite 3050, Denver, Colorado 80203, Attention: Vice President, Investor Relations and Corporate Development, telephone (303) 839-5060.

ENFORCEABILITY OF CIVIL LIABILITIES UNDER UNITED STATES LAWS

Apex Silver is a Cayman Islands exempted company and some of our directors reside in jurisdictions outside of the United States. At any one time, all or a substantial portion of our assets and directors are or may be located in jurisdictions outside of the United States. Therefore, it could be difficult for investors to effect within the United States service of process on us or any of our directors who reside outside the United States. Further, it could be difficult to recover against us or such directors judgments of courts in the United States, including judgments based upon civil liability under U.S. federal securities laws and similar state laws. Notwithstanding the foregoing, we have irrevocably agreed that we may be served with process with respect to actions based on offers of the securities offered by this prospectus in the United States by serving Apex Silver Mines Corporation, 1700 Lincoln Street, Suite 3050, Denver, Colorado 80203, our U.S. agent appointed for that purpose.

Walkers, our Cayman Islands counsel, has advised us that there may be circumstances where the courts of the Cayman Islands would not enforce:

· judgments of U.S. courts obtained in actions against us or our directors that are not resident within the United States that are based upon the civil liability provisions of U.S. federal securities laws and similar state laws; or

· original actions brought in the Cayman Islands against us or such persons based solely upon U.S. federal securities laws.

There is no treaty in effect between the United States and the Cayman Islands providing for such enforcement. There are grounds upon which Cayman Islands courts may not enforce judgments of U.S. courts. In addition, some remedies that are available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, may not be allowed in Cayman Islands courts as being contrary to public policy.

FORWARD-LOOKING STATEMENTS

Some information contained or incorporated by reference in this prospectus may contain forward-looking statements. These statements include comments regarding San Cristobal development and construction plans, costs, grade, production and recovery rates, permitting, infrastructure arrangements, Bolivian political and economic conditions, financing needs, the availability of financing on acceptable terms, the timing of construction at San Cristobal, and the markets for silver, zinc and lead.

The use of any of the words “anticipate,” “continue,” “estimate,” “expect,” “may,” “will,” “project,” “should,” “believe” and si expressions are intended to identify uncertainties. We believe the expectations reflected in these forward-looking statements are reasonable. However, we cannot assure you that these expectations will prove to be correct. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and other factors set forth in this prospectus:

· worldwide economic and political events affecting the supply of and demand for silver, zinc and lead;

- political and economic instability in Bolivia and other developing countries in which we conduct business;
- volatility in market prices for silver, zinc and lead;
- financial market conditions, and the availability of financing on terms acceptable to Apex Silver;
- uncertainties associated with developing a new mine, including potential cost overruns and the unreliability of estimates in early stages of mine development;
- variations in ore grade and other characteristics affecting mining, crushing, milling and smelting operations and mineral recoveries;
- geological, technical, permitting, mining and processing problems;
- the availability and timing of acceptable arrangements for power, transportation, water and smelting;
- the availability, terms, conditions and timing of required government permits and approvals;
- uncertainties regarding future changes in applicable law or implementation of existing law, including Bolivian laws related to tax, mining, environmental matters and exploration;
- the availability, terms and timing of arrangements for smelting and variations in smelting operations and capacity;
- the availability of experienced employees; and
- the factors discussed under "Risk Factors."

Many of these factors are beyond our ability to control or predict. You should not unduly rely on these forward-looking statements. These statements speak only as of the date of this prospectus. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect future events or developments. All subsequent written and oral forward-looking statements attributable to us and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this section and elsewhere in this prospectus.

SUMMARY

This summary contains basic information about us and the resale by shareholders of the Offered Shares. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and the related notes contained elsewhere or incorporated by reference in this prospectus, before making an investment decision.

Our Company

Apex Silver Mines Limited, incorporated under the laws of the Cayman Islands in 1996, is engaged in the exploration and development of silver properties in South America and Mexico. Our exploration efforts have produced our first development property, our 100% owned San Cristobal project located in southern Bolivia. San Cristobal's proven and probable reserves, based on $5.37 per ounce silver, $0.40 per pound zinc and $0.28 per pound lead, total approximately 219 million tonnes of ore grading 64.69 grams per tonne of silver, 1.60% zinc and 0.59% lead, containing approximately 456 million ounces of silver, 7.7 billion pounds of zinc and 2.8 billion pounds of lead. The prices used represent the three-year average price for each of the metals as per guidelines established by the Securities and Exchange Commission.

Based on recently completed evaluations for our updated life-of-mine development plan, we expect San Cristobal to have annual average payable production of approximately 17 million ounces of silver, 165,000 tonnes of zinc and 64,000 tonnes of lead over a mine life of approximately 16 years. We have commenced construction at San Cristobal, and, assuming that metals markets remain favorable and that we are able to complete the additional financing required for the project, we expect to commence start-up and production in 2007.

We also have a large diversified portfolio of privately owned and controlled silver exploration properties. We have rights to or control over 100 silver and other mineral exploration holdings, divided into approximately 50 property groups, located in or near the traditional silver producing regions of Bolivia, Mexico and Peru. None of our properties is in production, and consequently we have no operating income or cash flow.

We are managed by a team of seasoned mining professionals with significant experience in the construction, development and operation of large scale, open pit and underground, precious and base metals mining operations, as well as in the identification and exploration of mineral properties.

Our principal executive office is located at 1700 Lincoln Street, Suite 3050, Denver, Colorado 80203, and our telephone number is (303) 839-5060. Our internet address is www.apexsilver.com. Information on our website is not incorporated into this prospectus and is not a part of this prospectus.

Our Strategy

Apex Silver is one of a limited number of silver companies with significant exposure to other metals. Our strategy is to capitalize on the San Cristobal project and our sizeable portfolio of silver exploration properties in order to achieve long-term profits and growth and to enhance shareholder value.

The principal elements of our business strategy are to:

- secure financing for and proceed to develop the San Cristobal project as a large scale open pit mining operation;

- continue to explore and develop those properties which we believe are most likely to contain significant amounts of silver and/or other metals and divesting those properties that are not of continuing interest; and

- identify and acquire additional mining and mineral properties that we believe contain significant amounts of silver and/or other metals or have exploration potential.

Certain Tax Considerations

We believe that we likely were a passive foreign investment company ("PFIC") with respect to 2004, and likely will be a PFIC in 2005 as well as potentially with respect to future years. If we are a PFIC, U.S. Holders of ordinary shares will be subject to certain adverse U.S. federal income tax rules. Under the PFIC rules, a U.S. Holder who disposes or is deemed to dispose of ordinary shares at a gain, or who receives or is deemed to receive certain distributions with respect to ordinary shares, generally will be required to treat such gain or distributions as ordinary income and pay an interest charge on the tax imposed with respect thereto. Certain elections that may sometimes be used to reduce the adverse impact of the PFIC rules for holders of ordinary shares(so-called "QEF elections" and "mark-to-market" elections), but these elections may accelerate the recognition of taxable income and may result in the recognition of ordinary income. The PFIC rules are extremely complex, and prospective investors are urged to consult their own tax advisers regarding the potential consequences to them of Apex Silver being classified as a PFIC. See "Certain Tax Considerations."

The Offering

We are registering an aggregate of 6,413,713 ordinary shares ("Offered Shares") to be offered for sale by certain of our shareholders ("Selling Shareholders").

The Offered Shares were issued to the Selling Shareholders or their predecessors in a private placement completed in 1996, approximately one year before the Company's initial public offering.

Use of Proceeds

We will not receive any of the proceeds from the sale of the Apex Silver ordinary shares offered by the Selling Shareholders in this prospectus. The Selling Shareholders will receive all proceeds from the sale of the ordinary shares offered by this prospectus.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information included in this prospectus before deciding to purchase any shares. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. Any of these risks may have a material adverse effect on our business, financial condition, results of operations and cash flows. In that case, you may lose all or part of your investment in the shares.

Risks Related to the Business

We have identified a material weakness in our internal controls over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires management to make an assessment of the design and operating effectiveness of our internal controls and our auditors to audit the design and operating effectiveness of our internal controls as well as forming an opinion on management's assessment. As of December 31, 2004, we had a material weakness in our internal controls because we lacked a sufficient complement of personnel with a level of accounting expertise that is commensurate with our financial reporting requirements. This material weakness resulted in certain adjustments to our financial statements.

- In January 2005, it was determined that the accounting for capitalized interest relating to our San Cristobal development project asset was incorrect. Generally accepted accounting principles require the capitalization of a portion of the interest incurred on debt borrowed for the construction of certain qualifying assets (such as our San Cristobal project). We restated our consolidated financial statements for the first, second and third quarters of 2004 to capitalize additional interest and to reduce interest expense.

- We had a material adjustment to reclassify cash and cash equivalents to short and long term investments prior to filing our second quarter 2004 financial statements and an adjustment to stock compensation expense and related disclosures associated with our adoption of Statement of Financial Accounting Standards 123, *Accounting for Stock-Based Compensation*, prior to filing our third quarter 2004 financial statements.

- We had an audit adjustment to the 2004 financial statements to increase costs capitalized related to our San Cristobal development project asset and to reduce administration expense.

We have retained the public accounting firm currently assisting in our Section 404 compliance effort to assist us in preparing our financial statements and to provide technical expertise in the proper application of generally accepted accounting principles to various transactions and other financial statement matters. We have hired additional personnel and continue to evaluate the need for additional personnel for our accounting department, including personnel with technical expertise in the application of generally accepted accounting principles. However, we have not yet been able to test and assess the operating effectiveness of our internal controls, including these mitigating steps, surrounding the financial reporting process and testing may reveal similar or additional weaknesses in the design and effectiveness related to the financial reporting process. Since this material weakness was not effectively remediated, management has concluded that Apex Silver's controls are ineffective. Further, our independent registered public accounting firm has issued an adverse opinion on our internal controls as of December 31, 2004. Because opinions on internal controls have not been issued in the past, it is uncertain what impact an adverse opinion would have on our company or our stock price.

We have no history of production.

We have no history of producing silver or other metals. The development of our San Cristobal project will require the construction or rehabilitation and operation of mines, processing plants and related infrastructure. As a result, we are subject to all of the risks associated with establishing new mining operations and business enterprises. There can be no assurance that we will successfully establish mining operations or profitably produce silver or other metals at any of our properties.

We have a history of losses and we expect losses to continue for at least the next three years.

As an exploration and development company that has no production history, we have incurred losses since our inception, and we expect to continue to incur additional losses for at least the next three years. As of December 31, 2004, we had an accumulated deficit of $97.7 million. There can be no assurance that we will achieve or sustain profitability in the future.

The calculation of our reserves and other mineralization is subject to significant estimates.

Unless otherwise indicated, reserves and other mineralization figures presented in our filings with the SEC, press releases and other public statements that may be made from time to time are based on estimates of contained silver and other metals made by independent geologists or our own personnel. These estimates are imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling which may prove to be unreliable. There can be no assurance that:

- these estimates will be accurate;
- reserves and other mineralization figures will be accurate; or
- reserves or mineralization could be mined and processed profitably.

Since we have not commenced production on any of our properties, reserves and other mineralization estimates may require adjustments or downward revisions based on actual production experience. Extended declines in market prices for silver, zinc and lead may render portions of our reserves uneconomic and result in reduced reported reserves. Any material reductions in estimates of our reserves and other mineralization, or of our ability to extract these reserves or mineralization, could have a material adverse effect on our results of operations, financial condition and cash flows.

We have not established the presence of any proven or probable reserves at any of our mineral properties other than the San Cristobal project. There can be no assurance that subsequent testing or future feasibility studies will establish additional reserves at our properties. The failure to establish additional reserves could restrict our ability to successfully implement our strategies for long term growth beyond the San Cristobal project.

The San Cristobal project is subject to risks including delays in commencement and completion and we may be unable to achieve anticipated production volume or manage cost increases.

Completion of the development of the San Cristobal project is subject to various factors, including the availability, terms, conditions and timing of acceptable arrangements for financing, transportation, construction, and smelting; required government approvals, and the performance of our engineering and construction contractors, mining contractor, suppliers and consultants. The lack of availability on acceptable terms or the delay in any one or more of the items listed above could also delay or prevent the development of San Cristobal as currently planned. Further, completion of the development of the San Cristobal project may be compromised in the event of a prolonged decline in price levels for silver and zinc. There can be no assurance:

- when or whether the San Cristobal project will be completed;
- whether the resulting operations will achieve the anticipated production volume; or
- that the construction costs and ongoing operating costs associated with the development of the San Cristobal project will not be higher than anticipated.

We have never developed or operated a mine or managed a significant mine development project. We cannot assure you that the development of San Cristobal will be completed at the cost and on the schedule predicted, or that silver, zinc and lead grades and recoveries, production rates or anticipated capital or operating costs will be achieved.

If the actual cost to complete the development of the San Cristobal project is significantly higher than currently expected, there can be no assurance that we will have enough funds to cover these costs or that we would be able to obtain alternative sources of financing to cover these costs. Unexpected cost increases, reduced silver and zinc prices or the failure to obtain necessary project financing on acceptable terms to commence or complete the development of the San Cristobal project on a timely basis, or to achieve anticipated production capacity, could have a material adverse effect on our future results of operations, financial condition and cash flows.

The successful development of the San Cristobal project is also subject to the other risk factors described herein.

We depend on a single mining project.

We anticipate that the majority, if not all, of any revenues for the next few years and beyond will be derived from the sale of metals mined at the San Cristobal project. Therefore, if we are unable to complete and successfully mine the San Cristobal project, our ability to generate revenue and profits would be materially adversely affected.

Our success will depend on our ability to manage our growth.

As we increase our development activity at San Cristobal, we are experiencing significant growth in our operations, which we expect to continue and accelerate over the next several years now that construction has commenced and we anticipate the commencement of production in 2007. This growth has created and will continue to create new positions and responsibilities for management personnel and will substantially increase demands on our operating and financial systems. There can be no assurance that we will successfully meet these demands and manage our anticipated growth.

Our profitability will be affected by changes in the prices of metals.

Our profitability and long-term viability depend, in large part, on the market price of silver, zinc, lead and other metals. The market prices for these metals are volatile and are affected by numerous factors beyond our control, including:

- global or regional consumption patterns;
- supply of, and demand for, silver, zinc, lead and other metals;
- speculative activities;
- expectations for inflation; and
- political and economic conditions.

The aggregate effect of these factors on metals prices is impossible for us to predict. Decreases in metals prices have delayed, and could in the future adversely affect, our ability to finance the development of the San Cristobal project and the exploration and development of our other properties, which would have a material adverse effect on our financial condition, results of operations and cash flows. There can be no assurance that metals prices will not decline.

The following table sets forth for the periods indicated (1) the Comex nearby active silver futures contract's high and low price of silver in U.S. dollars per troy ounce and (2) the London Metals Exchange's high and low settlement prices of zinc and lead in U.S. dollars per pound.

	Silver		Zinc		Lead	
Year	**High**	**Low**	**High**	**Low**	**High**	**Low**
2000	$					

5.57

$

4.62

$

0.58

$

0.46

$

0.26

$

0.18

2001

4.83

4.03

0.48

0.33

0.24

0.20

2002

5.13

4.22

0.42

0.33

0.24

0.18

2003

5.99

4.35

0.46

0.34

0.34

0.19

2004

8.29

5.49

0.56

0.42

0.45

0.29

2005*

7.576.410.660.540.450.39

* Through April 29, 2005

The closing prices of silver, zinc and lead on April 29, 2005 were $6.90 per troy ounce, $0.59 per pound and $0.43 per pound, respectively.

We may not be successful in hedging against price, currency and interest rate fluctuations and may incur mark to market losses and lose money through our hedging programs.

We have engaged in limited metals trading activities to hedge against commodity and base metals price risks, using puts and calls. We are in the process of securing additional project debt financing for the San Cristobal project and in connection with that financing we will be required to utilize various price hedging techniques to hedge a limited amount of the metals we produce at San Cristobal. The level of hedging we are required to maintain in the future will be determined based on negotiations with our lenders.

We may also engage in activities to hedge the risk of exposure to currency and interest rate fluctuations related to the development of the San Cristobal project in Bolivia or to exploration or development in other countries in which we incur substantial expenditures. Further, terms of our financing arrangements may require us to hedge against these risks.

There can be no assurance that we will be able to successfully hedge against price, currency and interest rate fluctuations. In addition, our ability to hedge against zinc and lead price risk in a timely manner may be adversely affected by the smaller volume of transactions in both the zinc and lead markets. Further, there can be no assurance that the use of hedging techniques will always be to our benefit. Hedging instruments that protect against market price volatility may prevent us from realizing the benefit from subsequent increases in market prices with respect to covered production, which would limit our revenues and profits. Hedging contracts also are subject to the risk that the other party may be unable or unwilling to perform its obligations under these contracts. Any significant nonperformance could have a material adverse effect on our financial condition, results of operations and cash flows.

The exploration of mineral properties is highly speculative in nature, involves substantial expenditures and is frequently non-productive.

Our future growth and profitability will depend, in part, on our ability to identify and acquire additional mineral rights, and on the costs and results of our continued exploration and development programs. Competition for attractive mineral exploration properties is intense. Our strategy is to expand our reserves through a broad program of exploration. Mineral exploration is highly speculative in nature and is frequently non- productive. Substantial expenditures are required to:

- establish ore reserves through drilling and metallurgical and other testing techniques;
- determine metal content and metallurgical recovery processes to extract metal from the ore; and
- construct, renovate or expand mining and processing facilities.

If we discover ore, it usually takes several years from the initial phases of exploration until production is possible. During this time, the economic feasibility of production may change. As a result of these uncertainties, there can be no assurance that we will successfully acquire additional mineral rights, or that our exploration programs will result in new proven and probable reserves in sufficient quantities to justify commercial operations in any of our properties, other than the San Cristobal project.

We consider from time to time the acquisition of operating or formerly operating mines. Our decisions to acquire these properties are based on a variety of factors including historical operating results, estimates of and assumptions about future reserves, cash and other operating costs, metals prices and projected economic returns, and evaluations of existing or potential liabilities associated with the property and its operation. Other than historical operating results, all of these may differ significantly from our estimates and assumptions. In addition, there is intense competition for attractive properties. Accordingly, there is no assurance that our acquisition efforts will result in profitable mining operations.

Our profitability depends, in part, on actual economic returns and actual costs of developing mines, which may differ significantly from our estimates and involve unexpected problems and delays.

None of our mineral properties, including the San Cristobal project, has an operating history upon which we can base estimates of future cash operating costs. Our decision to develop the San Cristobal project is based on feasibility studies. Decisions about the development of other projects in the future may also be based on feasibility studies. Feasibility studies derive estimates of reserves and operating costs and project economic returns. Estimates of economic returns are based, in part, on assumptions about future metals prices. Our profitability will be affected by changes in the price of metals. Feasibility studies derive estimates of average cash operating costs based upon, among other things:

· anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;

· anticipated recovery rates of silver and other metals from the ore;

· cash operating costs of comparable facilities and equipment; and

· anticipated climatic conditions.

Actual cash operating costs, production and economic returns may differ significantly from those anticipated by our studies and estimates.

There are a number of uncertainties inherent in the development and construction of any new mine, including the San Cristobal project. These uncertainties include:

· the timing and cost, which can be considerable, of the construction of mining and processing facilities;

· the availability and cost of skilled labor, power, water and transportation;

· the availability and cost of appropriate smelting and refining arrangements;

· the need to obtain necessary environmental and other governmental permits, and the timing of those permits; and

· the availability of funds to finance construction and development activities.

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The costs, timing and complexities of mine construction and development are increased by the remote location of many mining properties, like the San Cristobal project. It is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there is no assurance that our future development activities will result in profitable mining operations.

Title to our mineral properties may be challenged.

Our policy is to seek to confirm the validity of our rights to title to, or contract rights with respect to, each mineral property in which we have a material interest. However, we cannot guarantee that title to our properties will not be challenged. Title insurance generally is not available, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions may be severely constrained. We have not conducted surveys of all of the claims in which we hold direct or indirect interests and, therefore, the precise area and location of these claims may be in doubt. Accordingly, our mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, we may be unable to operate our properties as permitted or to enforce our rights with respect to our properties.

We may lose rights to properties if we fail to meet payment requirements or development or production schedules.

We derive the rights to some of our mineral properties, including some of our principal properties at the San Cristobal project, from leaseholds or purchase option agreements which require the payment of rent or other installment fees. In addition, we must make annual mining patent payments to the Bolivian government totaling approximately $360,000 to maintain our concessions at San Cristobal. If we fail to make these payments when they are due, our rights to the property may lapse. There can be no assurance that we will always make payments by the requisite payment dates. Some contracts with respect to our mineral properties require development or production schedules. There can be no assurance that we will be able to meet any or all of the development or production schedules. In addition, our ability to transfer or sell our rights to some of our mineral properties requires governmental approvals or third party consents, which may not be granted.

We cannot insure against all of the risks associated with mining.

The business of mining is subject to a number of risks and hazards, including:

- adverse environmental effects;
- industrial accidents;
- labor disputes;
- technical difficulties due to unusual or unexpected geologic formations;
- failures of pit walls; and
- flooding and periodic interruptions due to inclement or hazardous weather conditions.

These risks can result in, among other things:

- damage to, and destruction of, mineral properties or production facilities;
- personal injury;
- environmental damage;

- delays in mining;
- monetary losses; and
- legal liability.

Although we maintain, and intend to continue to maintain, insurance with respect to our operations and mineral properties within ranges of coverage consistent with industry practice, there can be no assurance that insurance will be available at economically feasible premiums. Insurance against environmental risks is not generally available. These environmental risks include potential liability for pollution or other disturbances resulting from mining exploration and production. In addition, not all risks associated with developing and producing silver, zinc, lead and other metals are included in coverage and some covered risks may result in liabilities which exceed policy limits. Further, we may elect to not seek coverage for all risks. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on our financial condition, results of operations and cash flows.

Our San Cristobal project and our exploration activities are in countries with developing economies and are subject to the risks of political and economic instability associated with these countries.

We currently conduct exploration activities in countries with developing economies including Bolivia, Mexico and Peru in Latin America. These countries and other emerging markets in which we may conduct operations have from time to time experienced economic or political instability. We may be materially adversely affected by risks associated with conducting operations in countries with developing economies, including:

- political instability and violence;
- war and civil disturbance;
- expropriation or nationalization;
- changing fiscal regimes;
- fluctuations in currency exchange rates;
- high rates of inflation;
- underdeveloped industrial and economic infrastructure; and
- unenforceability of contractual rights.

Bolivia has experienced slow economic growth and political instability in the last three years. In late 2003, there were violent demonstrations in La Paz and elsewhere in Bolivia, protesting, among other things, the proposed export of natural gas to the U.S. through Chile. These demonstrations resulted in the resignation of President Sanchez de Lozada in October 2003, and his constitutional replacement by President Mesa. Demonstrations have continued in 2004 and early 2005, focused on, among other things, the opposition of certain political parties to a proposed statute regulating oil and gas development in Bolivia. As proposed, the new law would provide incentives for foreign investment and increase taxes and royalties on oil and gas production. Following a period of demonstrations, President Mesa resigned in early March 2005. The Bolivian Congress rejected his resignation, and President Mesa has agreed to continue to serve as President based on agreements regarding passage of a new oil and gas statute and progress on certain other initiatives. The remaining opposing political party continues its active opposition. There have been no formal proposals to impose royalties or increase taxes on the mining industry. Although these conditions and events have not caused any adverse impact on our San Cristobal project, political and economic uncertainties and instability continue and may not be resolved successfully. The political and economic climate may become more unstable, and political and economic uncertainties may in the future have an adverse impact on the development or operations of San Cristobal.

Changes in mining or investment policies or shifts in the prevailing political climate in any of the countries in which we conduct exploration and development activities could adversely affect our business. Our operations may be affected in varying degrees by government regulations with respect to, among other things:

· production restrictions;

· price controls;

· export and import controls;

· income and other taxes;

· maintenance of claims;

· environmental legislation;

· foreign ownership restrictions;

· foreign exchange and currency controls;

· labor;

· welfare benefit policies;

· land use;

· land claims of local residents;

· water use; and

· mine safety.

We cannot accurately predict the effect of these factors. In addition, legislation in the United States regulating foreign trade, investment and taxation could have a material adverse effect on our financial condition, results of operations and cash flows.

Our activities are subject to foreign environmental laws and regulations which may materially adversely affect our future operations.

We conduct mineral exploration and development activities primarily in Central America and South America, and are most active in Bolivia, where the San Cristobal project is located, and Mexico. With the development of San Cristobal, we also expect to conduct mining operations in Bolivia. These countries have laws and regulations which control the exploration and mining of mineral properties and their effects on the environment, including air and water quality, mine reclamation, waste handling and disposal, the protection of different species of flora and fauna and the preservation of lands. These laws and regulations will require us to acquire permits and other authorizations for certain activities. In many countries, including Bolivia, there is relatively new comprehensive environmental legislation, and the permitting and authorization processes may be less established and less predictable than they are in the United States. There can be no assurance that we will be able to acquire necessary permits or authorizations on a timely basis, if at all. Delays in acquiring any permit or authorization could increase the development cost of San Cristobal or other projects and could delay the commencement of production.

Environmental legislation in many countries is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In Bolivia, where there is relatively new environmental legislation, enforcement activities and strategies may be under development, and thus may be less predictable than in the United States. We cannot predict what environmental legislation or regulations will be enacted or adopted in the future or how future laws and regulations will be administered or interpreted. Compliance with more stringent laws and regulations, as well as potentially more vigorous enforcement policies or regulatory agencies or stricter interpretation of existing laws, may (1) necessitate significant capital outlays, (2) cause us to delay, terminate or otherwise change our intended activities with respect to one or more projects and (3) materially adversely affect our future operations.

Many of our exploration and development properties are located in historic mining districts where prior owners may have caused environmental damage which may not be known to us or to the regulators. In most cases, we have not sought complete environmental analyses of our mineral properties and have not conducted comprehensive reviews of the environmental laws and regulations in every jurisdiction in which we own or control mineral properties. To the extent we are subject to environmental requirements or liabilities, the cost of compliance with these requirements and satisfaction of these liabilities would reduce our net cash flow and could have a material adverse effect on our financial condition and results of operations. If we are unable to fund fully the cost of remediation of any environmental condition, we may be required to suspend operations or enter into interim compliance measures pending completion of the required remediation.

We compete against larger and more experienced companies.

The mining industry is intensely competitive. Many of the largest mining companies are primarily producers of base metals, and may become interested in the types of silver deposits on which we are focused because these deposits typically are polymetallic, containing significant quantities of base metals including zinc, lead and copper. Many of these companies have greater financial resources, operational experience and technical capabilities than we have. We may encounter increasing competition from other mining companies in our efforts to acquire mineral properties and hire experienced mining professionals. Increased competition in our business could adversely affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

Our ability to obtain dividends or other distributions from our subsidiaries may be subject to restrictions imposed by law, foreign currency exchange regulations and our financing arrangements.

We conduct, and will continue to conduct, all of our operations through subsidiaries. Our ability to obtain dividends or other distributions from our subsidiaries may be subject to restrictions on dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which the subsidiaries operate. Further, our anticipated financing for the San Cristobal project is expected to include requirements that we satisfy certain debt service reserve or operating reserve requirements or meet debt payment obligations prior to payment to us of any dividends by our subsidiaries. Our subsidiaries’ ability to pay dividends or make other distributions to us is also subject to their having sufficient funds to do so. If our subsidiaries are unable to pay dividends or make other distributions, our growth may be inhibited unless we are able to obtain additional debt or equity financing on acceptable terms. In the event of a subsidiary’s liquidation, we may lose all or a portion of our investment in that subsidiary.

We may not be able to raise the funds necessary to explore and develop our mineral properties.

Although we raised approximately $536.7 million through equity sales and proceeds from the sale of notes in 2004, we will need additional external financing to develop and construct the San Cristobal project and to fund the exploration and development of our other mineral properties. Sources of external financing may include bank borrowings and future debt and equity offerings. There can be no assurance that financing will be available on acceptable terms, or at all. The failure to obtain financing would have a material adverse effect on our growth strategy and our results of operations and financial condition. The mineral properties that we are likely to develop are expected to require significant capital expenditures. There can be no assurance that we will be able to secure the financing necessary to retain our rights to, or to begin or sustain production at, our mineral properties.

We depend on the services of key executives.

We are dependent on the services of key executives including our executive chairman and chief executive officer and a small number of highly skilled and experienced executives and personnel focused on the development of the San Cristobal project. Due to the relatively small size of Apex Silver, the loss of these persons or our inability to attract and retain additional highly skilled employees required for the development of the San Cristobal project may delay or otherwise adversely affect the development of the San Cristobal project, which could have a material adverse effect on our business or future operations.

The substantial control of Apex Silver by our directors, officers and 5% shareholders may have a significant effect in delaying, deferring or preventing a change in control of Apex Silver or other events which could be of benefit to our other shareholders.

As of April 30, 2005, the directors of Apex Silver and officers of Apex Silver Mines Corporation, together with members of their families and entities that may be deemed to be affiliates of or related to these persons or entities, and 5% shareholders beneficially owned approximately 28.4 million, or 60%, of our outstanding shares, assuming the conversion of currently exercisable options and warrants. This level of ownership by these persons may have a significant effect in delaying, deferring or preventing a change in control of Apex Silver or other events which could be of benefit to our other shareholders.

Apex Silver and certain lower tier subsidiaries may be treated as passive foreign investment companies for U.S. federal income tax purposes.

We believe that we likely were a passive foreign investment company ("PFIC") with respect to 2004, and likely will be a PFIC in 2005 as well as potentially with respect to future years. If we are a PFIC, U.S. holders of Ordinary Shares and warrants to acquire Ordinary Shares will be subject to certain adverse U.S. federal income tax rules. Under the PFIC rules, a U.S. holder who disposes or is deemed to dispose of Ordinary Shares or warrants at a gain, or who receives or is deemed to receive certain distributions with respect to Ordinary Shares, generally will be required to treat such gain or distributions as ordinary income and pay an interest charge on the tax imposed with respect thereto. Certain elections may sometimes be used to reduce the adverse impact of the PFIC Rules for holders of Ordinary Shares (so-called "QEF elections" and "mark-to-market" elections), but these elections may accelerate the recognition of taxable income and may result in the recognition of ordinary income**.** In addition, elections that may be used to reduce the adverse impact of the PFIC rules will not be available with respect to warrants to acquire Ordinary Shares**.** The PFIC rules are extremely complex, and prospective investors are urged to consult their own tax advisers regarding the potential consequences to them of Apex Silver being classified as a PFIC.

We have in certain prior filings stated that we believed that (i) Apex Silver may be considered a PFIC but (ii) none of our non-U.S. lower tier subsidiaries was a corporation for U.S. tax purposes that would itself be considered to be a PFIC. We now believe that certain of our non-U.S. lower tier subsidiaries, including the subsidiary that contains the principal assets associated with the San Cristobal project, were corporations for U.S. tax purposes that constituted PFICs in certain prior years. As a result, there is a possibility that some shareholders may suffer adverse U.S. federal income tax consequences that arguably might not have been suffered had they been aware of the PFIC status of these lower tier subsidiaries. Such shareholders may, however, be able to make retroactive elections in some cases that would mitigate any such adverse consequences. Moreover, under applicable proposed regulations, the fact that our lower tier subsidiaries of any consequence may not have had earnings and profits for any taxable year since formation may arguably eliminate any such tax consequences in respect of prior taxable years. For the current and all subsequent taxable years, we believe that the potential for our lower tier subsidiaries to be classified as PFICs with respect to new investors can be substantially eliminated without adverse tax consequences.

In the future, holders of our shares may claim that they have suffered adverse tax consequences for which they could have taken remedial action if they had been aware that such subsidiaries constituted PFICs. It is not possible for us to determine the number of shareholders, if any, that might make such a claim or to determine the merits or impact of such claims on us and whether such claims may be material to us.

SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership, as of April 29, 2005, by each of the Selling Shareholders. Apex Silver does not anticipate adding additional Selling Shareholders at a later time and as of the date of this prospectus, Apex Silver is not aware of any unidentified selling shareholders. The information in the table below is based upon information provided to us by the Selling Shareholders. Except as otherwise disclosed below, none of the Selling Shareholders has or within the past three years has had, any position, office or other material relationship with us.

Beneficial ownership is determined in accordance with Rule 13d-3(d) promulgated by the SEC under the Securities Exchange Act of 1934. Unless otherwise noted, each person or group identified possesses sole voting and investment power with respect to the Offered Shares.

Name	Number of Shares Beneficially Owned Prior to this Offering	Shares Offered in this Offering	Number of Shares Beneficially Owned after this Offering[1]
Basel Holdings Ltd. (2)	862,863	862,863	0
Consolidated Commodities, Ltd. (3)	1,659,121	1,659,121	0
EMOF LLC (4)	392,136	392,136	0
Geosor Corporation (4)	707,466	707,466	0
LEA Holdings Ltd. (5)	119,568	119,568	0
ORA Holdings Ltd. (5)	119,568	119,568	0
Quantum Industrial Partners LDC (4)	2,358,221	2,358,221	0
VDM, Inc.(6)	194,770	194,770	0
Total	6,413,713	6,413,713	

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(1) For purposes of calculating shares beneficially owned after this offering, it is assumed that all the Offered Shares have been sold pursuant to this offering. The Selling Shareholders may have sold, transferred or otherwise disposed of all or a portion of their Offered Shares since the date on which they provided information regarding their securities in transactions exempt from the registration requirements of the Securities Act. The selling shareholders have informed us that they do not hold any of our ordinary shares other than the shares listed in the table above.

(2) The selling shareholder has identified Butterfield Trust (Bermuda) Limited as an entity with sole voting and dispositive power over the shares.

(3) The selling shareholder has identified William Natbony as a natural person with sole voting and dispositive power over the shares.

(4) The business address of Mr. George Soros is 888 7th Avenue, 33rd Floor, New York, New York 10106. Mr. George Soros may be deemed the beneficial owner of 3,457,823 ordinary shares. This number includes (i) 2,358,221 ordinary shares held for the account of Quantum Industrial Partners LDC ("QIP"), an exempted limited duration company formed under the laws of the Cayman Islands, (ii) 707,466 ordinary shares held for the account of Geosor Corporation, a corporation formed under the laws of the State of New York ("Geosor") and (iii) 392,136 ordinary shares held for the account of EMOF LLC, a limited liability company formed under the laws of the State of Delaware ("EMOF"). QIH Management Investor, L.P. ("QIHMI"), an investment advisory firm organized as a Delaware limited partnership, is a minority shareholder of, and is vested with investment discretion with respect to, portfolio assets held for the account of QIP. The sole general partner of QIHMI is QIH Management LLC ("QIH Management"), a limited liability company formed under the laws of the State of Delaware. Soros Fund Management LLC ("SFM LLC"), a limited liability company formed under the laws of the State of Delaware, is the sole managing member of QIH Management. Mr. George Soros is the chairman of SFM LLC, and in this capacity may be deemed the beneficial owner of shares held for the account of QIP. Geosor is wholly owned by Mr. George Soros. EMOF Manager LLC ("EMOF Manager"), a Delaware limited liability company, is the manager of EMOF and is vested with investment discretion with respect to portfolio assets held for the account of EMOF. Mr. George Soros is the Principal Executive Officer of EMOF Manager, and in this capacity may be deemed the beneficial owner of shares held for the account of EMOF.

(5) The selling shareholder has identified Caledonia Bank and Trust Limited as an entity with sole voting and dispositive power over the shares.

(6) Mr. Paul Soros, a director of Apex Silver, owns 100 percent of VDM, Inc. Mr. Paul Soros is also the beneficial owner of 239,119 ordinary shares and options to purchase 57,190 ordinary shares that are exercisable within 60 days.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of Apex Silver ordinary shares by the Selling Shareholders.

PLAN OF DISTRIBUTION

The Selling Shareholders and their successors, which includes their pledgees, donees, partnership distributees and other transferees receiving the Offered Shares in non-sale transfers, may sell the Offered Shares directly to purchasers or through underwriters, broker-dealers or agents. Underwriters, broker-dealers or agents may receive compensation in the form of discounts, concessions or commissions from the Selling Shareholders or the purchasers. These discounts, concessions or commissions may be in excess of those customary in the types of transactions involved.

The Offered Shares may be sold in one or more transactions:

- at fixed prices;
- at prevailing market prices at the time of sale;
- at varying prices determined at the time of sale; or
- at negotiated prices

These sales may be effected in transactions, which may involve block transactions, in the following manner:

- on any national securities exchange or quotation service on which Apex Silver's ordinary shares may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions other than these exchanges or services or in the over-the-counter market; or
- through the writing and exercise of options and warrants, whether these options and warrants are listed on an option or warrant exchange or otherwise.

The Selling Shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of Offered Shares and deliver these shares to close out short positions, or loan or pledge the underlying shares to broker-dealers that in turn may sell these shares.

The aggregate proceeds to the Selling Shareholders from the sale of the Offered Shares will be the purchase price of the shares less any discounts and commissions. Apex Silver will not receive any of the proceeds from the resale of the Offered Shares by the Selling Shareholders.

In order to comply with the securities laws of some jurisdictions, if applicable, the Selling Shareholders may sell the Offered Shares in some jurisdictions through registered or licensed broker-dealers.

The Selling Shareholders and any underwriters, broker-dealers or agents that participate in the sale of the Offered Shares may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the Offered Shares must be underwriting discounts and commissions permitted under the Securities Act. The Selling Shareholders will be subject to the prospectus delivery requirements of the Securities Act.

In addition, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 or Rule 144A under the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus.

We will bear the expenses incurred in association with the filing of this registration statement.

DESCRIPTION OF ORDINARY SHARES

As of the date of this prospectus, our authorized share capital consists of one class of 75,000,000 ordinary shares, par value $.01 per share, of which 47,707,556 ordinary shares were outstanding as of April 21, 2005.

The ordinary shares offered by this prospectus are validly issued, fully paid and nonassessable. There are no provisions of Cayman Islands law, our Memorandum of Association (the “Memorandum”) or our Articles of Association (the “Articles”) which impose any limitation on the rights of shareholders to hold or vote ordinary shares by reason of their not being resident in the Cayman Islands.

Dividends

Holders of ordinary shares are entitled to receive dividends ratably when and as declared by the Board of Directors. The right to receive dividends is also subject to the rights of holders of preference shares, if any.

Liquidation

In the event of any dissolution, liquidation or winding up of Apex Silver, whether voluntary or involuntary, after there shall have been paid or set aside for payment to the holders of any outstanding shares ranking senior to the shares as to distribution on liquidation, distribution or winding up, the full amount to which they shall be entitled, the holders of the then outstanding ordinary shares shall be entitled to receive, *pro rata* according to the number of ordinary shares registered in the names of such shareholders, any of our remaining assets available for distribution to our shareholders; provided, if, at such time, the holder of ordinary shares has any outstanding debts, liabilities or engagements to or with us (whether presently payable or not, either alone or jointly with any other person, whether a shareholder or not (including, without limitation, any liability associated with the unpaid purchase price of such ordinary shares)), the liquidator appointed to oversee our liquidation shall deduct from the amount payable in respect of such ordinary shares the aggregate amount of such debts, liabilities and engagements and apply such amount to any of such holder’s debts, liabilities or engagements to or with us (whether presently payable or not). The liquidator may distribute, in kind, to the holders of the ordinary shares remaining assets or may sell, transfer or otherwise dispose of all or any part of such remaining assets to any other corporation, trust or entity and receive payment therefor in cash, shares or obligations of such other corporation, trust or entity or any combination thereof, and may sell all or any part of the consideration so received, and may distribute the consideration received or any balance or proceeds thereof to holders of the ordinary shares.

Voting Rights

The Articles provide that the quorum required for a general meeting of the shareholders is not less than one shareholder present in person or by proxy holding at least 50 percent of the issued and outstanding shares entitled to vote at such meeting. Subject to applicable law and any provision of the Articles requiring a greater majority, we may from time to time by special resolution alter or amend the Memorandum or Articles; voluntarily liquidate, dissolve or wind- up our affairs; reduce our share capital or any capital, redemption or reserve funds, or any share premium account; or change our name or alter our objects.

Each shareholder is entitled to one vote per share on all matters submitted to a vote of shareholders at any such meeting. All matters, including the election of directors, voted upon at any duly held shareholders’ meeting shall be carried by ordinary resolution, except (i) approval of a merger, consolidation or amalgamation which requires (in addition to any regulatory or court approvals) the approval of at least seventy-five percent of the outstanding voting shares, voting together as a single class; (ii) any matter that must be approved by special resolution, including any amendment of the Memorandum and Articles; and (iii) as otherwise provided in the Articles. A special resolution requires the approval of at least two-thirds of the votes cast by holders of the outstanding voting shares voting together as a s ingle class represented in person or by proxy at a duly convened meeting. An ordinary resolution requires the approval of a simple majority of votes cast at a meeting of shareholders represented in person or by proxy.

The Articles provide that, except as otherwise required by law and subject to the rights of the holders of any class or series of shares we have issued having a preference over the ordinary shares as to dividends or upon liquidation to elect directors in specified circumstances, extraordinary general meetings of the shareholders may be called only by (i) the directors or (ii) at the request *in writing* of shareholders owning at least 25 percent of the outstanding shares generally entitled to vote.

The ordinary shares have noncumulative voting rights, which means that the holders of a majority of the ordinary shares may elect all of our directors and, in such event, the holders of the remaining ordinary shares will not be able to elect any directors. Our board of directors is presently divided into three classes, of three directors each. At present, each class is elected for a term of three years, with the result that shareholders will not vote for the election of a majority of directors in any single year. Pursuant to the Articles, directors may be removed by the shareholders only with the vote of 80 percent of the outstanding shares generally entitled to vote. The classified board provision and the removal of directors by shareholder provision can only be amended with the vote of 80 percent of the outstanding shares generally entitled to vote.

This classified board provision could prevent a party who acquires control of a majority of the outstanding voting power from obtaining control of the board of directors until the second annual shareholders meeting following the date the acquirer obtains the controlling share interest. The classified board provision could have the effect of discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us and could thus increase the likelihood that incumbent directors will retain their positions.

Preemptive Rights

No holder of our outstanding shares shall, by reason of such holding, have any preemptive rights to subscribe to any additional issue of shares of any class or series nor to any security convertible into such shares.

Transfer of Shares

The Articles also provide that the board of directors may suspend the registration of transfers of ordinary shares for such periods as the board of directors may determine, but shall not suspend the registration of transfers for more than 40 days.

Other Class or Series of Shares

The Articles authorize the directors to create and issue one or more classes or series of shares and determine the rights and preferences of each such class or series, to the extent permitted by the Articles and applicable law. There are no other classes or series of shares outstanding.

Transfer Agent

Our registrar and transfer agent for all ordinary shares is American Stock Transfer & Trust Company.

Differences in Corporate Law

The Companies Law (2004 Revision) (the "Companies Law") of the Cayman Islands is modeled after that of England, and differs in certain respects from such laws generally applicable to United States corporations and their shareholders. Set forth below is a summary of certain significant provisions of the Companies Law (including such modifications thereto adopted pursuant to the Articles) applicable to us which differ from provisions generally applicable to United States corporations and their shareholders. These statements are a brief summary of certain significant provisions of the Companies Law and, as such, do not deal with all aspects of every law that may be relevant to corporations and their shareholders.

Interested Directors

Our Articles provide that any transaction we enter into in which a director has an interest is not voidable by us nor can such director be liable to us for any profit realized pursuant to such transaction. A director having an interest in a transaction is entitled to vote in respect of such transaction provided the nature of the interest is disclosed at or prior to the vote on such transaction.

Mergers and Similar Arrangements

We may acquire the business of another company and carry on such business when it is within the objects of the Memorandum. The approval of the holders of at least 75 percent of the outstanding shares entitled to vote, voting together as a single class, at a meeting called for such purpose is required for us to (i) merge, consolidate or amalgamate with another company, (ii) reorganize or reconstruct us pursuant to a plan sanctioned by the Cayman Islands courts or (iii) sell, lease or exchange all or substantially all of our assets, except in the case of a transaction between us and any entity which we, directly or indirectly, control. In order to merge or amalgamate with another company or to reorganize and reconstruct itself, as a general rule, the relevant plan would need to be approved in accordance with the provisions of the Companies Law by the holders of not less than 75 percent of the votes cast at a general meeting called for such purpose and thereafter sanctioned by the Cayman Islands court. In respect of such a court sanctioned reorganization, while a dissenting shareholder may have the right to express to a Cayman Islands court his view that the transaction sought to be approved would not provide the shareholders with the fair value of their shares, (i) the court ordinarily would not disapprove the transaction on that ground absent other evidence of fraud or bad faith, and (ii) if the transaction were approved and consummated, the dissenting shareholder would have no rights comparable to the appraisal rights (as here defined, rights to receive payment in cash for the judicially determined value of their shares) ordinarily available to dissenting shareholders of Untied States corporations.

Shareholders' Suits

There does not appear to be any history of either a class action or a derivative action ever having been brought by shareholders in the Cayman Islands courts. There has, however, until recently been no official law reporting in the Cayman Islands and actions subject to the Confidential Relationships (Preservation) Law of 1976, as amended, are held in closed court. However, in this regard, the Cayman Islands courts ordinarily would be expected to follow English precedent, which would permit a minority shareholder to commence an action against or a derivative action in the name of the corporation only (i) where the act complained of is alleged to be beyond the corporate power of the corporation or illegal, (ii) where the act complained of is alleged to constitute a fraud against the minority perpetrated by those in control of the corporation, (iii) where the act requires approval by a greater percentage of the corporation's shareholders than actually approved it, or (iv) where there is an absolute necessity to waive the general rule that a shareholder may not bring such an action in order that there not be a denial of justice or a violation of the corporation's memorandum of association.

Indemnification; Exculpation

Cayman Islands law does not limit the extent to which a company's Articles of Association may provide for the indemnification of officers and directors, except to the extent that such provision may be held by the Cayman Islands courts to be contrary to public policy (for instance, for purporting to provide indemnification against the consequences of committing a crime). In addition, an officer or director may not be indemnified for fraud or willful default.

Our Articles contain provisions providing for the indemnity by us of an officer, director, consultant, employee or agent of ours for threatened, pending or contemplated actions, suits or proceedings, whether civil, criminal, administrative or investigative (including, without limitation, an action by or the right of the company), brought against such indemnified person by reason of the fact that such person was an officer, director, consultant, employee or agent of ours. In addition, the board of directors may authorize us to purchase and maintain insurance on behalf of any such person against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not we would have the power to indemnify him against such liability under the provisions of the Articles.

We also purchase directors and officers liability insurance from third parties for our directors and officers. Our Articles provide that our directors and officers shall have no liability (i) for the acts, receipts, neglects, defaults or omissions of any other such director or officer or agent of ours or (ii) by reason of his having joined in any receipt for money not received by him personally or (iii) for any loss on account of defect of title to any of our property or (iv) on account of the insufficiency of any security in or upon which any money of ours shall be invested or (v) for any loss incurred through any bank, broker or other agent or (vi) for any loss occasioned by any negligence, default, breach of duty, breach of trust, error of judgment or oversight on his part or (vii) for any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers, authorities, or discretions of his office or in relation thereto, unless the same shall happen through his own dishonesty.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Inspection of Books and Records

Shareholders of a Cayman Islands company have no general rights to inspect or obtain copies of the list of shareholders or corporate records of a corporation.

Anti-Takeover Effects of Articles of Association

The Articles contain certain provisions that make more difficult the acquisition of control of us by means of a tender offer, open market purchase, a proxy fight or otherwise. These provisions are designed to encourage persons seeking to acquire control of us to negotiate with the directors. The directors believe that, as a general rule, the interests of our shareholders would be best served if any change in control results from negotiations with the directors. The directors would negotiate based upon careful consideration of the proposed terms, such as the price to be paid to shareholders, the form of consideration to be paid and the anticipated tax effects of the transaction. However, these provisions could have the effect of discouraging a prospective acquirer from making a tender offer or otherwise attempting to obtain control of us. To the extent these provisions discourage takeover attempts, they could deprive shareholders of opportunities to realize takeover premiums for their shares or could depress the market price of the shares.

In addition to those provisions of the Articles discussed above, set forth below is a description of other relevant provisions of the Articles. The descriptions are intended as a summary only and are qualified in their entirety by reference to the Articles.

Shareholder Action by Written Consent

Cayman law permits shareholders to act by unanimous written consent.

Availability of Our Ordinary Shares for Future Issuances

The availability for issue of shares by our directors without further action by shareholders (except as may be required by applicable stock exchange requirements) could be viewed as enabling the directors to make more difficult a change in control of us, including by issuing warrants or rights to acquire shares to discourage or defeat unsolicited share accumulation programs and acquisition proposals and by issuing shares in a private placement or public offering to dilute or deter share ownership of persons seeking to obtain control of us.

Shareholder Proposals

The Articles provide that if a shareholder desires to submit a proposal for consideration at an annual general meeting or extraordinary general meeting, or to nominate persons for election as directors, written notice of such shareholder's intent to make such a proposal or nomination must be given and received by our secretary at our principal executive offices not later than (i) with respect to an annual general meeting, 60 days prior to the anniversary date of the immediately preceding annual general meeting and (ii) with respect to an extraordinary general meeting, the close of business on the tenth day following the date on which notice of such meeting is first sent or given to shareholders. The notice must describe the proposal or nomination in sufficient detail for a proposal or nomination to be summarized on the agenda for the meeting and must set forth (i) the name and address of the shareholder, (ii) a representation that the shareholder is a holder of record of our shares entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to present such proposal or nomination, and (iii) the class and number of our shares which are beneficially owned by the shareholder. In addition, the notice must set forth the reasons for conducting such proposed business at the meeting and any material interest of the shareholder in such business. In the case of a nomination of any person for election as a director, the notice shall set forth: (i) the name and address of any person to be nominated; (ii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons, (iii) such other information regarding such nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to Regulation 14A under the Exchange Act, whether or not we are then subject to such Regulation; and (iv) the consent of each nominee to serve as a director, if so elected. The presiding officer of the annual general meeting or extraordinary general meeting shall, if the facts warrant, refuse to acknowledge a proposal or nomination not made in compliance with the foregoing procedure.

The advance notice requirements regulating shareholder nominations and proposals may have the effect of precluding a contest for the election of directors or the introduction of a shareholder proposal if the procedures summarized above are not followed and may discourage or deter a third party from conducting a solicitation of proxies to elect its own slate of directors or to introduce a proposal.

CERTAIN TAX CONSIDERATIONS

United States Federal Income Taxation

The following discussion is a summary of the material U.S. federal income tax consequences relating to the ownership and disposition of ordinary shares. This discussion does not address special situations that may apply to particular holders including, but not limited to, holders subject to the U.S. federal alternative minimum tax, U.S. expatriates, dealers in securities, traders in securities who elect to apply a mark-to-market method of accounting, financial institutions, banks, insurance companies, regulated investment companies, partnerships or other pass-through entities, U.S. Holders who own (directly, indirectly or by attribution) 10 per cent or more of our ordinary shares, U.S. Holders whose "functional currency" is not the U.S. dollar and persons who hold ordinary shares in connection with a "straddle," "hedging," "conversion" or other risk reduction transaction. The following discussion also does not apply to tax-exempt entities except to the extent that certain matters are specifically addressed. This discussion does not address the tax consequences to U.S. Holders of ordinary shares under any state, local, foreign and other tax laws.

The U.S. federal income tax consequences set forth below are based upon the Internal Revenue Code of 1986, as amended, Treasury regulations promulgated thereunder, court decisions, revenue rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all of which are subject to change or changes in interpretation. Prospective investors should particularly note that any such change or changes in interpretation could have retroactive effect so as to result in U.S. federal income tax consequences different from those discussed below.

As discussed in more detail below, we believe that we likely were a passive foreign investment company ("PFIC") with respect to 2004, and likely will be a PFIC in 2005 as well as potentially with respect to future years. If we are a PFIC, U.S. Holders of ordinary shares will be subject to certain adverse tax rules (the "PFIC rules"), which are described below. The PFIC rules are extremely complex, and prospective investors are urged to consult their own tax advisers regarding the potential consequences to them of us being classified as a PFIC.

As used herein, the term "U.S. Holder" means a beneficial owner of ordinary shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons control all of the substantial decisions of the trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of ordinary shares, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of ordinary shares that is a partnership and partners in such partnership should consult their own tax advisers regarding the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This discussion is limited to holders of ordinary shares who will hold the ordinary shares as capital assets.

Prospective investors are urged to consult their own tax advisers with respect to the particular tax consequences to them of the purchase, ownership and disposition of ordinary shares, including the tax consequences under any state, local, foreign and other tax laws.

The Passive Foreign Investment Company Rules

Classification as a PFIC

We believe that we likely were a PFIC with respect to 2004, and likely will be a PFIC with respect to 2005 as well as potentially with respect to future years. We will be a PFIC for any taxable year if either 75 percent or more of our gross income for the taxable year is “passive” income or the average portion of our assets during the taxable year that produce “passive” income or are held for the production of “passive” income is at least 50 percent.

We will likely be a PFIC with respect to 2005 and potentially with respect to future years because we expect to earn significant passive income from investments prior to our commencement of substantial mining operations. In addition, we may constitute a PFIC even after we begin to generate significant income from mining and processing operations.

If we are classified as a PFIC for any taxable year during any part of which a U.S. Holder owns ordinary shares, the U.S. Holder generally will be required to continue to treat us as a PFIC even if we cease to be a PFIC in a future year. We do not intend to make or issue to U.S. Holders of ordinary shares determinations as to our PFIC status, or the PFIC status of any lower-tier subsidiary, for any taxable year.

Consequences of PFIC Status

If we are treated as a PFIC for any taxable year during any part of which a U.S. Holder owns ordinary shares, the U.S. Holder generally will be subject to a special tax regime in respect of “excess distributions.” Excess distributions generally will include dividends or other distributions on the ordinary shares in any taxable year to the extent the amount of such distributions exceeds 125 percent of the average distributions for the three preceding years or, if shorter, the investor’s holding period. In addition, gain on a sale or other disposition of ordinary shares generally will be treated as an excess distribution. For this purpose, certain transfers of ordinary shares that otherwise would qualify as tax free will be treated as taxable dispositions.

As discussed in more detail below under “Taxation of U.S. Holders of Ordinary Shares—Qualified Electing Fund Election” and “—Mark-to-Market Election”, there are two alternative taxation regimes for PFICs that may be elected by U.S. Holders in respect of ordinary shares, subject to certain conditions.

Tax Treatment of Excess Distributions

Under the PFIC rules, a U.S. Holder will be required to allocate any excess distributions with respect to ordinary shares to each day during the U.S. Holder’s holding period for the ordinary shares on a straight line basis. Any portion of the excess distribution that is allocable to the current year or to periods in the U.S. Holder’s holding period before we became a PFIC will be included in the U.S. Holder’s gross income for the current year as ordinary income. Any portion of the excess distribution that is allocable to any other year will be taxable at the highest rate of taxation applicable to ordinary income for that year, without regard to the U.S. Holder’s other items of income and loss for such year; and this tax will be increased by an interest charge computed by reference to the periods to which the tax is allocable and based on the rates generally applicable to underpayments of tax. Any such interest charge generally will be non-deductible interest expense for individual taxpayers.

Tax Exempt Holders

Distributions with respect to ordinary shares held by, and gain from a sale of ordinary shares by, a U.S. Holder that is exempt from U.S. federal income taxation, such as a tax exempt charitable organization, pension fund or an individual retirement account, will not be taxed as an "excess distribution" unless a dividend with respect to our ordinary shares would be taxable to the tax exempt U.S. Holder.

Lower-Tier PFICs

If we are a PFIC and if one or more of our non-U.S. corporate subsidiaries were treated as a PFIC ("lower-tier PFICs"), U.S. Holders of ordinary shares would be considered to own, and also would be subject to the PFIC rules with respect to, their proportionate share of the lower-tier PFIC stock that we own, regardless of the percentage of their ownership in us. In such circumstances a U.S. Holder of ordinary shares could elect an alternative taxation regime in respect of its indirect ownership interest in a lower-tier PFIC, subject to certain conditions. See "Taxation of U.S. Holders of Ordinary Shares—Lower-Tier PFICs."

Taxation of U.S. Holders of Ordinary Shares

Taxation of Dividends

We do not expect to make distributions on the ordinary shares in the foreseeable future. However, if we were to make a distribution on the ordinary shares, and if a U.S. Holder's holding period for its ordinary shares includes any portion of a taxable year for which we were a PFIC, the portion of the distribution payable to the U.S. Holder may be taxed as an "excess distribution" under the PFIC rules, unless the U.S. Holder makes a QEF election or mark-to-market election (described below) in respect of its ordinary shares.

Apart from any portion of a distribution that constitutes an "excess distribution," distributions paid by us will be taxable as ordinary foreign source dividend income upon receipt to the extent of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. If we are a PFIC, such distributions will not be eligible for the reduced rates of tax applicable to qualified dividend income. Distributions paid by us will not be eligible for the dividends-received deduction generally allowed to U.S. corporations. Dividends paid by us generally will be treated as "passive income" or, in the case of certain holders for taxable years beginning before January 1, 2007, "financial services income" for U.S. foreign tax credit purposes.

Taxation of Gains on Sale or Other Disposition

If a U.S. Holder's holding period for its ordinary shares includes any portion of a taxable year for which we were a PFIC, any gain realized by the U.S. Holder on a sale or other disposition of the ordinary shares will be taxed as an "excess distribution" under the PFIC rules, unless the U.S. Holder makes a QEF election or a mark-to-market election (described below) with respect to the ordinary shares.

If we are not treated as a PFIC at any time during which a U.S. Holder owns ordinary shares, the U.S. Holder will recognize capital gain or loss on a sale or other disposition of the ordinary shares, which will constitute long-term capital gain or loss if the holding period for the ordinary shares exceeds one year at the time of disposition. Such gain or loss will generally be U.S. source gain or loss.

Qualified Electing Fund Election

The special PFIC rules described above for "excess distributions" will not apply to a U.S. Holder if the U.S. Holder makes a qualified electing fund or "QEF" election for the first taxable year of the U.S. Holder's holding period for the ordinary shares during which we are a PFIC and we comply with specified reporting requirements.

A U.S. Holder that makes a QEF election with respect to us will be currently taxable on its pro rata share of our ordinary earnings and net capital gain for each of our taxable years in which we qualify as a PFIC and as to which the QEF election is effective, regardless of whether the U.S. Holder receives any distributions from us. The U.S. Holder's basis in its ordinary shares will be increased to reflect the U.S. Holder's taxed but undistributed income. Distributions of income that previously have been taxed will result in a corresponding reduction of basis in the ordinary shares and will not be taxed again as a distribution to the U.S. Holder.

Upon request, we will endeavor to provide to a U.S. Holder no later than ninety days after the request the information that is required to make a QEF election. A U.S. Holder who makes a QEF election must provide to the IRS an annual information statement which, upon request from a U.S. Holder, we will furnish within ninety days after the request. A QEF election applies to all future years of an electing U.S. Holder, unless revoked with the IRS's consent.

Mark-to-Market Election

If we are a PFIC, a U.S. Holder of ordinary shares may elect under the PFIC rules to recognize any gain or loss on its ordinary shares on a mark-to-market basis at the end of each taxable year, so long as the ordinary shares are regularly traded on a qualifying exchange. The mark-to-market election under the PFIC rules is an alternative to the QEF election.

If a mark-to-market election under the PFIC rules is made, the "excess distribution" rules will not apply to amounts received with respect to the ordinary shares from and after the effective time of the election, and any mark-to-market gains or gains on disposition will be treated as ordinary income for any year in which we are a PFIC. Mark-to-market losses and losses on disposition will be treated as ordinary losses to the extent of the U.S. Holder's prior net mark-to-market gains. Losses in excess of prior net mark-to-market gains will generally not be recognized.

A mark-to-market election under the PFIC rules applies to all future years of an electing U.S. Holder during which the stock is regularly traded on a qualifying exchange, unless revoked with the IRS's consent.

Lower-Tier PFICs

If we are a PFIC and, at any time, have a non-U.S. subsidiary that is classified as a PFIC, U.S. Holders of ordinary shares generally would be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interests in that lower-tier PFIC. If we are a PFIC and a U.S. Holder of ordinary shares does not make a QEF election in respect of a lower-tier PFIC, the U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or dispose of all or part of our interest in, the lower-tier PFIC or (2) the U.S. Holder disposes of all or part of its ordinary shares. Upon request, we will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder no later than ninety days after the request the information that may be required to make a QEF election with respect to the lower-tier PFIC. A mark-to-market election under the PFIC rules with respect to ordinary shares would not apply to a lower-tier PFIC, and a U.S. Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that lower-tier PFIC. Consequently, U.S. Holders of ordinary shares could be subject to the PFIC rules with respect to income of the lower-tier PFIC the value of which already had been taken into account indirectly via mark-to-market adjustments. Similarly, if a U.S. Holder made a mark-to-market election under the PFIC rules in respect of the ordinary shares and made a QEF election in respect of a lower-tier PFIC, that U.S. Holder could be subject to current taxation in respect of income from the lower-tier PFIC the value of which already had been taken into account indirectly via mark-to-market adjustments. U.S. Holders are urged to consult their own tax advisers regarding the issues raised by lower-tier PFICs.

We believe that certain of our non-U.S. lower-tier subsidiaries, including the subsidiary that contains the principal assets associated with the San Cristobal project, were corporations for U.S. tax purposes that constituted PFICs in certain prior years. For the current and all subsequent taxable years, we believe that the potential for our lower-tier subsidiaries to be classified as PFICs with respect to new investors can be substantially eliminated without adverse tax consequences, and we will endeavor to cause our lower-tier subsidiaries not to be classified as PFICs with respect to such years. Nonetheless, we can provide no assurance that one or more of our lower-tier subsidiaries will not be classified as a PFIC in respect of any year.

Reporting

A U.S. Holder who owns ordinary shares during any year that we are a PFIC must file an IRS Form 8621 in respect of such ordinary shares.

Non-U.S. Holders

An investor who is not a U.S. Holder will not be subject to U.S. federal income tax on any dividends received on ordinary shares unless (1) the investor has an office or other fixed place of business in the United States to which the dividends are attributable and the dividends are either derived in the active conduct of a banking, finance or similar business in the United States or the investor is a non-U.S. corporation the principal business of which consists of trading in stocks or securities for its own account, or (2) the investor is a foreign insurance company that conducts business in the United States and the dividends are attributable to that business.

An investor who is not a U.S. Holder will not be subject to U.S. federal income tax on any gain realized on a sale or other disposition of ordinary shares unless (1) the investor is engaged in the conduct of a trade or business in the United States and the gain is effectively connected with that trade or business, or (2) the investor is an individual who is present in the U.S. for 183 days or more during the taxable year in which the gain is realized and other specified conditions are met.

United States Information Reporting and Backup Withholding

Dividend payments made to a U.S. Holder of ordinary shares and proceeds of a sale or other disposition of ordinary shares may be subject to information reporting to the IRS and possible U.S. federal backup withholding. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Non-U.S. Holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally, on IRS Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder under the backup withholding rules may be credited against the holder’s U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information.

LEGAL MATTERS

Certain Cayman Islands legal matters, including the validity of the securities offered by this prospectus, will be passed upon for us by Walkers, Grand Cayman, Cayman Islands.

EXPERTS

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2004, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

Reserves for the San Cristobal project were calculated by Mine Reserves Associates, Inc. All such figures are included herein in reliance upon the authority of that firm as experts in such matters.

You should rely only on the information incorporated by reference or provided in this prospectus or any supplement to this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

ORDINARY SHARES

PROSPECTUS

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth various expenses in connection with the sale and distribution of the securities being registered, other than the underwriting discounts and commissions. We will pay all expenses in connection with the issuance and distribution of the securities being registered.

Registration Fee--Securities and Exchange Commission	$ 12,569
Legal Fees and Expenses	10,000*
Accounting Fees and Expenses	5,000*

We believe that no other company has developed a product that competes with our inverter-based *InVerde*, which offers UL-certified grid connection, outage capability, and variable-speed operation. We anticipate that an inverter-based product with at least some of these features will be introduced by others, but we believe that they will face serious challenges in duplicating the *InVerde*. Product development time and costs would be significant, and we expect that our patents and license for microgrid software will keep others from offering certain important functions.

Our patent application relating to the *Ultra* low-emissions technology was issued by the U.S. PTO in October 2013. We expect that this will make the development of alternative technologies by competitors difficult. If this is the case, we could retain a strong competitive advantage for all our products in markets where severe emissions limits are imposed or where very clean power is favored, such as New Jersey, California, and Massachusetts.

Newer technologies, such as fuel cells and microturbines, pose limited competition to our CHP products. ICF International's 2010 CHP market assessment provides a comparison of the various small CHP technologies (50 – 500 kW), and a summary of this study is presented in Table 3. As shown, reciprocating engine CHP enjoys an economic advantage, as it has just over one-third the installed cost of a fuel cell and costs 20% less than a microturbine. With regard to operation and maintenance (O&M) costs, engine O&M costs are slightly less than those of microturbines, and just over half those of fuel cells. Although fuel cells have the highest electric efficiency (36%), they also have the lowest thermal output, so often fuel cells cannot recover enough heat to serve building loads effectively. Microturbines also recover less heat than engine CHP and have a lower electric efficiency. As a result, typical reciprocating engine CHP has the most favorable overall efficiency, at 79%, compared to 72% for microturbines and 67% for fuel cells.

With regard to pollutant emissions, Figure 5, above, compares all three technologies, along with the Tecogen engine CHP equipped with the *Ultra* technology. This figure illustrates that although fuel cells and microturbines are cleaner than conventional engine CHP (i.e., BACT), an engine equipped with *Ultra* technology now has comparable emissions to these other two technologies.

In the growing microgrid segment, neither fuel cells nor microturbines can respond to changing energy loads when the system is disconnected from the utility grid. Engines inherently have a fast dynamic response to step load changes, which is why they are the primary choice for emergency generators. Fuel cells and microturbines would require an additional energy storage device to be utilized in off-grid operation.

Most manufacturers of microturbines have refocused on other markets. We believe that Capstone Turbine Corporation is the only microturbine manufacturer with a commercial presence in CHP. Figure 9 reveals the modest impact of both microturbines and fuel cells in California's CHP space.

Table 3 — Comparison of CHP Technologies

Source: ***ICF International, Combined Heat and Power Market Assessment (2010)***

	Microturbine 50 – 500 kW	Fuel Cell 50 – 500 kW	Generic Engine 100 kW
Installed Costs, $/kW	2,739	6,310	2,210
O&M Costs, $/kWh	0.022	0.038	0.020
Electric Efficiency, %	25.2 %	36.0 %	28.4 %
Thermal Output, Btu/kWh	6,277	2,923	6,100
Overall Efficiency, %	72 %	67 %	79 %

Figure 9 — Share of Installed CHP by Prime Mover in California

Source: ***ICF International Combined Heat and Power Market Assessment (2010) — (Data from 2008)***

Engine Driven Chillers (TECOCHILL)

According to the Energy Solutions Center (a non-profit consortium), three companies make gas-engine-driven chillers that compete with our products: Trane, a division of Ingersoll-Rand plc, York, a division of Johnson Controls, Inc. and Alturdyne. Natural gas can also fuel absorption chillers, which use fluids to transfer heat without an engine drive.

Today’s low natural gas prices in the United States improve the economics of gas-fueled chillers, so more competition could emerge. However, engine chillers will continue to have an efficiency advantage over absorption machines. Chiller performance is measured in terms of cooling energy output per unit of fuel input. This industry standard is called the coefficient of performance, or COP. Absorption chillers achieve COPs of about 1.2 (see, for example, The Chartered Institution of Building Services Engineers’ Datasheet 07, Absorption *Cooling*, February 2012). Our TECOCHILL products reach efficiencies well above that level (COPs ranging from 1.6 to 2.6).

Ilios Engine-Driven Heat Pump

Although a few companies manufacture gas-engine heat pumps, their products are not directly comparable to the Ilios. The Ilios water heater and other heat pump products compete in both the high-efficiency water heating market and the CHP market. In a typical building, the Ilios heat pump would be added on to an existing heating/water heating system, but would be operated as many hours as possible. The conventional boiler would be left in place, but would serve mainly as a backup when the heat pump’s engine is down for maintenance or when the heat pump cannot meet the building’s peak heating load.

The best customers for the Ilios heat pump water heater would be very similar to those for traditional CHP — heavy consumers of hot water and process heat. In areas where low electric rates make CHP not economical, the Ilios heat pump could be a financially attractive alternative because its economics depend only on natural gas rates. In some areas with high electric rates, the Ilios option could have advantages over CHP. For example, where it is hard to connect to the utility grid or where the building’s need for electricity is too low for CHP to work economically. As of December 31, 2013, we have shipped eight Ilios water heaters and have an additional two in inventory to fulfill current orders.

Intellectual Property

We currently hold three United States patents for our technologies:

- 8,578,704: “Assembly and method for reducing nitrogen oxides, carbon monoxide, and hydrocarbons in exhausts of internal combustion engines.” This patent, granted in November 2013, is for the *Ultra* emission system applicable to all our products.

- 7,239,034: “Engine driven power inverter system with cogeneration”. This patent, granted in July 2007, pertains to the utilization of an engine-driven CHP module combined with an inverter and applies to our *InVerde* product specifically.

- 7,243,017: “Method for controlling internal combustion engine emissions”. This patent, granted in July 2007, applies to the specific algorithms used in our engine controller for metering the fuel usage to obtain the correct combustion mixture. It applies to most of our engines.

In addition, we have licensed specific rights to microgrid algorithms developed by University of Wisconsin researchers for which we pay royalties to the assignee, The Wisconsin Alumni Research Foundation (WARF). The specific patent named in our agreement is “Control of small distributed energy resources” (7,116,010), granted in 2006. Our specific rights are valid for engine-driven systems utilizing natural gas or diesel fuel in the application of power generation where the per unit output is less than 500 kW.

We consider our patents and license to be important in the present operation of our business. The expiration, termination, or invalidity of one or more of these patents may have a material adverse effect on our business. Our earliest patent, that licensed from WARF, was issued in 2006 and expires in 2022. Most of our patents expire between 2022 and 2027.

We believe that no other company has developed a product that competes with our inverter-based *InVerde*. We anticipate that an inverter-based product with at least some of these features will be introduced by others, but we believe that competitors will face serious challenges in duplicating the *InVerde*. Product development time and costs would likely be significant, and we expect that our patent for the inverter-based CHP system (7,239,034) would offer significant protection, especially in key features. Likewise, we consider the microgrid license with WARF to be a key feature of our *InVerde* product, and one that would be difficult to duplicate outside the patent.

The recent issuance by the U.S. PTO of the patent for the *Ultra* low-emissions technology keeps that technology exclusive to us. It applies to all of our gas engine-driven products and may have licensing applications to other natural gas engines. We have also filed for patents for this technology in Europe, Australia, Brazil, Canada, China, Costa Rica, the Dominican Republic, India, Israel, Japan, Mexico, New Zealand, Nicaragua, Republic of Korea, Singapore, and South Africa. There is no assurance, however, that the *Ultra* low-emissions patent applications will be approved in any other country.

Government Regulation and Its Effect on Our Business

Several kinds of government regulations affect our current and future business, such as:

- Product safety certifications and interconnection requirements;
- Air pollution regulations, which govern the emissions allowed in engine exhaust;
- State and federal incentives for CHP technology; and
- Electric utility pricing and related regulations.

Regulations that control air quality and greenhouse gases might increasingly favor our low-emission products. Regulations related to utility rates and interconnections, which are burdensome today, could evolve to embrace CHP because of its efficiency benefits.

Product Safety Certifications and Interconnection Requirements

Our products must comply with various local building codes and must undergo inspection by local authorities. Our products are also certified by a third party to conform to specific standards. These certifications require continuous verification by a company that monitors our processes and design every three months. Our *InVerde* product is also certified to Europe's standard CE mark (European Conformity), which is mandatory for products imported into the European Union for commercial sale.

Our cogeneration CHP products are also certified to a particular group of standards specific to the distributed power industry, which are used in the utility interconnection permitting process. These unique certifications were developed by various manufacturers, utilities, and government regulators to standardize the process of getting the utility's permission to jointly power a facility.

In essence, manufacturers of standard products are allowed to submit a sample unit to be "type-tested" by a Nationally Recognized Testing Laboratory. This test proves that the product adheres to safety requirements and that its design is fail-safe. The product then becomes eligible for a fast-track interconnection, after passing simple site-specific screens. Under state-mandated regulations, such as California Rule 21 and Massachusetts Interconnection Tariff 09-03, most utilities must accept the fast-track process, which includes the certification.

Simplified utility interconnection is important to CHP projects, so our interconnect certification, Underwriters Laboratory Standard 1741, or UL Certification, is a significant competitive advantage. Obtaining the UL Certification was a major reason for us to develop the inverter-based CHP product. As with our other product certifications, we plan to maintain the certification through routine processes when modest design changes occur. When complete recertification is required, such as when a new revision to the standard is applicable or when the design undergoes a major upgrade, the company will follow the normal procedures for first-time certification (third party design review and test verification). The company does not anticipate any changes to the standard that would preclude recertification, as the underlying content is carefully administered by balanced committees (representing utilities, inverter suppliers, and academia). In addition, the standard and its utilization as the criterion for systems to qualify for simplified interconnection programs, is important for the solar PV industry. The company believes that this importance to the solar industry will help assure the long-term relevance in interconnection of distributed generation devices.

Air Pollution Regulations

Stationary natural gas engines are subject to emissions regulations that are part of a complex hierarchy of state and federal regulations. The EPA establishes technology-specific standards that are based on cost-benefit analysis for emission control strategies. These standards, termed BACT (best available control technology), are imposed in regions that fail to meet federal clean air standards. Local regulators can and do restrict engine emissions to lower levels.

In some instances, regional standards in our key markets have become sufficiently strict, presenting a challenge in controlling pollution from natural gas engines. However, our development of the *Ultra* low-emissions technology has addressed this issue, allowing us to permit our equipment in the strictest region of Southern California. In January 2013, a state-certified source test at a new customer's site verified that our emissions levels were well below the new permitting requirements. Since we have now successfully removed this barrier, we are not only competitive in the California market, but have an advantage as a cleaner CHP technology. Likewise, in the Northeast where emissions regulations are trending towards California levels, we have already established our *Ultra* CHP as a certified technology in New Jersey, exempt from the air permitting process and subsequent testing, a unique status that separates us from the competition.

On the East Coast, important CHP territories are also moving toward limits below federal BACT levels. Effective in 2012, Massachusetts, Rhode Island, and Connecticut require 3.6 ppm NOx and about 56 ppm CO, which is on par with California's BACT standard. New Jersey also emulates California's BACT, but allows the project to side-step the air permit process if the CHP device is "emissions certified" through third-party testing to 10 ppm NOx and 10 ppm CO. Our *Ultra* low-emissions technology has qualified for New Jersey's "clean" certification, as noted earlier. In New York, clean power is encouraged through state grants that exclude products, or reduce the grant amount, unless low emissions are demonstrated.

Air emissions regulations also affect our air conditioning and Ilios heat pump products, though the effects are muted. TECOCHILL rebates are not common, and none has been tied to a specific emissions level. The heat pump's small size often exempts it from regulations, and the market for heat pump products could lie in lightly regulated regions (those with low electric rates). Nevertheless, the *Ultra* low-emissions technology can be applied to these products if required to meet regulatory standards.

State and Federal Incentives

On August 30, 2012, the White House released an Executive Order to accelerate investments in industrial energy efficiency, including CHP. The goal of the Executive Order is to supply 40 GW of energy by 2020 from greater efficiency sources such as CHP systems. The DOE, Commerce, and Agriculture, and the Environmental Protection Agency, or EPA, in coordination with the National Economic Council, the Domestic Policy Council, the Council on Environmental Quality, and the Office of Science and Technology Policy, shall coordinate policies to encourage investment in industrial efficiency in order to reduce costs for industrial users, improve U.S. competitiveness, create jobs, and reduce harmful air pollution. With this Executive Order, it is expected that barriers to CHP development will be removed with effective programs, policies, and financing opportunities, resulting in $40 – $80 billion in new capital investment in CHP. This initiative by the U.S. government may boost CHP awareness and stimulate market activity.

In addition, some states offer incentives to CHP systems. New York and New Jersey have incentive programs that rebate a significant portion of the CHP project cost. Similar incentive programs also exist in Massachusetts, Rhode Island, and Maryland albeit with different structures and terms. Massachusetts has an additional CHP incentive in the form of an annual rebate proportional to the carbon savings versus conventional technology.

Also our products installed before 2010 are eligible for the bonus depreciation included in the 2009 American Recovery and Reinvestment Act, and our products installed between January 1, 2008 and December 31, 2013 are eligible for the bonus depreciation included in the 2012 American Taxpayer Relief Act. Also, the Energy Improvement and Extension Act of 2008 provides a 10% investment tax credit through 2016 for CHP in our size range, which applies to the total project cost. Our TECOCHILL and heat pump products also qualify for the credit when heat recovery achieves a minimum 60% efficiency.

Electric Utility Pricing and Related Regulations

Electricity prices, rate structures, and tariffs are another form of government incentive or disincentive. Utility pricing is administered through state agencies, typically public utility commissions, through formal proceedings involving the public, utilities, and various affected parties. Often, direct legislative mandates apply to specific issues. How these rules are structured and interpreted has a significant impact on the economic viability of CHP. These rules have hurt the CHP industry in the past, but we have designed our products to undermine their impact.

<u>Demand Charges</u>. Many electric utilities structure their commercial rates such that part of the customer’s bill is fixed charges such as meter fees, and part is peak demand charges, which are a much larger line-item based on the building’s maximum short-term usage (typically 15 minutes). Fixed charges, usually small, are not addressed by CHP technology. Avoidance of peak demand charges requires a CHP system to always operate at extremely high efficiency, which is difficult to achieve in practice.

Our CHP products, being small and modular, are often installed as multiple units. This protects the customer to some degree from incurring peak demand charges at the full system rating by providing equipment redundancy. The customer would then have to buy more electricity to make up for it, possibly incurring a large demand charge. With a modular, multi-unit CHP system, all the units would have to fail simultaneously to incur an equivalent charge.

Our TECOCHILLs are highly effective in eliminating not only summertime electricity usage, but also peak demand charges. The chiller’s operation is confined to the cooling season, allowing maintenance to be scheduled for other times. Outages during the cooling season can be managed to minimize their impact.

Avoided-Cost Penalties. In some regions, utilities have argued that CHP customers, by reducing their electric usage, have avoided paying their fair share of the costs associated with grid infrastructure. To correct this perceived inequity, some utilities have successfully petitioned their state commissions to impose a "departing load charge." Utilities have also been allowed to add a "standby" surcharge to compensate for the cost of utility power being available when the CHP system is down.

These types of charges are not prevalent in East Coast states, but both standby and departing load charges are well-established in California. Although our CHP products are affected, our chillers and heat pumps are not.

Technology-Specific Net Metering. Interconnection issues are safety-related and should be product-neutral, but technology bias is common. In many states, CHP is excluded from net metering while other technologies are eligible. Under net metering, utilities must pay on-site generators for excess electricity that is fed into the grid. Net metering makes it easier to manage the operation of a CHP system or other generator.

Other Utility-Related Regulations. Another category of utility regulation that might affect our business is Renewable Portfolio Standards, or RPS. As of December 2013, some form of portfolio standards had been established in 38 states and the District of Columbia. According to the EPA, out of these states, 26 — Arizona, Connecticut, Delaware, Colorado, Hawaii, Illinois, Indiana, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Nevada, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, Washington and West Virginia — specifically mention CHP and/or waste heat-to-power as eligible under their RPS (or related efficiency/clean energy program guidelines). RPS-type mechanisms have been adopted in several other countries, including Britain, Italy, Poland, Sweden, Belgium, and Chile.

Overall, RPS appears to be a positive policy for Tecogen and CHP. Program structures, if fair and balanced, encourage less fossil fuel use by offering financial incentives to improve efficiency. Electric power generated from renewable sources would tend to increase overall electric rates and improve CHP investment returns. Since these programs are in their early stages, their impact is yet to be determined.

A national carbon “cap and trade” program is not anticipated in the foreseeable future. Cap and trade programs seek to reduce carbon emissions by putting a price on them. Of possible impact to Tecogen is the cap and trade bill moving forward in the California legislature. The program’s details are still being reviewed and negotiated by various government and advocacy groups.

Employees

As of December 31, 2013, we employed 69 full-time employees and three part-time employees. We believe that our relationship with our employees is satisfactory. Three of our New Jersey service employees are represented by a collective bargaining agreement which was executed on February 25, 2014 with a retroactive effective date of January 1, 2014. This agreement expires on December 31, 2016.

Properties

Our headquarters is located in Waltham, Massachusetts, and consists of approximately 43,000 square feet of leased space, of which Tecogen occupies approximately 34,600 square feet of manufacturing, storage and office space. We sub-lease the remaining space to Ilios, American DG Energy, and other tenants. Our lease, with an original expiration date of March 31, 2014, was renewed for an additional ten years and will expire March 31, 2024. We believe that our facilities are appropriate and adequate for our current needs.

Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition, or results of operations. We may become involved in material legal proceedings in the future.

MANAGEMENT AND GOVERNANCE

Directors and Executive Officers

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

Name	Age	Position(s)
Angelina M. Galiteva	47	Chairperson of the Board of Directors
John N. Hatsopoulos	80	Chief Executive Officer and Director
Robert A. Panora	59	Chief Operating Officer and President
Bonnie J. Brown	51	Chief Financial Officer, Treasurer, and Secretary
George N. Hatsopoulos	87	Director
Ahmed F. Ghoniem	62	Director
Charles T. Maxwell	82	Director
Joseph E. Aoun	61	Director

Angelina M. Galiteva, age 47, has been our Chairperson of the Board of Directors since 2005. She is founder and Chair of the Board for the Renewables 100 Policy Institute, a non-profit entity dedicated to the global advancements of renewable energy solutions since 2008. Ms. Galiteva is also Chairperson at the World Council for Renewable Energy (WCRE) which focuses on the development of legislative and policy initiatives to facilitate the introduction and growth of renewable energy technologies since 2003. Since 2011, Ms. Galiteva has served on the Board of Governors of the California Independent System Operator (CA ISO), providing direction and oversight for the California ISO which operates the California electricity grid. Also, Ms. Galiteva is a principal at New Energy Options, Inc., a company focusing on advancing the integration of sustainable energy solutions since 2006. Ms. Galiteva has also been a strategic consultant with Renewable Energy Policy and Strategy Consulting since 2004. Ms. Galiteva holds a Master’s degree in Environmental and Energy Law, a law degree from Pace University School of Law, and a bachelor’s degree from Sofia University in Bulgaria.

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

John N. Hatsopoulos , age 80, has been the Chief Executive Officer of the Company since the organization of the Company in 2000. He has also been the Chief Executive Officer of American DG Energy Inc., (NYSE MKT: ADGE), a publicly traded company in the On-Site Utility business since 2000, and the Chairman of EuroSite Power Inc., a subsidiary of American DG Energy Inc. since 2009. Mr. Hatsopoulos is a co-founder of Thermo Electron Corporation, which is now Thermo Fisher Scientific (NYSE: TMO), and the retired President and Vice

Chairman of the Board of Directors of that company. He is a member of the Board of Directors of Ilios Inc., GlenRose Instruments Inc., Agenus Inc. (NASDAQ: AGEN), American CareSource Holdings, Inc. (NASDAQ: ANCI) and TEI Biosciences Inc., and is a former Member of the Corporation of Northeastern University. The Company, American DG Energy Inc., EuroSite Power Inc., and GlenRose Instruments Inc., are affiliated companies by virtue of common ownership. Mr. Hatsopoulos graduated from Athens College in Greece, and holds a bachelor's degree in history and mathematics from Northeastern University, as well as honorary doctorates in business administration from Boston College and Northeastern University.

Mr. Hatsopoulos is the Company's Chief Executive Officer and is also the Chief Executive Officer of American DG Energy and the Chairman of GlenRose Instruments. On average, Mr. Hatsopoulos spends approximately 50% of his business time on the affairs of the Company; however such amount varies widely depending on the needs of the business and is expected to increase as the business of the Company develops.

Our Board of Directors has determined that Mr. Hatsopoulos' prior experience as co-founder, president and Chief Financial Officer of Thermo Electron Corporation, where he demonstrated leadership capability and gained extensive expertise involving complex financial matters, and his extensive knowledge of complex financial and operational issues qualify him to be a member of the Board of Directors in light of the Company's business and structure.

***Robert A. Panora**,* age 59, has been our Chief Operating Officer and President since the organization of the Company in 2000 and the Chief Operating Officer of Ilios since its inception in 2009. He had been General Manager of Tecogen's Product Group since 1990 and Manager of Product Development, Engineering Manager, and Operations Manager of the Company since 1984. Over his 27-year tenure with Tecogen, Mr. Panora has been responsible for sales and marketing, engineering, service, and manufacturing. Mr. Panora contributed to the development of Tecogen's first product, the CM-60 cogeneration system, and was Program Manager for the cogeneration and chiller projects that followed. Mr. Panora has had considerable influence on many aspects of Tecogen's business, from building the employee team, to conceptualizing product designs and authoring many of the original business documents, sales tools, and product literature pieces. Mr. Panora has a bachelor's and master's degrees in Chemical Engineering from Tufts University.

***Bonnie J. Brown**,* age 51, has been our Chief Financial Officer since 2007, our Secretary since 2010 and our Treasurer as of January 1, 2013. Ms. Brown joined the Company in 2005 as Controller. She has also been the Chief Financial Officer of Ilios Inc. since its inception in 2009. Prior to joining Tecogen, Ms. Brown was a partner at Sullivan Bille PC, a regional accounting firm, for 15 years where she provided financial, accounting, audit, tax, and business consulting services for mid-sized companies. Ms. Brown has also worked at Enterprise Bank and Trust (NASDAQ:EBTC) as project manager for special assignments including branch acquisitions and information systems transitions in the trust department eventually serving as Internal Audit Director, establishing an in-house audit function. She has also provided independent contractor services for a wide variety of publicly traded and closely held companies, including consulting, internal control and Sarbanes-Oxley compliance services. Ms. Brown is a CPA and holds a B.S. in Accountancy from Bentley College and an M.S. in Computer Information Systems from Boston University.

***George N. Hatsopoulos**,* age 87, has been a member of our Board since the organization of the Company in 2000. He is the founder and Chief Executive Officer of Pharos, LLC, an organization devoted to the creation of leading edge business ventures and he is a former member of the Board of Directors of American DG Energy Inc., an affiliated company by virtue of common ownership. He is the founder and chairman emeritus of Thermo Electron Corporation and served as Chairman and Chief Executive Officer since its founding in 1956 until his retirement from those positions in 1999. Dr. Hatsopoulos has served on the board of the Federal Reserve Bank of Boston, including a term as chairman. He was a member of the Securities and Exchange Commission Advisory Committee on Capital Formation and Regulatory Process, the Advisory Committee of the U.S. Export-Import Bank, and the boards of various corporations and institutions. Dr. Hatsopoulos is a fellow of the American Academy of Arts and Sciences, the American Society of Mechanical Engineers and other scientific and technical organizations. He is the recipient of numerous honors and awards in engineering, science, industry and academics, has authored over 60 articles in professional journals, and is the principal author of textbooks on thermodynamics and thermionic energy conversion. Dr. Hatsopoulos has been a faculty member and senior lecturer at Massachusetts Institute of Technology and continues his association with MIT as a Life Member of the Corporation. Dr. Hatsopoulos holds bachelors, masters and doctorate degrees from MIT, all in mechanical engineering.

Our Board of Directors has determined that Dr. Hatsopoulos' prior experience as founder, Chairman and Chief Executive Officer of Thermo Electron Corporation, where he demonstrated leadership capability and gained extensive expertise involving complex financial matters, and his extensive knowledge of complex financial and operational issues qualify him to be a member of the Board of Directors in light of the Company's business and structure.

***Ahmed H. Ghoniem**,* age 62, has been a member of our Board since 2008. He is the Ronald C. Crane Professor of Mechanical Engineering at MIT. He is also the director of the Center for 21st Century Energy, and the head of Energy Science and Engineering at MIT, where he plays a leadership role in many energy-related activities, initiatives and programs. Mr. Ghoniem joined MIT as an assistant professor in 1983. He is an associate fellow of the American Institute of Aeronautics and Astronautics, and Fellow of American Society of Mechanical Engineers. Recently, he was granted the KAUST Investigator Award. He is a member of the Board of Directors of EuroSite Power Inc., and Ilios Inc., which are affiliated companies by virtue of common ownership. Mr. Ghoniem holds a Ph.D. in Mechanical Engineering from the University of California, Berkeley, and an M.S. and B.S. in Mechanical Engineering from Cairo University.

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

Charles T. Maxwell, age 82, has been a member of our Board since 2001. He is a widely recognized expert in the energy sector, with over 40 years of experience with major oil companies and investment banking firms. From 1999, until his retirement in 2012, Mr. Maxwell was a Senior Energy Analyst with Weeden & Co. of Greenwich, Connecticut, since 1999, where he develops strategic data and forecasts on oil, gas, and power markets. Mr. Maxwell is a member of the Board of Directors of American DG Energy, an affiliated company by virtue of common ownership. Since the early 1980s, he has been an active member of an Oxford-based organization comprised of present or past OPEC-county oil ministers and other oil industry executives from 30 countries who meet twice annually to analyze trends in global energy markets. He is a member of the board of directors of Daleco Resources Corporation (OTCQB: DLOV) and Lescarden Inc. (OTC: LCAR). Mr. Maxwell holds a bachelor's degree in political science from Princeton University and holds a B.A. from Oxford University as a Marshall Scholar in Middle East literature and history.

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

Joseph E. Aoun*,* age 61, has been a member of our Board since 2011. He has been President of Northeastern University since 2006. President Aoun is recognized as a leader in higher education policy and serves on the board of directors of the American Council on Education as well as the Boston Private Industry Council, Boston World Partnerships, Jobs for Mass, and the New England Council. He is a member of the Executive Committee of the Greater Boston Chamber of Commerce, a member of the Massachusetts Business Roundtable and Massachusetts Math & Science Initiative, and serves on the Leadership Council for the Mass Life Sciences Collaborative and as co-chair of the City to City Boston initiative. President Aoun is the recipient of numerous honors and awards and is an internationally known scholar in linguistics. President Aoun holds a master's degree in Oriental Languages and Literature from Saint Joseph University, Beirut, Lebanon, Diploma of Advanced Study General and Theoretical Linguistics, University of Paris VIII, Paris, France, and a Ph.D. Linguistics and Philosophy from MIT.

Our Board of Directors has determined that Dr. Aoun's prior experience as the President of Northeastern University and his prior experience in the energy sector qualify him to be a member of our Board of Directors in light of our business and structure.

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

Family Relationships

There are no family relationships among members of our Board of Directors and executive officers other than George N. Hatsopoulos and John N. Hatsopoulos, who are brothers.

Board Composition

The number of directors of the Company is established by the Board of Directors in accordance with our bylaws. The exact number of directors is currently set at six by resolution of the Board of Directors. The directors are elected to serve for one year terms, with the term of directors expiring each year at the annual meeting of stockholders; provided further, that the term of each director shall continue until the election and qualification of a successor and be subject to such director’s earlier death, resignation or removal.

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

We have no formal policy regarding board diversity. Our priority in selection of board members is identification of members who will further the interests of our stockholders through his or her established record of professional accomplishment, the ability to contribute positively to the collaborative culture among board members, knowledge of our business, and understanding of the competitive landscape.

Board Committees

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

The members of the Audit Committee are Dr. Ghoniem, Ms. Galiteva, and Mr. Maxwell. The members of the Compensation Committee are Dr. Aoun, Ms. Galiteva, and Dr. Ghoniem. The members of our Nominating and Corporate Governance Committee are Dr. Aoun, Dr. Ghoniem and Mr. Maxwell. All committee members have been determined to be independent by our Board of Directors in accordance with the rules of the NASDAQ Capital Market rules. The Board of Directors has also determined that Mr. Maxwell qualifies as an Audit Committee financial expert. In addition, from time to time, other committees may be established under the direction of the Board of Directors when necessary to address specific issues.

The functions of the Audit Committee include reviewing and supervising the financial controls of the Company; appointing, compensating, and overseeing the work of the independent auditors; reviewing the books and accounts of the Company; meeting with the officers of the Company regarding the Company’s financial controls; and making recommendations to the Board of Directors based on the findings of the independent auditors. The charter of the Audit Committee is available on the Company’s website at www.tecogen.com.

The Compensation Committee’s functions include reviewing with management cash and other compensation policies for employees, making recommendations to the Board of Directors regarding compensation matters and determining compensation for the Chief Executive Officer. Our Chief Executive Officer has been instrumental in the design and recommendation to the Compensation Committee of compensation plans and awards for our directors and executive officers including our President, Chief Operating Officer and Chief Financial Officer. All compensation decisions for the Chief Executive Officer and all other executive officers are reviewed and approved by the Compensation Committee, subject to ratification by the Board of Directors. The charter of the Compensation Committee is available on the Company's website at www.tecogen.com.

The Nominating and Corporate Governance Committee functions are to identify persons qualified to serve as members of the Board of Directors and to recommend to the Board of Directors persons to be nominated by the Board of Directors for election as directors at the annual meeting of stockholders and persons to be elected by the board to fill any vacancies. In addition, the Nominating and Corporate Governance Committee is responsible for developing and recommending to the Board of Directors a set of corporate governance guidelines applicable to the Company (as well as reviewing and reassessing the adequacy of such guidelines as it deems appropriate from time to time) and overseeing the annual self-evaluation of the Board of Directors. The charter of the Nominating and Corporate Governance Committee is available on the Company's website at www.tecogen.com.

Director Compensation

Each director who is not also one of our employees will receive a fee of $500 per day for service on those days that our Board of Directors and/or each of the Audit, Compensation, or Nominating and Corporate Governance Committees hold meetings, or otherwise conduct business. Non-employee directors also will be eligible to receive stock or options awards under our 2006 Stock Incentive Plan, as amended, or the Stock Plan. We reimburse all of our non-employee directors for reasonable travel and other expenses incurred in attending Board of Directors and committee meetings. Any director who is also one of our employees receives no additional compensation for serving as a director. Our non-employee directors did not receive any compensation in cash prior to or during 2010. Until December 2011, the compensation of directors was only in stock awards.

Board Leadership Structure

We separate the roles of Chief Executive Officer and Chairman in recognition of the differences between the two roles. Our Chief Executive Officer is responsible for setting the strategic direction for the Company and the overall leadership and performance of the Company. Our Chairman provides guidance to the Chief Executive Officer, sets the agenda for Board of Director meetings, presides over meetings of the full Board of Directors, and leads all executive meetings of the independent directors. We are a small company with a small management team, and we feel the separation of these roles enhances high-level attention to our business.

Our Board of Directors' Role in Risk Oversight

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

Code of Business Conduct and Ethics

The Company has adopted a code of business conduct and ethics that applies to the Company's directors, officers, and employees. The Company's code of business conduct and ethics is intended to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the SEC and in other public communications made by the Company; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the code of business conduct and ethics to an appropriate person or persons identified in the code of business conduct and ethics; and accountability for adherence to the code of business conduct and ethics. The Company's code of business conduct and ethics is available on the Company's website at www.tecogen.com.

EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

The Compensation Committee and Board of Directors construct policies and guidelines regarding executive compensation. The major components of executive compensation will be base salary, annual incentive bonuses, equity incentive awards and customary employee benefits. Among the factors likely to be relevant are:

- the executive officer's skills and experience;
- the particular importance of the executive officer's position to us;
- the executive officer's individual performance;
- the executive officer's growth in his or her position; and
- base salaries for comparable positions within our Company and at other companies.

Our Compensation Committee performs evaluations of our executive officers' compensation at least annually and may solicit the input of a compensation consulting firm and peer group benchmarking data in making any adjustments believed to be appropriate.

The following table sets forth information with respect to the compensation of our executive officers for the Company's last two completed fiscal years:

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($)	Stock awards ($)	Option awards ($)(1)	All other compensation ($)	Total ($)
John N. Hatsopoulos	2013	1	—	—	—	—	1
Chief Executive Officer	2012	1	—	—	—	—	1
(Principal Executive Officer)							

Robert A. Panora (2)	2013	163,770	—	—	—	1,032	164,802
Chief Operating Officer and President	2012	163,770	—	—	—	1,032	164,802
Bonnie J. Brown (3)	2013	156,000	—	—	—	360	156,360
Chief Financial Officer, Treasurer and Secretary	2012	156,000	—	—	—	360	156,360
(Principal Financial Officer)							
Anthony S. Loumidis (4)							
Former Vice President and Treasurer	2012					25,091	25,091

(1) The amounts in the “Stock Option Awards” column reflect the aggregate grant date fair value of the awards computed in accordance with FASB ASC Topic 718. The assumptions used by us with respect to the valuation of stock and option awards are set forth in *Note 10 – Stockholders’ equity* to our financial statements included elsewhere in this registration statement.

(2) Includes group life insurance of $1,032 for 2013 and 2012, respectively.

(3) Includes group life insurance of $360 for 2013 and 2012.

(4) Mr. Loumidis resigned as Vice President and Treasurer of the Company effective December 31, 2012.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information with respect to outstanding equity awards held by our executive officers as of December 31, 2013:

	Option awards				Stock awards	
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price ($)	Option expiration date	Number of shares of stock that have not vested (#)	**Market value of shares of stock that have not vested ($)[1]**
John N. Hatsopoulos	—	—	—	—	—	—
Robert A. Panora [2][3]	62,500	62,500	2.60	2/14/2021	138,350	622,575
Bonnie J. Brown [4][5]	25,000	—	1.20	2/13/2015	12,500	56,250
Bonnie J. Brown [6]	50,000	—	2.00	3/11/2019	—	—
Bonnie J. Brown [7]	18,750	6,250	2.60	2/18/2020	—	—

(1) Market value of shares of stock that have not vested is computed on the last private placement price of the Company's Common Stock on January 17, 2014, which was $4.50 per share.

(2) Includes stock option award granted on February 15, 2011, with 25% of the shares vesting on February 15, 2012 and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, subject to Mr. Panora's continued employment and subject to acceleration of vesting upon a change in control.

(3) Includes 138,350 shares of restricted Common Stock at a purchase price of $.001 per share granted on December 4, 2006, with 100% of the shares vesting one year after the Company's initial public offering, subject to acceleration of vesting upon a change in control prior to a termination event.

(4) Includes stock option award granted on February 13, 2008, with 25% of the shares vesting on February 13, 2009 and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, subject to Ms. Brown's continued employment and subject to acceleration of vesting upon a change in control.

(5) Includes 12,500 shares of restricted Common Stock at a purchase price of $.004 per share granted on December 13, 2006, with 100% of the shares vesting one year after the Company's initial public offering, subject to acceleration of vesting upon a change in control prior to a termination event.

(6) Includes stock option award granted on March 11, 2009, with 25% of the shares vesting on March 11, 2010 and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, subject to Ms. Brown's continued employment and subject to acceleration of vesting upon a change in control.

(7) Includes stock option award granted on February 28, 2010, with 25% of the shares vesting on February 28, 2011 and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, subject to Ms. Brown's continued employment and subject to acceleration of vesting upon a change in control.

Director Compensation

Each director who is not also one of our employees will receive a fee of $500 per day for service on those days that our Board of Directors and or each of the Audit, Compensation or Nominating and Corporate Governance Committees hold meetings, or otherwise conduct business. Non-employee directors also will be eligible to receive stock or option awards under our equity incentive plan. We reimburse all of our non-employee directors for reasonable travel and other expenses incurred in attending Board and committee meetings. Any director who is also one of our employees receives no additional compensation for serving as a director.

The following table sets forth information with respect to the compensation of our directors as of December 31, 2013:

Name	Fees earned or paid in cash ($)	Stock awards ($)	Option awards ($)	All other compensation ($)	Total ($)
Angelina M. Galiteva	1,500	—	—	—	1,500
John N. Hatsopoulos	—	—	—	—	—
George N. Hatsopoulos	—	—	—	—	—
Ahmed F. Ghoniem	500	—	—	—	500
Charles T. Maxwell	1,000	—	—	—	1,000
Joseph E. Aoun	—	—	—	—	—

Outstanding Equity Awards at Fiscal Year-End Table

The following table summarizes the outstanding equity awards held by each director as of December 31, 2013:

	Option awards				Stock awards	
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price ($)	Option expiration date	Number of shares of stock that have not vested (#)	Market value of shares of stock that have not vested ($)(1)
Angelina M. Galiteva (2)(3)	12,500	12,500	2.60	2/14/2021	25,000	112,500
John N. Hatsopoulos	—	—	—	—	—	—
George N. Hatsopoulos	—	—	—	—	—	—
Ahmed F. Ghoniem (4)(5)	12,500	12,500	2.60	2/14/2021	25,000	112,500
Charles T. Maxwell (6)(7)	12,500	12,500	2.60	2/14/2021	25,000	112,500
Joseph E. Aoun (8)	—	25,000	4.50	12/31/2023	—	—

(1) Market value of shares of Common Stock that have not vested is computed by the Company's most recent private placement of Common Stock on January 17, 2014, which was $4.50 per share.

(2) Includes 25,000 shares of restricted Common Stock at a purchase price of $.004 per share granted on December 13, 2006, with 100% of the shares vesting one year after the Company's initial public offering.

(3) Includes stock option award granted on February 15, 2011, with 25% of the shares vesting on February 15, 2012, and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, provided

that Ms. Galiteva serves as a director or consultant to the Company.

(4) Includes stock option award granted on February 15, 2011, with 25% of the shares vesting on February 15, 2012, and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, provided that Mr. Ghoniem serves as a director or consultant to the Company.

(5) Includes 25,000 shares of restricted Common Stock at a purchase price of $.004 per share granted on October 1, 2008, with 100% of the shares vesting 180 days after the Company’s initial public offering.

(6) Includes stock option award granted on February 15, 2011, with 25% of the shares vesting on February 15, 2012, and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, provided that Mr. Maxwell serves as a director or consultant to the Company.

(7) Includes 25,000 shares of restricted Common Stock at a purchase price of $.004 per share granted on October 1, 2008, with 100% of the shares vesting 180 days after the Company's initial public offering.

(8) Includes stock option award granted on December 31, 2013, with 25% of the shares vesting on December 31, 2014, and then an additional 25% of the shares vesting on each of the subsequent three anniversaries, provided that Dr. Aoun serves as a director or consultant to the Company.

There have been no other stock awards granted to date and none of such options have been exercised.

2006 Stock Incentive Plan

The Company's 2006 Stock Incentive Plan, or Stock Plan, provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and any of its present or future parents, subsidiaries or affiliates. The Stock Plan is included as Exhibit 10.1 hereto.

Under the Stock Plan, the Company may grant stock options, restricted stock and other stock-based awards. As of December 31, 2013, a total of 1,148,000 shares of Common Stock may be issued upon the exercise of options or other awards granted under the Stock Plan.

The Stock Plan is administered by the Board of Directors and the Compensation Committee. Subject to the provisions of the Stock Plan, the Board of Directors and the Compensation Committee each has the authority to select the persons, to whom awards are granted and determine the terms of each award, including the number of shares of Common Stock subject to the award. Payment of the exercise price of an award may be made in cash, in a "cashless exercise" through a broker, or if the applicable stock option agreement permits, shares of Common Stock or by any other method approved by the Board of Directors or Compensation Committee. Unless otherwise permitted by the Company, awards are not assignable or transferable except by will or the laws of descent and distribution.

Upon the consummation of an acquisition of the business of the Company, by merger or otherwise, the Board of Directors shall, as to outstanding awards (on the same basis or on different bases as the Board of Directors shall specify), make appropriate provision for the continuation of such awards by the Company or the assumption of such awards by the surviving or acquiring entity and by substituting on an equitable basis for the shares then subject to such awards either (a) the consideration payable with respect to the outstanding shares of Common Stock in connection with the acquisition, (b) shares of stock of the surviving or acquiring corporation or (c) such other securities or other consideration as the Board of Directors deems appropriate, the fair market value of which (as determined by the Board of Directors in its sole discretion) shall not materially differ from the fair market value of the shares of Common Stock subject to such awards immediately preceding the acquisition. In addition to or in lieu of the foregoing, with respect to outstanding stock options, the Board of Directors may, on the same basis or on different bases as the Board of Directors shall specify, upon written notice to the affected optionees, provide that one or more options then outstanding must be exercised, in whole or in part, within a specified number of days of the date of such notice, at the end of which period such options shall terminate, or provide that one or more options then outstanding, in whole or in part, shall be terminated in exchange for a cash payment equal to the excess of the fair market value (as determined by the Board of Directors in its sole discretion) for the shares subject to such options over the exercise price thereof.

The Board of Directors may at any time provide that any stock options shall become immediately exercisable in full or in part, that any restricted stock awards shall be free of some or all restrictions, or that any other stock-based awards may become exercisable in full or in part or free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

The Board of Directors or Compensation Committee may, in its sole discretion, amend, modify or terminate any award granted or made under the Stock Plan, so long as such amendment, modification or termination would not materially and adversely affect the participant.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2013, regarding Common Stock that may be issued under the Company's equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Equity compensation plans approved by security holders	1,148,000	$ 2.13	58,683
Equity compensation plans not approved by security holders	—	—	—
Total	1,148,000	$ 2.13	58,683

In February 2011, our management conducted an assessment of the risks associated with our compensation policies and practices. This process included a review of our compensation programs, a discussion of the types of practices that could be reasonably likely to create material risks, and an analysis of the potential effects on the Company on related risks as a whole.

Although we reviewed all of our compensation programs, we paid particular attention to programs involving incentive-based payouts and programs that involve our executive officers. During the course of our assessment, we consulted with the Compensation Committee of our Board of Directors.

We believe that our compensation programs are designed to create appropriate incentives without encouraging excessive risk taking by our employees. In this regard, our compensation structure contains various features intended to mitigate risk. For example:

- None of our executive officers receives any performance-based compensation or incentive payments.

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A portion of the compensation package for our sales-based employees consists of commissions for shares sold and installed, which package is designed to link an appropriate portion of compensation to long-term performance, while providing a balanced compensation model overall.

- The Compensation Committee oversees our compensation policies and practices and is responsible for reviewing and approving executive compensation, annual incentive compensation plans applicable to sales employees and other compensation plans.

Our Compensation Committee, in its evaluation, determined that it does not believe that the Company employs any compensation plans or practices that create incentives for employees to deliver short-term profits at the expense of generating systematic risks for the Company. Based on this and the assessment described above, we have concluded that the risks associated with our compensation policies and practices are not reasonably likely to have material adverse effect on the Company.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serve as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee. None of the current members of the Compensation Committee of our Board of Directors has ever been one of our employees.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

None of our executive officers has an employment contract or change-in-control arrangement, other than stock and option awards that contain certain change-in-control provisions such as accelerated vesting due to acquisition. In the event an acquisition that is not a private transaction occurs while the optionee maintains a business relationship with the Company and the option has not fully vested, the option will become exercisable for 100% of the then number of shares as to which it has not vested and such vesting to occur immediately prior to the closing of the acquisition.

The stock and option awards that would vest for each named executive if a change-in-control were to occur are disclosed under our *Outstanding Equity Awards at Fiscal Year-End Table*. Specifically, as of December 31, 2013, Robert A. Panora, our Chief Operating Officer and President, had 62,500 stock options and 138,350 shares of restricted stock that had not vested and Bonnie J. Brown, our Chief Financial Officer, had 6,250 stock options and 12,500 shares of restricted stock that had not vested.

Our stock and option awards contain certain change-in-control provisions. Descriptions of those provisions are set forth below:

Stock Awards Change-in-Control Definition

Change-in-Control shall mean (a) the acquisition in a transaction or series of transactions by any person (such term to include anyone deemed a person under Section 13(d)(3) of the Exchange Act), other than the Company or any of its subsidiaries, or any employee benefit plan or related trust of the Company or any of its subsidiaries, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; provided a Change-in-Control shall not occur solely as the result of an initial public offering or (b) the sale or other disposition of all or substantially all of the assets of the Company in one transaction or series of related transactions.

Option Awards Change-in-Control Definition

Accelerated vesting due to acquisition. In the event an acquisition that is not a private transaction occurs while the optionee maintains a business relationship with the Company and the option has not fully vested, the option shall become exercisable for 100% of the then number of shares as to which it has not vested, such vesting to occur immediately prior to the closing of the acquisition.

Definitions. The following definitions shall apply to certain terms used in this Section:

Acquisition means (i) the sale of the Company by merger in which the stockholders of the Company in their capacity as such no longer own a majority of the outstanding equity securities of the Company (or its successor); or (ii) any sale of all or substantially all of the assets or capital stock of the Company (other than in a spin-off or similar transaction) or (iii) any other acquisition of the business of the Company, as determined by the Board.

Business relationship means service to the Company or its successor in the capacity of an employee, officer, director or consultant.

Private transaction means any acquisition where the consideration received or retained by the holders of the then outstanding capital stock of the Company does not consist of (i) cash or cash equivalent consideration, (ii) securities which are registered under the Securities Act, or any successor statute or (iii) securities for which the Company or any other issuer thereof has agreed, including pursuant to a demand, to file a registration statement within 90 days of completion of the transaction for resale to the public pursuant to the Securities Act.

Director Independence

Under Rule 5605(b)(1) of the Nasdaq Marketplace Rules, independent directors must comprise a majority of a listed company's board of directors within one year of listing. In addition, Nasdaq Marketplace Rules require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and governance committees be independent. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Exchange Act, and compensation committee members must also satisfy the independence criteria set forth in Rule 10C under the Exchange Act. Under Nasdaq Marketplace Rule 5605(a)(2), a director will only qualify as an "independent director" if, in the opinion of that company's board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In order to be considered to be independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries.

Our Board of Directors intends to review its composition, the composition of its committees and the independence of each director according to the independence standards established by applicable SEC rules and the Nasdaq Marketplace Rules. As part of its review, our Board of Directors will consider the relationships that each non-employee director has with our company and all other facts and circumstances our Board of Directors deems relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

PRINCIPAL STOCKHOLDERS

The table below sets forth information with respect to the beneficial ownership of our common stock as of March 31, 2014 by:

- each of our named executive officers;
- all of our directors and executive officers as a group; and
- each person, or group of affiliated persons, who is known to us to beneficially own more than 5% of our outstanding shares of Common Stock.

Except as otherwise indicated, to our knowledge, the persons named in the table below have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws, where applicable, and the address for each of the named directors and executive officers is 45 First Avenue, Waltham, MA 02451.

The number of shares beneficially owned by each stockholder is determined under rules promulgated by the SEC. The information does not necessarily indicate beneficial ownership for any other purpose. Under those rules, the number of shares of Common Stock deemed outstanding includes shares issuable upon exercise of stock options held by the respective person or group that may be exercised within 60 days. For purposes of calculating each person's or group's percentage ownership, shares of Common Stock issuable pursuant to stock options exercisable within 60 days after December 31, 2013 are reflected in the table below and included as outstanding and beneficially owned for that person or group but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group. The percentages of shares outstanding provided in the table are based on a total of 15,161,600 shares of our common stock outstanding on March 31, 2014. For purposes of the table below, we have assumed shares of Common Stock will be sold by us in this offering and all shares offered in the secondary offering will be sold by the selling stockholders.

	Shares Beneficially Owned Prior to this Offering			Shares Beneficially Owned After this Offering		
Directors, Executive Officers and 5% Stockholders	Number (1)	Percent		Number (1)	Percent	
5% Stockholders:						
John N. Hatsopoulos (1)	3,718,939	24.5	%	3,718,939	21.7	%
George N. Hatsopoulos (2)	3,554,651	23.5	%	3,554,651	20.7	%
Michaelson Capital Special Finance Fund LP (3)	1,000,001	6.4	%	1,000,001	5.8	%
RBC Cees Nominees Limited (4)	904,105	6	%	904,105	5.3	%
Joseph J. Ritchie (5)	896,613	5.9	%	896,613	5.2	%
Directors and Officers:						

John N. Hatsopoulos (1)	3,718,939	24.5	%	3,718,939	21.7	%
George N. Hatsopoulos (2)	3,554,651	23.5	%	3,554,651	20.7	%
Robert A. Panora (6)	257,100	1.7	%	225,850	1.5	%
Bonnie J. Brown (7)	112,500	0.7	%	106,250	0.7	%
Charles T. Maxwell (8)	93,750	0.6	%	87,500	0.5	%
Angelina M. Galiteva (9)	68,750	0.4	%	62,500	0.4	%
Ahmed F. Ghoniem (10)	43,750	0.3	%	37,500	0.3	%
Joseph E. Aoun	—	—		—	—	
All executive officers and directors as a group (8 persons)	7,849,440	51.8	%	7,849,440	45.7	%

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(1) Includes:(a) 2,135,210 shares of Common Stock held by J&P Enterprises LLC for the benefit of: (1) John N. Hatsopoulos and (2) Patricia L. Hatsopoulos. John N. Hatsopoulos is the Executive Member of J&P Enterprises LLC and has voting and investment power; (b) 593,770 shares of Common Stock held by John N. Hatsopoulos and his wife, Patricia L. Hatsopoulos, as joint tenants with rights of survivorship, each of whom share voting and investment power; and (c) 989,859 shares of Common Stock held by The John N. Hatsopoulos Family Trust 2007 for the benefit of: (1) Patricia L. Hatsopoulos, (2) Alexander J. Hatsopoulos, and (3) Nia Marie Hatsopoulos, for which Dr. George N. Hatsopoulos and Ms. Patricia L. Hatsopoulos are the trustees; and (d) 100 shares of Common Stock held by Patricia L. Hatsopoulos, John's spouse.

(2) Includes: (a) 1,304,651 shares of Common Stock, directly held by Dr. George N. Hatsopoulos; (b) 2,250,000 shares of Common Stock held by The Hatsopoulos Family 2012 Trust.This amount does not include (a) 234,049 shares held in the 1994 Hatsopoulos Family Trust for the benefit of Marina Hatsopoulos Bornhorst, for which Ms. Daphne Hatsopoulos and Mr. Gordon Erhlich are the trustees. The trusts are for the benefit of Dr. Hatsopoulos's adult children. Dr. Hatsopoulos disclaims beneficial ownership of the shares held by this trust. The percentage of shares owned after the offering assumes that Dr. Hatsopoulos does not sell any shares in the secondary offering.

(3) Includes: (a) 444,445 shares of Common Stock purchased December 23, 2013; and (b) 555,556 shares of Common Stock issuable upon conversion of $3,000,000 principal amount of 4% convertible debentures.

(4) Includes 904,105 shares of Common Stock purchased in August 2010 and November 2011 held by RBC cees Nominees Ltd. The address of RBC cees Nominees Ltd. is 19-21 Broad Street, St. Hellier, Jersey JE1 3PB, Channel Islands.

(5) Includes 896,613 shares of Common Stock, directly held by Mr. Ritchie. The address of Mr. Ritchie is 2100 Enterprise Avenue, Geneva, IL 60134.

(6) Includes: (a) 163,350 shares of Common Stock, directly held by Mr. Panora, and (b) options to purchase 93,750 shares of Common Stock exercisable within 60 days of March 31, 2014.

(7) Includes: (a) 12,500 shares of Common Stock, directly held by Ms. Brown, and (b) options to purchase 100,000 shares of Common Stock exercisable within 60 days of March 31, 2014.

(8) Includes: (a) 75,000 shares of Common Stock, directly held by Mr. Maxwell, and (b) options to purchase 18,750 shares of Common Stock exercisable within 60 days of March 31, 2014.

(9)

Includes: (a) 50,000 shares of Common Stock, directly held by Ms. Galiteva and (b) options to purchase 18,750 shares of Common Stock exercisable within 60 days of March 31, 2014.

(10) Includes: (a) 25,000 shares of Common Stock, directly held by Mr. Ghoniem, and (b) options to purchase 18,750 shares of Common Stock exercisable within 60 days of March 31, 2014.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has five affiliated companies: (a) American DG Energy, a publicly traded company that distributes, owns and operates on-site energy systems that produce electricity, hot water, heat, and cooling in the United States; (b) EuroSite Power, a publicly traded company that distributes, owns, and operates on-site energy systems that produce electricity, hot water, heat, and cooling in the United Kingdom and Europe; (c) GlenRose Instruments, a company that provides radiological services, operates a radiochemistry laboratory network, and provides radiological characterization and analysis, hazardous, radioactive, and mixed waste management, facility, environmental, safety, and industrial hygiene health management; (d) Pharos, a private company that offers investment services in the healthcare sector; and (e) Levitronix Technologies LLC, or Levitronix, a worldwide leader in magnetically levitated bearingless motor technology, specializing in supplying medical blood pumps to the medical community and ultra-pure fluid handling devices for microelectronics, life science, and industrial applications.

These companies are affiliates because several of the major stockholders of those companies have a significant ownership position in the Company. American DG Energy, EuroSite Power, GlenRose Instruments, Pharos, and Levitronix do not own any shares of the Company, and the Company does not own any shares of American DG Energy, EuroSite Power, GlenRose Instruments, Pharos, or Levitronix. The businesses of GlenRose Instruments, Pharos, and Levitronix are not related to the business of the Company.

American DG Energy, EuroSite Power, GlenRose Instruments, Pharos and Levitronix are affiliated companies by virtue of common ownership. The common stockholders include:

- John N. Hatsopoulos, the Company's Chief Executive Officer who is also: (a) the Chief Executive Officer and a director of American DG Energy and holds 10.7% of the company's common stock; (b) the Chairman of EuroSite Power; (c) a director of Ilios and holds 7.2% of the company's common stock; and (d) the Chairman of GlenRose Instruments and holds 15.7% of the company's common stock.

- Dr. George N. Hatsopoulos, who is John N. Hatsopoulos' brother, and is also: (a) a director of American DG Energy and holds 13.6% of the company's common stock; (b) an investor in Ilios and holds 3.1% of the company's common stock; (c) an investor of GlenRose Instruments and holds 15.7% of the company's common stock; (d) an investor of Pharos and may be deemed to hold 24.4% of the company's common stock; and (e) a director and an investor of Levitronix and may be deemed to hold 21.4% of the company's common stock.

Additionally, the following related persons had or may have a direct or indirect material interest in our transactions with our affiliated companies:

- Barry J. Sanders, who is: (a) the President and Chief Operating Officer of American DG Energy, (b) the Chief Executive Officer and a director of EuroSite Power and (c) the Chairman of Ilios.

- Anthony S. Loumidis, the Company's former Vice President and Treasurer who is: (a) the former Chief Financial Officer Secretary and Treasurer of American DG Energy, (b) the former Chief Financial Officer Secretary and Treasurer of EuroSite Power, (c) the former Chief Financial Officer Secretary and Treasurer of GlenRose Instruments and (d) the former Treasurer of Ilios.

American DG Energy has sales representation rights to the Company's products and services in New England. Revenue from sales of cogeneration and chiller systems, parts and service to American DG Energy during the years ended December 31, 2013 and 2012 amounted to $758,930 and $3,795,666, respectively.

On October 20, 2009, American DG Energy, in the ordinary course of its business, signed a Sales Representative Agreement with Ilios to promote, sell and service the Ilios high-efficiency heating products, such as the high efficiency water heater, in the marketing territory of the New England states, including Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont, and Maine. The marketing territory also includes all of the nations in the European Union. The initial term of this Agreement is for five years, after which it may be renewed for successive one-year terms upon mutual written agreement. American DG Energy has not yet sold any products under this agreement and therefore, no amounts have been required to be paid.

On September 24, 2001, the Company entered into subscription agreements with investors for the sale of convertible debentures. The primary investors were George N. Hatsopoulos, who subscribed for debentures having an initial principal amount of $200,000; the John N. Hatsopoulos 1989 Family Trust for the benefit of Nia Marie Hatsopoulos, or the Nia Hatsopoulos Trust, which subscribed for debentures having an initial principal amount of $50,000; and the John N. Hatsopoulos 1989 Family Trust for the benefit of Alexander John Hatsopoulos, or the Alexander Hatsopoulos Trust, which subscribed for debentures having an initial principal amount of $50,000. Nia Hatsopoulos and Alexander Hatsopoulos are John N. Hatsopoulos' adult children. John N. Hatsopoulos disclaims beneficial ownership of the shares held by these trusts. The debentures accrue interest at a rate of 6% per annum and were due on September 24, 2007. The debentures are convertible, at the option of the holder, into shares of Common Stock at a conversion price of $1.20 per share.

On September 24, 2007, George N. Hatsopoulos, the Nia Hatsopoulos Trust and the Alexander Hatsopoulos Trust, holding debentures representing a majority of the then-outstanding principal amount of the debentures, agreed to extend the debenture term to September 24, 2011.

On May 11, 2009, George N. Hatsopoulos converted $109,033 of the principal amount under the debentures held by him, together with accrued interest in the amount of $90,967 into 400,000 shares of Common Stock of Ilios, the Company's then newly-formed subsidiary, which were previously held by the Company, at a conversion price of $0.50 per share. The difference between the Company's purchase price of the Ilios shares and the amount of debt forgiveness was recorded as additional paid-in capital.

On September 30, 2009, Joseph J. Ritchie elected to convert the outstanding principal amount under the debenture held by him, $30,000, together with accrued interest of $14,433, into 37,028 shares of the Company's Common Stock at a conversion price of $1.20 per share.

On September 24, 2011, George N. Hatsopoulos, the Nia Hatsopoulos Trust and the Alexander Hatsopoulos Trust, holding debentures representing a majority of the then-outstanding principal amount of the debentures, agreed to extend the term of the debentures to September 24, 2013 and requested that accrued interest in the aggregate amount of approximately $72,960 be converted into the Company's Common Stock at $2.00 per share (which was the average price of the Company's stock between September 24, 2001 and September 24, 2011). As a result, the Company issued 6,474 shares of Common Stock to George N. Hatsopoulos, 15,003 shares of Common Stock to the Nia Hatsopoulos Trust and 15,003, shares of Common Stock to the Alexander Hatsopoulos Trust.

On September 30, 2012, the remaining principal amount under the debentures held by the Nia Hatsopoulos Trust and the Alexander Hatsopoulos Trust, including the applicable accrued interest, was converted into 42,620 shares of Common Stock issued to each of the Nia Hatsopoulos Trust and the Alexander Hatsopoulos Trust.

On September 20, 2013, the term of the debentures held by George N. Hatsopoulos was extended to October 31, 2013. On October 18, 2013, George N. Hatsopoulos elected to convert the outstanding principal balance of the debenture held by him of $90,967 into 75,806 shares of the Company’s Common Stock at a conversion price of $1.20 per share. In addition, Mr. Hatsopoulos requested that the accrued interest earned in 2012 in the amount of $6,913 be converted into 2,161 shares of the Company’s Common Stock at a conversion price of $3.20 per share and that the accrued interest earned on or after January 1, 2013 in the amount of $4,366 be converted into 970 shares of the Company’s Common Stock at a conversion price of $4.50 per share.

On May 11, 2009, John Hatsopoulos converted an aggregate of $427,432 in principal amount under demand notes held by him, together with accrued interest in the amount of $72,568 into 1,000,000 shares of Common Stock of Ilios, which were previously held by the Company, at a conversion price of $0.50 per share. The difference between the Company's purchase price of the Ilios shares and the amount of debt forgiveness was recorded as additional paid-in capital.

On September 10, 2008, the Company entered into a demand note agreement with John N. Hatsopoulos in the principal amount of $250,000 at an annual interest rate of 5%. On September 7, 2011, the Company entered into an additional demand note agreement with John N. Hatsopoulos, in the principal amount of $750,000 at an annual interest rate of 6%. On November 30, 2012, the Company entered into an additional demand note agreement with John N. Hatsopoulos in the principal amount of $300,000 at an annual interest rate of 6%. On October 3, 2013, the Company signed a demand note for $450,000, which accrues interest at 6%, to John N. Hatsopoulos, the Company's Chief Executive Officer. Unpaid principal and interest on the demand notes are due upon demand. On January 6, 2014 these demand notes were paid in full with accrued interest.

On March 25, 2013, the Company entered into a Revolving Line of Credit Agreement, or the Credit Agreement, with John N. Hatsopoulos, our Chief Executive Officer. Under the terms of the Credit Agreement, as amended on August 13, 2013, Mr. Hatsopoulos has agreed to lend the Company up to an aggregate of $1,500,000 from time to time, at the written request of the Company. Any amounts borrowed by the Company pursuant to the Credit Agreement will bear interest at the Bank Prime Rate as quoted from time to time in the Wall Street Journal plus 1.5% per year. Repayment of the principal amount borrowed pursuant to the Credit Agreement will be due on March 1, 2014. In addition, the company may prepay accrued interest, provided that prepayment may not be made prior to January 1, 2014. As of December 31, 2013 the Company has borrowed $1,200,000 pursuant to the Credit Agreement. On January 6, 2014, the Company repaid the then outstanding principal balance of $1,200,000 together with accrued interest of $25,347.

If the Company's existing resources, including cash and cash equivalents and future cash flows from operations are not sufficient to meet the working capital requirements of the Company's existing business through 2014, John Hatsopoulos has committed to provide any shortfall in the form of a demand note.

On March 26, 2014, the Company entered into a Revolving Line of Credit Agreement, or the 2014 Credit Agreement, with John N. Hatsopoulos, our Chief Executive Officer. Under the terms of the 2014 Credit Agreement, Mr. Hatsopoulos has agreed to lend the Company up to an aggregate of $3,500,000 from time to time, at the written request of the Company. Any amounts borrowed by the Company pursuant to the 2014 Credit Agreement will bear interest at the Bank Prime Rate as quoted from time to time in the Wall Street Journal plus 1.5% per year. Repayment of the principal amount borrowed pursuant to the 2014 Credit Agreement will be due on March 25, 2015.

For additional disclosure on the Company’s debt see *Note 7 – Demand notes payable, convertible debentures and line of credit – related party.*

John N. Hatsopoulos’ salary is $1.00 per year. On average, Mr. Hatsopoulos spends approximately 50% of his business time on the affairs of the Company; however such amount varies widely depending on the needs of the business and is expected to increase as the business of the Company develops.

On July 1, 2012 the Company signed a Facilities and Support Services Agreement, or the Facilities and Support Services Agreement, with American DG Energy for a period of one year, renewable annually, on July 1st, by mutual agreement. Under this agreement, the Company provides American DG Energy with certain office and business support services and also provides pricing based on a volume discount depending on the level of American DG Energy purchases of cogeneration and chiller products. For certain sites, American DG Energy hires the Company to service its chiller and cogeneration products. The Company also provides office space and certain utilities to American DG Energy based on a monthly rate set at the beginning of each year. Also, under this agreement, American DG Energy has sales representation rights to the Company's products and services in New England.

On July 1, 2013 the Company entered into the First Amendment to the Facilities, Support Services and Business Agreement, or the First Amendment, with American DG Energy. The First Amendment renewed the term of the Facilities and Support Services Agreement for a one year period, beginning on July 1, 2013. The First Amendment also increased the space provided to the Company by Tecogen from approximately 3,071 square feet to 3,282 square feet and from six offices to nine offices. Under the First Amendment, the amount that American DG Energy will pay the Company for the space and services that it provides under the Facilities and Support Services Agreement increased to $6,495 per month. The First Amendment further clarifies that the total sales thresholds for volume discounts are to be met during a calendar year and that American DG Energy’s representation rights may be terminated by either the Company or American DG Energy upon 60 days' notice, without cause.

On November 12, 2013, the Company entered into the Second Amendment to the Facilities, Support Services and Business Agreement, or the Second Amendment. The Second Amendment modified the exclusivity arrangement of the Facilities and Support Services Agreement between the Company and American DG Energy to state that in New England States American DG Energy shall have the right to purchase cogeneration products directly from the Company as described in the agreement so long as American DG Energy intends to retain long-term ownership of the cogeneration product and utilize it for the production and sale of electricity and thermal energy. The Company will not sell its products to parties for which the intended use is to earn revenue from metered energy to third parties other than American DG Energy. In cases where American DG Energy has the opportunity to sell cogeneration products to an unaffiliated party in the New England States and where the Company has no other appointed representation in that specific region, American DG Energy may buy/resell the cogeneration product as specified under the terms of the Facilities and Support Services Agreement. If, however, the Company has appointed a local exclusive representative in that specific New England region, American DG Energy will defer to the local representative for pricing and other specific details for working cooperatively.

In July 2013, the Company obtained a letter of credit for approximately $1.1 million in connection with a performance guarantee for certain of its turnkey installations. This letter of credit was collateralized by $1.055 million in personal funds by John N. Hatsopoulos. If Mr. Hatsopoulos had not provided this collateral, the Company may have been required to provide the collateral itself, and may not have been able to do so.

On November 12, 2013, the Company entered into the Second Amendment to the Facilities, Support Services and Business Agreement, or the ADG Amendment, American DG Energy. The Amendment modifies the exclusivity arrangement of the Facilities, Support Services and Business Agreement between the Company and American DG Energy.

On November 12, 2013, Ilios entered into the First Amendment to the Sales Representative Agreement with American DG Energy Inc. The Amendment modifies and defines territories covered under the Agreement.

The Company subleases portions of its corporate offices and manufacturing facility to sub-tenants under annual sublease agreements. For the years ended December 31, 2013 and 2012, the Company received $113,784 and $158,898, respectively, from American DG Energy, Levitronix LLC and Alexandros Partners LLC. In addition, for the years ended December 31, 2013 and 2012 the Company received from the same companies, $90,348 and $101,218, respectively, to offset common operating expenses incurred in the administration and maintenance of its corporate office and warehouse facility.

Our headquarters is located in Waltham, Massachusetts, and consists of approximately 43,000 square feet of leased space, of which Tecogen occupies approximately 34,600 square feet of manufacturing, storage and office space. We sub-lease the remaining space to Ilios, American DG Energy, and other tenants. Our lease, with an original expiration date of March 31, 2014, was renewed for an additional ten years and will expire March 31, 2024. We believe that our facilities are appropriate and adequate for our current needs.

Revenue from sales of cogeneration and chiller systems, parts and service to American DG Energy during the years ended December 31, 2013 and 2012 amounted to $758,930 and $3,795,666, respectively. In addition, Tecogen pays certain operating expenses, including benefits and insurance, on behalf of American DG Energy. Tecogen was reimbursed for these costs. As of December 31, 2013 the total amount due to American DG Energy was $119,667. As of December 31, 2012, the total amount due from American DG Energy was $70,811.

For additional disclosure related to our related parties and related party transactions see Note 13 — Related party transactions to our financial statements included in this prospectus.

Policies and Procedures for Related Person Transactions

Our Board of Directors will adopt a written related person transaction policy to set forth the policies and procedures for the review and approval or ratification of related person transactions. This policy will cover any transaction, arrangement, or relationship, or any series of similar transactions, arrangements, or relationships, in which we were or are to be a participant where the amount involved exceeds $120,000, and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness, and employment by us of a related person.

Any related person transaction proposed to be entered into by us will be required to be reported to our Chief Financial Officer and will be reviewed and approved by the Audit Committee in accordance with the terms of the policy, prior to effectiveness or consummation of the transaction, whenever practicable. If our Chief Financial Officer determines that advance approval of a related person transaction is not practicable under the circumstances, the Audit Committee will review and, in its discretion, may ratify the related person transaction at the next meeting of the Audit Committee, or at the next meeting following the date that the related person transaction comes to the attention of our Chief Financial Officer. Our Chief Financial Officer, however, may present a related person transaction arising in the time period between meetings of the Audit Committee to the chair of the Audit Committee, who will review and may approve the related person transaction, subject to ratification by the Audit Committee at the next meeting of the Audit Committee.

In addition, any related person transaction previously approved by the Audit Committee or otherwise already existing that is ongoing in nature will be reviewed by the Audit Committee annually to ensure that such related person transaction has been conducted in accordance with the previous approval granted by the Audit Committee, if any, and that all required disclosures regarding the related person transaction are made.

Transactions involving compensation of executive officers will be reviewed and approved by the Compensation Committee in the manner specified in the charter of the Compensation Committee.

A related person transaction reviewed under this policy will be considered approved or ratified if it is authorized by the Audit Committee in accordance with the standards set forth in our related person transaction policy after full disclosure of the related person's interests in the transaction. As appropriate for the circumstances, the Audit Committee will review and consider:

- the related person's interest in the related person transaction;
- the approximate dollar value of the amount involved in the related person transaction;
- the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;
- whether the transaction was undertaken in the ordinary course of business;
- whether the transaction with the related person is proposed to be, or was, entered into on terms no less favorable to us than terms that could have been reached with an unrelated third party;
- the purpose of, and the potential benefits to us of, the transaction; and
- any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to stockholders in light of the circumstances of the particular transaction.

The Audit Committee will review all relevant information available to it about the related person transaction. The Audit Committee may approve or ratify the related person transaction only if the Audit Committee determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, our best interests. The Audit Committee may, in its sole discretion, impose conditions as it deems appropriate on us or the related person in connection with approval of the related person transaction.

DESCRIPTION OF COMMON STOCK

General

The following description of our capital stock and provisions of our amended and restated certificate of incorporation and bylaws are summaries and are qualified by reference to the charter and the bylaws that will be in effect upon the effectiveness of this registration statement. These documents are filed as exhibits hereto.

Upon the effectiveness of this registration statement, our authorized capital stock will consist of 100,000,000 shares of Common Stock, par value $0.001 per share. Information concerning our outstanding Common Stock and stock options is contained in the section entitled "Outstanding Securities and Shares Eligible for Future Sale."

The following description summarizes information about our capital stock. You can obtain more comprehensive information about our capital stock by reviewing our certificate of incorporation and bylaws as well as the Delaware General Corporation Law.

Common Stock

Voting Rights. Each holder of Common Stock is entitled to one vote per share on all matters properly submitted to a vote of the stockholders, including the election of directors. Our charter will not provide for cumulative voting rights. Because of this, but subject to the rights of any then outstanding shares of preferred stock, the holders of a majority of the shares of Common Stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose. An election of directors by our stockholders is determined by a plurality of the votes cast by stockholders entitled to vote on the election.

Dividends. Subject to preferences that may be applicable to any then outstanding preferred stock, the holders of our outstanding shares of Common Stock are entitled to receive dividends, if any, as may be declared from time to time by our Board of Directors out of legally available funds.

Liquidation. In the event of our liquidation, dissolution or winding up, holders of Common Stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

Rights and Preferences. Holders of our common stock have no preemptive, conversion or subscription rights, and there are no redemption or sinking fund provisions applicable to our common stock.

Delaware Anti-Takeover Law and Charter and Bylaws Provisions

Delaware Anti-Takeover Law. We are subject to Section 203 of the Delaware General Corporation Law. Section 203 of that law generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the interested stockholder attained such status with the approval of our Board of Directors, the business combination is approved in a prescribed manner or the interested stockholder acquired at least 85% of our outstanding voting stock in the transaction in which it became an interested stockholder. A "business combination" includes, among other things, a merger or consolidation involving us and the "interested stockholder" and the sale of more than 10% of our assets. In general, an "interested stockholder" is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

Certificate of Incorporation and Bylaws. Provisions of our certificate of incorporation and bylaws may delay or discourage transactions involving an actual or potential change of control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our common stock if and when it becomes tradable. Among other things, our charter and bylaws:

- authorize the issuance of "blank check" preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- eliminate the ability of stockholders to call a special meeting of stockholders; and
- establish advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon at stockholder meetings.

The amendment of any provisions of our charter by the stockholders would require the approval of the holders at least two-thirds of our then outstanding Common Stock. Our by-laws may be amended or repealed by a majority vote of our Board of Directors or by the affirmative vote of the holders of at least two-thirds of our then outstanding Common Stock.

NASDAQ Capital Market

We have applied to list our common stock on the NASDAQ Capital Market on the effectiveness of this registration statement.

Authorized but Unissued Shares

The authorized but unissued shares of Common Stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by regulatory authorities. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved Common Stock and preferred stock could make it more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be VStock Transfer LLC.

OUTSTANDING SECURITIES AND SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices. The Company does not have any lock-up agreements or registration rights agreements requiring future registration of our common stock.

Outstanding Common Stock

As of March 31, 2014 there were 246 holders of record of our common stock. See “Principal Stockholders” for information on the holders of our common stock. Also see “Description of Securities” for a description of our outstanding and issued capital stock.

Stock Options

As of March 31, 2014, we had 1,186,325 options outstanding under our incentive stock plan at a weighted average exercise price of $2.22. As of such date, 812,313 of those options were exercisable.

Warrants

As of March 31, 2014, there were no warrants outstanding.

SEC Rules Governing Resales of our common stock

The shares of our common stock covered by this prospectus are freely transferable without restriction. In addition, there are two SEC rules that permit the resale of our common stock held by our affiliates and the resale of Common Stock sold in private placements that are not covered by this prospectus.

Rule 144

In general, pursuant to Rule 144, under the Securities Act, as currently in effect, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for a least six months (including certain periods of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. Under Rule 144, a person who is not deemed to have been one of our affiliates at any time during the 3 months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least one year is entitled to sell the shares without restriction.

On the other hand, our affiliates or persons selling shares on behalf of our affiliates who own shares that were acquired from us or an affiliate of ours at least six months prior to the proposed sale are entitled to sell within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately 151,566 shares of our common stock estimated as of the date of this prospectus; or

- The average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale, or if no such notice is required, the date of receipt of the order to execute the transaction by a broker or the execution of the transaction directly with a market maker.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 provides that the shares of Common Stock acquired upon the exercise of currently outstanding options or other rights granted under our equity plans may be resold by persons, other than affiliates, restricted only by the manner of sale provisions of Rule 144, and by affiliates in accordance with Rule 144 without compliance with its one-year minimum holding period.

Shares Eligible for Future Sale

Based on the number of shares of Common Stock outstanding as of March 31, 2014, upon the closing of this offering:

- The shares sold in this offering will be available for sale without restriction;
- The 2,028,145 shares registered in a secondary offering will be available for sale without restriction;
- 5,725,034 shares will be held by non-affiliates for more than six months and will be available for sale without restriction;
- 5,600 shares will be held by non-affiliates for less than six months and will become available for sale without restriction once they are held for six months; and
- 7,849,440 shares will be held by affiliates, of which 25,000 shares will be held by affiliates for less than six months and will become available for sale under Rule 144 once they are held for six months, and 7,824,440 shares are available for sale under Rule 144 or Rule 701, as described above.

On February 6, 2014, in order to satisfy our contractual obligations to certain investors in a private placement, we filed a registration statement on Form S-1 with the SEC seeking to register 2,028,145 shares of our common stock for resale or other disposition by the selling stockholders named therein. Once the registration statement for the secondary offering has been declared effective by the SEC, the shares offered thereby will be available for sale without restriction. None of the selling stockholders in the secondary offering will be subject to lock-up agreements in connection with this offering.

Lock-up Agreements

Our officers, directors, employees, option holders and stockholders owning more than 5% of our outstanding common stock have agreed, subject to certain exceptions, for a period of 180 days after the date of this prospectus, not to offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of, directly or indirectly any shares of our common stock or any securities convertible into or exchangeable for shares of our common stock either owned as of the date hereof or thereafter acquired without the prior written consent of the Placement Agent. The Placement Agent may, in its sole discretion and at any time or from time to time before the termination of the lock-up period, without notice, release all or any portion of the securities subject to lock-up agreements.

PLAN OF DISTRIBUTION

Scarsdale Equities LLC, which we refer to as the Placement Agent, has agreed to act as the exclusive placement agent in connection with this offering subject to the terms and conditions of a placement agent agreement, dated . The Placement Agent may engage selected dealers to assist in the placement of the shares. The Placement Agent is not purchasing or selling any shares offered by this prospectus, nor is it required to arrange the purchase or sale of any specific number or dollar amount of the shares, but has agreed to use its commercially reasonable efforts to arrange for the sale of all of the shares offered hereby. We will enter into subscription agreements directly with investors in connection with this offering and we may not sell the entire amount of shares offered pursuant to this prospectus. The price per share has been determined based upon arm's-length negotiations between the investors and us.

The Placement Agent proposes to arrange for the sale to one or more investors of the shares offered pursuant to this prospectus through direct subscription agreements between the investors and us.

Commissions and Expenses

We have agreed to pay the Placement Agent an aggregate cash placement fee equal to 6.75% of the gross proceeds in this offering.

The following table shows the per share and total cash Placement Agent's fees we will pay to the Placement Agent in connection with the sale of the shares offered pursuant to this prospectus assuming the purchase of all of the shares offered hereby:

Per Share	$
Total	$

Because there is no minimum offering amount required as a condition to closing in this offering, the actual total offering commissions, if any, are not presently determinable and may be substantially less than the maximum amount set forth above. We have also agreed to reimburse the Placement Agent for its reasonable out-of-pocket expenses in connection with the offering, including the reasonable legal fees and disbursements of its counsel subject to a cap of $50,000 for such legal fees and disbursements. We have placed $35,000 in an escrow account to partially secure our expense reimbursement obligation.

Our obligation to issue and sell shares to the investors is subject to the conditions set forth in the subscription agreements, which may be waived by us at our discretion. An investor's obligation to purchase shares is subject to the conditions set forth in his or her subscription agreement as well, which may also be waived.

We currently anticipate that the sale of the shares will be completed on or about , 2014. We estimate the total offering expenses of this offering that will be payable by us, excluding placement agent fees, will be approximately $450,000, which includes legal and printing costs, various other fees and reimbursement of the Placement Agent's expenses. At the closing, The Depository Trust Company will credit the shares of common stock to the respective accounts of the investors.

No Public Market

Prior to this offering, there has not been a public market for our common stock, and the public offering price for our common stock will be determined through negotiations between us and the investors in the offering. Among the factors to be considered in these negotiations will be:

- our status of business development;
- our new business structure and operations;
- prevailing market conditions, including the history and prospects for our industry;
- market valuations of other companies that we and the Placement Agent believe to be comparable to us;

- our future prospects and the experience of our management;
- our capital structure; and
- other factors deemed relevant.

No assurance can be given that the public offering price will correspond to the price at which our common stock will trade in the public market subsequent to this offering or that an active trading market for our common stock will develop and continue after this offering. See “Determination of Offering Price” in this prospectus for more information regarding the determination of the public offering price.

Indemnification

We have agreed to indemnify the Placement Agent against liabilities under the Securities Act. We have also agreed to contribute to payments the Placement Agent may be required to make in respect of such liabilities.

NASDAQ Listing

We have applied to list our common stock on the NASDAQ Capital Market under the symbol “TGEN”.

Lock-up Agreements

We, our officers, directors, employees, option holders and stockholders owning more than 5% of our outstanding common stock have agreed, subject to certain exceptions, for a period of 180 days after the date of this prospectus, not to offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of, directly or indirectly any shares of our common stock or any securities convertible into or exchangeable for shares of our common stock either owned as of the date hereof or thereafter acquired without the prior written consent of the Placement agent. This 180-day period may be extended if (1) during the last 17 days of the 180-day period, we issue an earnings release or material news or a material event regarding us occurs or (2) prior to the expiration of the 180-day period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 30-day period, then the period of such extension will be 18-days, beginning on the issuance of the earnings release or the occurrence of the material news or material event. If after any announcement described in clause (2) of the preceding sentence, we announce that we will not release earnings results during the 16-day period, the lock-up period shall expire the later of the expiration of the 180-day period and the end of any extension of such period made pursuant to clause (1) of the preceding sentence. The Placement Agent may, in its sole discretion and at any time or from time to time before the termination of the lock-up period, without notice, release all or any portion of the securities subject to lock-up agreements.

Electronic Distribution

This prospectus may be made available in electronic format on websites or through other online services maintained by the Placement Agent, or by an affiliate of the Placement Agent. Other than this prospectus in electronic format, the information on the Placement Agent's website and any information contained in any other website maintained by the Placement Agent is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or the Placement Agent, and should not be relied upon by investors.

The foregoing does not purport to be a complete statement of the terms and conditions of the placement agent agreement and subscription agreements. A copy of the placement agent agreement and the form of subscription agreement with the investors are included as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find Additional Information" on page 84.

Regulation M Restrictions

The Placement Agent may be deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act, and any commissions received by it and any profit realized on the resale of the shares sold by it while acting as a principal might be deemed to be an underwriting discount or commission under the Securities Act. As an underwriter, the Placement Agent would be required to comply with the requirements of the Securities Act and the Exchange Act, including, without limitation, Rule 415(a)(4) under the Securities Act and Rule 10b-5 and Regulation M under the Exchange Act. These rules and regulations may limit the timing of purchases and sales of shares by the Placement Agent acting as principal. Under these rules and regulations, the placement agent may not:

- engage in any stabilization activity in connection with our securities; and
- bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities, other than as permitted under the Exchange Act, until it has completed its participation in the distribution.

Other

Ardour Capital Investments, LLC, which we refer to as the Selected Dealer, entered into a Selected Dealers Agreement with the Placement Agent in connection with this offering. From time to time, the Placement Agent, the Selected Deal and their respective affiliates have provided, and may in the future provide, various investment banking, financial advisory and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees. In the course of their businesses, the Placement Agent, the Selected Dealer and their respective affiliates may actively trade our securities or loans for their own account or for the accounts of customers, and, accordingly, the Placement Agent, the Selected Dealer and their respective affiliates may at any time hold long or short positions in such securities or loans. Except for services provided in connection with this offering, and except as described below, the Placement Agent, the Selected Dealer and their respective affiliates have not provided any investment banking or other financial services to us during the 180-day period preceding the date of this prospectus and we do not expect to retain any placement agent to perform any investment banking or other financial services for us for at least 90 days after the date of this prospectus. In November 2013, the Placement Agent acted as our placement agent in connection with certain private placements of our securities for which we paid the Placement Agent $276,553 in commissions. In December 2013, the Selected Dealer acted as our placement agent in connection with certain private placements of our securities for which we paid the Selected Dealer $255,000 in commissions.

Certain Relationships

Francis A. Mlynarczyk, Jr., the Registered Principal and Managing Member of the Placement Agent, is also a director of American DG Energy, one of our affiliated entities. In addition, Mr. Mlynarczyk through an investment account, IRA FBO Francis A. Mlynarczyk, Jr. Pershing LLC as Custodian, beneficially owns 5,600 shares of our common stock.

EXPERTS

The consolidated financial statements as of December 31, 2013 and 2012 and for the years then ended, appearing in this registration statement and prospectus have been audited by McGladrey LLP, an independent registered public accounting firm, as stated in their report appearing elsewhere herein, and are included in reliance upon such report and upon the authority of such firm as experts in accounting and auditing.

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the Common Stock was employed on a contingency basis, or had, or is to receive, any interest, directly or indirectly, in our Company or any of our parents or subsidiaries. Nor was any such person connected with us or any of our parents or subsidiaries, if any, as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

LEGAL MATTERS

The validity of our common stock offered under this prospectus will be passed upon by Sullivan & Worcester LLP, Boston, Massachusetts. Lowenstein Sandler LLP, New York, New York, is acting as counsel to the Placement Agent in connection with this offering.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1, including exhibits and schedules, under the Securities Act with respect to the shares of common stock to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules that are part of the registration statement. For further information about us and our securities, you should refer to the registration statement.

We are subject to the information and reporting requirements of the Exchange Act and are required to file annual, quarterly, and current reports, proxy statements, and other information with the SEC. You may read, without charge, and copy, at prescribed rates, all or any portion of the registration statement or any reports, statements, or other information in the files at the public reference room at the SEC's principal office at 100 F Street NE, Washington, D.C., 20549, Room 1580. You may request copies of these documents, for a copying fee, by writing to the SEC. You may call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. Our filings, including the registration statement, are also available to you on the Internet website maintained by the SEC at *http://www.sec.gov*.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The Financial Statements included below are stated in U.S. dollars and are prepared in accordance with U.S. Generally Accepted Accounting Principles. The following table summarizes the relevant financial data for our business and should be read with our financial statements, which are included in this registration statement.

Audited Financial Statements

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Tecogen Inc.

We have audited the accompanying consolidated balance sheets of Tecogen Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tecogen Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP

Boston,
Massachusetts
March 31, 2014

Audited Financial Statements

TECOGEN INC.

CONSOLIDATED BALANCE SHEETS

As of December 31, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$7,713,899	$1,572,785
Short-term investments, restricted	—	181,859
Accounts receivable, net	3,740,885	2,700,243
Unbilled revenue	646,398	—
Inventory, net	3,343,793	3,356,622
Due from related party	—	55,837
Deferred financing costs	140,433	—
Prepaid and other current assets	340,013	402,846
Total current assets	15,925,421	8,270,192
Property, plant and equipment, net	638,026	435,612
Intangible assets, net	953,327	372,020
Goodwill	40,870	—
Other assets	72,425	39,425
TOTAL ASSETS	$17,630,069	$9,117,249
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Demand notes payable and line of credit, related party	$2,950,000	$1,337,500
Senior convertible promissory note, related party	3,000,000	—
Current portion of convertible debentures, related party	—	90,967
Accounts payable	2,338,046	1,151,010
Accrued expenses	1,139,554	807,922
Deferred revenue	613,915	677,919
Due to related party	119,667	—
Interest payable, related party	198,450	126,170
Total current liabilities	10,359,632	4,191,488
Long-term liabilities:		
Deferred revenue, net of current portion	204,544	142,726
Total liabilities	10,564,176	4,334,214
Commitments and contingencies (Note 8)		
Stockholders' equity:		

Tecogen Inc. stockholders’ equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized; 15,155,200 and 13,611,974 issued and outstanding at December 31, 2013 and 2012, respectively	15,155	13,612
Additional paid-in capital	22,463,996	16,360,821
Accumulated deficit	(15,209,212)	(11,759,723)
Total Tecogen Inc. stockholders’ equity	7,269,939	4,614,710
Noncontrolling interest	(204,046)	168,325
Total stockholders’ equity	7,065,893	4,783,035
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$17,630,069	$9,117,249

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

TECOGEN INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Revenues		
Products	$6,346,050	$7,453,222
Services	9,503,819	7,800,750
	15,849,869	15,253,972
Cost of sales		
Products	4,709,767	5,290,535
Services	6,109,974	4,098,363
	10,819,741	9,388,898
Gross profit	5,030,128	5,865,074
Operating expenses		
General and administrative	7,018,133	6,643,120
Selling	1,423,587	1,225,580
Aborted public offering costs	258,512	—
	8,700,232	7,868,700
Loss from operations	(3,670,104)	(2,003,626)
Other income (expense)		
Interest and other income	3,958	48,397
Interest expense	(141,065)	(71,208)
	(137,107)	(22,811)
Loss before income taxes	(3,807,211)	(2,026,437)
Consolidated net loss	(3,807,211)	(2,026,437)
Less: Loss attributable to the noncontrolling interest	357,722	389,480
Net loss attributable to Tecogen Inc.	$(3,449,489)	$(1,636,957)
Net loss per share - basic and diluted	$(0.26)	$(0.12)
Weighted average shares outstanding - basic and diluted	13,385,155	13,135,071

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

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TECOGEN INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2013 and 2012

	Tecogen Inc. Common Stock 0.001 Par Value	Additional Paid-In Capital	Common Stock Subscription	Shareholder Receivable	Accumulated Deficit	Noncontrolling Interest	Total
Balance at December 31, 2011	$13,498	$15,527,271	$ —	$(345,000)	$(10,122,766)	$ 150,161	$5,223,164
Sale of subsidiary common stock	—	289,606	—	—	—	210,394	500,000
Purchase of subsidiary common stock	—	(174,958)	—	—	—	174,958	—
Sale of common stock	213	679,787	—	—	—	—	680,000
Conversion of related party convertible notes to common stock	83	99,917	—	—	—	—	100,000
Conversion of accrued interest on related party convertible notes to common stock	2	6,098	—	—	—	—	6,100
Settlement of shareholder receivable (Note 10)	(100)	(239,900)	—	345,000	—	—	105,000
Purchase of restricted stock	(84)	(253)	—	—	—	—	(337)
Stock based compensation expense	—	173,253	—	—	—	22,292	195,545
Net loss	—	—	—	—	(1,636,957)	(389,480)	(2,026,437)
Balance at December 31, 2012	13,612	16,360,821	—	—	(11,759,723)	168,325	4,783,035
Sale of common stock	1,477	5,965,328	—	—	—	—	5,966,805
Conversion of related party convertible notes to common	76	90,891	—	—	—	—	90,967

stock							
Conversion of accrued interest on related party convertible notes to common stock	3	11,277	—	—	—	—	11,280
Exercise of stock options	25	2,975	—	—	—	—	3,000
Forfeiture and repurchase of restricted stock grant	(38)	(112)	—	—	—	(200)	(350)
Stock based compensation expense (forfeiture)	—	32,816	—	—	—	(14,449)	18,367
Net loss	—	—	—	—	(3,449,489)	(357,722)	(3,807,211)
Balance at December 31, 2013	$15,155	$22,463,996	$ —	$—	$(15,209,212)	$(204,046)	$7,065,893

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

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TECOGEN INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(3,807,211)	$(2,026,437)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	256,459	203,775
Provision for losses on accounts receivable	50,600	57,600
Provision (recovery) for inventory reserve	(32,000)	(26,800)
Stock-based compensation	18,367	195,545
Changes in operating assets and liabilities		
(Increase) decrease in:		
Short-term investments, restricted	(202)	(4,776)
Accounts receivable	(1,091,242)	(1,358,611)
Inventory	62,229	(760,836)
Unbilled revenue	(646,398)	—
Due from related party	55,837	243,902
Prepaid expenses and other current assets	62,833	(290,130)
Other assets	(33,000)	(4,000)
Increase (decrease) in:		
Accounts payable	1,187,036	338,796
Accrued expenses	331,632	80,459
Deferred revenue	(2,186)	127,523
Interest payable, related party	83,560	71,208
Due to related party	119,667	—
Net cash used in operating activities	(3,384,019)	(3,152,782)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(202,700)	(219,711)
Purchases of intangible assets	(397,950)	(164,296)
Cash paid for asset acquisition	(497,800)	—
Maturities of short-term investments	182,061	506,345
Net cash provided by (used in) investing activities	(916,389)	122,338
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments made on demand notes payable, related party	(37,500)	—
Proceeds from payments on receivable from shareholder	—	105,000
Proceeds from issuance of demand notes payable and line of credit, related party	1,650,000	300,000
Proceeds from sale of common stock, net of costs	5,966,805	680,000
Proceeds from exercise of stock options	3,000	—
Proceeds from issuance of senior convertible promissory note	3,000,000	—
Payments from debt issuance costs	(140,433)	—
Purchase of restricted stock	(350)	(337)
Proceeds from sale of subsidiary common stock	—	500,000

Net cash provided by financing activities	10,441,522	1,584,663
Net increase (decrease) in cash and cash equivalents	6,141,114	(1,445,781)
Cash and cash equivalents, beginning of the year	1,572,785	3,018,566
Cash and cash equivalents, end of the year	$7,713,899	$1,572,785
Supplemental disclosures of cash flows information:		
Cash paid for interest	$55,639	$—
Non-cash investing and financing activities:		
Conversion of accrued convertible debenture interest into common stock	$11,280	$6,100
Conversion of related party notes to common stock	$90,967	$100,000
Settlement of shareholder receivable	$—	$240,000

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

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Notes to Audited Consolidated Financial Statements

Note 1 – Nature of business and operations

Tecogen Inc. (the "Company") (a Delaware Corporation) was organized 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. Tecogen'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 Company's customers are located in regions with the highest utility rates, typically California, the Midwest and the Northeast.

On May 4, 2009 the Company invested $8,400 in exchange for 8,400,000 shares of a newly established corporation Ilios Inc., or Ilios. The investment gave the Company a controlling financial interest in Ilios, whose business focus is advanced heating systems for commercial and industrial applications. On May 11, 2009 the Company sold 1,400,000 shares in Ilios at $0.50 per share to two of its existing stockholders in exchange for the extinguishment of $700,000 in demand notes payable, convertible debentures and accrued interest (see *Note 7 – Demand notes payable and convertible debentures – related party*). On July 24, 2009, Ilios sold 2,710,000 shares of common stock to accredited investors at $0.50 per share and raised $1,352,500. On June 3, 2011, Ilios sold 500,000 shares of common stock to Tecogen at $0.50 per share and raised $250,000 and on December 29, 2011, Ilios sold 1,000,000 shares of common stock to Tecogen at $0.50 per share and raised $500,000. On January 19, 2012, Ilios sold 1,000,000 shares of common stock to an accredited investor and raised $500,000. On December 28, 2012, Ilios sold 1,000,000 shares of common stock to Tecogen at $0.50 per share and raised $500,000. As of December 31, 2013 the Company owns a 65.0% interest in Ilios and has consolidated Ilios into its financial statements.

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiary Ilios, whose business focus is on advanced heating systems for commercial and industrial applications. With the inclusion of unvested restricted stock awards, the Company owns 63.7% of Ilios.

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.

Note 2 – Summary of significant accounting policies

Principles of Consolidation and Basis of Presentation

The financial statements have been prepared in accordance with accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) to ensure financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (ASC). The Company adopted the presentation requirements for noncontrolling interests required by ASC 810 *Consolidation*. Under ASC 810, earnings or losses attributed to the noncontrolling interests are reported as part of the consolidated earnings and not a separate component of income or expense. Noncontrolling interests in the net assets and operations of Ilios are reflected in the caption “Noncontrolling interest” in the accompanying consolidated financial statements. All intercompany transactions have been eliminated.

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.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. The Company maintains its cash balances in bank accounts, which at times may exceed the Federal Deposit Insurance Corporation's ("FDIC") general deposit insurance limits. The amount on deposit at December 31, 2013 and 2012 which exceeded the $250,000 federally insured limit was approximately $7,410,000 and $1,070,000, respectively. The Company has not experienced any losses in such accounts and thus believes that it is not exposed to any significant credit risk on cash and cash equivalents.

There was one customer who represented more than 10% of revenues for the year ended December 31, 2012. The Company has no customers who represented 10% of revenues for the year ended December 31, 2013. Included in trade accounts receivable are amounts from one customer who represents 22% of the accounts receivable balance as of December 31, 2013 and another customer who represented 16% of the accounts receivable balance as of December 31, 2012.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity date, at date of purchase, of three months or less to be cash and cash equivalents.

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of greater than three months but less than one year. Certificates of deposits approximate fair value, based on estimates using current market rates offered for deposits with similar remaining maturities.

On October 26, 2011, the Company entered into an agreement with Digital Energy Corp., a customer of the Company, whereby the Company provided a letter of credit in the amount of $180,000, for the benefit of Digital Energy Corp., to satisfy a requirement of the New York Independent System Operator, Inc. A certificate of deposit for $180,000 secures the letter of credit. In exchange for providing this letter of credit, Digital Energy Corp. provided a promissory note to the Company for $180,000, with interest at 6%, payable in monthly installments of interest only. Principal would only be owed if the letter of credit was drawn upon and would become due and payable on the first anniversary date of the note. On February 19, 2013, this letter of credit was cancelled and the certificate of deposit was released from restriction and sold.

On June 13, 2011, the Southern California Gas Company entered into an agreement with the Company to invest $500,000 in the Company's Common Stock. The agreement included certain stockholder rights and a redemption right whereby the investor may redeem the shares for cash until the earlier of, the initiation of a public offering of the Company by filing a registration statement with the SEC, or 5 years. A letter of credit, secured by a Certificate of Deposit, for the amount of the investment had been put in place to satisfy the contingency of the redemption right. Since the Company filed a registration statement with the Securities and Exchange Commission on December 23, 2011 the redemption right was no longer valid. The Certificate of Deposit was converted to cash in 2012.

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 December 31, 2013 and 2012 the allowance for doubtful accounts was $103,800 and $154,400, 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 market. 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.

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.

Intangible Assets

Intangible assets subject to amortization include costs incurred by the Company to acquire product certifications, certain patent costs and developed technologies. These costs are amortized on a straight-line basis over the estimated economic life of the intangible asset. The Company reviews intangible assets for impairment when the circumstances warrant.

Goodwill

The Company's goodwill was recorded as a result of the Company's asset acquisition discussed in Note 15. The Company has recorded this transaction using the acquisition method of accounting. The Company tests its recorded goodwill for impairment as of the last day of the year, 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. Factors that could trigger an interim impairment test include, but are not limited to, underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the Company's overall business, significant negative industry or economic trends and a sustained period where market capitalization, plus an appropriate control premium, is less than stockholders' equity.

The Company's impairment test involves a two-step process. In the first step, the Company compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, the Company must perform the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss. As of December 31, 2013, the Company determined that the fair value of the reporting unit exceeded its carrying value and therefore the second step was not necessary and no impairment was recognized.

Common Stock

The Company's common stock was split one-for-four in a reverse stock split effective July 22, 2013. The effect of this reverse stock split has been retroactively applied to per share data and common stock information.

Impairment of long-lived assets

Long-lived assets, including intangible assets and property and equipment, are evaluated for impairment whenever events or changes in circumstances have indicated that an asset may not be recoverable and are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and such loss is recognized in income from continuing operations in the period in which the determination is made. Management determined that no impairment of long-lived assets existed as of December 31, 2013.

Off Balance Sheet Arrangements

On July 22, 2013, the Company's Chief Executive Officer personally pledged to support a bank credit facility of $1,055,000 to support bank guarantees issued on certain construction contracts.

Loss per Common Share

The Company computes basic loss per share by dividing net loss for the period by the weighted-average number of shares of Common Stock outstanding during the period. The Company computes its diluted earnings per common share using the treasury stock method. For purposes of calculating diluted earnings per share, the Company considers its shares issuable in connection with the convertible debentures, stock options and warrants to be dilutive Common Stock equivalents when the exercise/conversion price is less than the average market price of our common stock for the period. All shares issuable for the years ended December 31, 2013 and 2012 were anti-dilutive because of the reported net loss.

Other Comprehensive Net Loss

The comprehensive net loss for the years ended December 31, 2013 and 2012 does not differ from the reported loss.

Segment Information

The Company reports segment data based on the management approach. The management approach designates the internal reporting that is used by management for making operating and investment decisions and evaluating performance as the source of the Company's reportable segments. The Company uses one measurement of profitability and does not disaggregate its business for internal reporting. The Company has determined that it operates in one business segment which manufactures and supports highly efficient CHP products based on engines fueled by natural gas. All of the Company's long lived assets reside in the United States of America. All of the Company's revenue is generated in the United States of America.

The following table summarizes net revenue by product line and services for the years ended December 31, 2013 and 2012:

	2013	2012
Products:		
Cogeneration	$5,199,649	$5,791,412
Chiller	1,146,401	1,661,810
Total Product Revenue	6,346,050	7,453,222
Services		
Service contracts	7,071,388	7,089,491
Installations	2,432,431	711,259
Total Service Revenue	9,503,819	7,800,750
	$15,849,869	$15,253,972

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. The current or deferred tax consequences of transactions are measured by applying the provisions of enacted tax laws to determine the amount of taxes payable currently or in future years. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities and expected future tax consequences of events that have been included in the financial statements or tax returns using enacted tax rates in effect for the years in which the differences are expected to reverse. Under this method, a valuation allowance is used to offset deferred taxes if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. Management evaluates the recoverability of deferred taxes and the adequacy of the valuation allowance annually.

The Company has adopted the provisions of the accounting standards relative to accounting for uncertainties in tax positions. These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company elected to recognize interest and penalties related to income tax matters as a component of income tax expense in the statements of operations. There was no impact on the financial statements as a result of this guidance.

With few exceptions, the Company is no longer subject to possible income tax examinations by federal, state or local taxing authorities for tax years before 2009, with the exception of loss carryforwards in the event they are utilized in future years. The Company's tax returns are open to adjustment from 2001 forward, as a result of the fact that the Company has loss carryforwards from those years, which may be adjusted in the year those losses are utilized.

Fair Value of Financial Instruments

The Company’s financial instruments are cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable, demand notes, line of credit and convertible debentures due to related parties. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature. At December 31, 2013, the recorded value on the consolidated balance sheet of the debentures approximates fair value as the terms approximate those available for similar instruments. Certificates of deposits are classified as short-term investments and approximate fair value, based on estimates using current market rates offered for deposits with similar remaining maturities.

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 are recorded as deferred revenue.

Infrequently, 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 granted. For the years ended December 31, 2013 and 2012 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, 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 using the relative selling price 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, as required by generally accepted accounting principles. 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 earnings are recorded as deferred revenue.

Presentation of Sales Taxes

The Company reports revenues net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

Shipping and Handling Costs

The Company classifies freight billed to customers as sales revenue and the related freight costs as cost of sales.

Advertising Costs

The Company expenses the costs of advertising as incurred. For the years ended December 31, 2013 and 2012, advertising expense was approximately $242,200 and $187,500, respectively.

Research and Development Costs

Internal research and development expenditures are expensed as incurred. Proceeds from certain grants and contracts with governmental agencies and their contractors to conduct research and development for new CHP technologies or to improve or enhance existing technology is recorded as an offset to the related research and development expenses. These grants and contracts are paid on a cost reimbursement basis provided in the agreed upon budget. Amounts received totaled $127,500 and $126,500 in fiscal years 2013 and 2012, respectively, which offset the Company’s total research and development expenditures of approximately $867,000 and $431,000 for each of the years ended December 31, 2013 and 2012, respectively, which are included in general and administrative expenses in the accompanying consolidated statements of operations.

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 statements of operations over the requisite service period.

The determination of the fair value of share-based payment awards is affected by the Company’s stock price. Since the Company was not publicly traded when the awards were issued, the Company considered the sales price of the Common Stock in private placements to unrelated third parties as a measure of the fair value of its Common Stock.

The Company utilizes an estimated forfeiture rate when calculating the expense for the period. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized is based on awards that are ultimately expected to vest. The Company evaluates the assumptions used to value awards regularly and if factors change and different assumptions are employed, stock-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

Pursuant to ASC 505-50, *Equity Based Payments to Non-Employees*, the fair value of restricted Common Stock and stock options issued to nonemployees is revalued at each reporting period until the ultimate measurement date, as defined by ASC 505-50. The Company records the value of the instruments at the time services are provided and the instruments vest. Accordingly, the ultimate expense is not fixed until such instruments are fully vested.

Reclassifications

Certain prior period balances have been reclassified to conform with current period presentation. As a result of a four-for-one reverse stock split which took place during the year, a reclassification of $40,836 from common stock to additional paid in capital was retroactively applied to the balances as of December 31, 2012. Also, installation revenue is broken out in the schedule of net revenue by product line and services above; in the prior year this revenue was included in services.

Note 3 – Loss per common share:

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012, respectively, were as follows:

	2013	2012
Loss available to stockholders	$(3,449,489)	$(1,636,957)
Weighted average shares outstanding - Basic and diluted	13,385,155	13,135,071
Basic and diluted loss per share	$(0.26)	$(0.12)
Anti-dilutive shares underlying stock options outstanding	1,148,000	1,096,500
Anti-dilutive convertible debentures	555,556	75,806

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Note 4 – Inventory

Inventories at December 31, 2013 and 2012 consisted of the following.

	2013	2012
Gross raw materials	$3,539,732	$3,574,620
Less - reserves	(300,000)	(332,000)
Net raw materials	3,239,732	3,242,620
Work-in-process	104,061	114,002
Finished goods	—	—
	$3,343,793	$3,356,622

Note 5 – Intangible assets other than goodwill

The Company capitalized $171,224 and $17,314 of product certification costs during the years ended December 31, 2013 and 2012, respectively. Also included in intangible assets are the costs incurred by the Company to acquire certain patents. These patents, once in service, will be amortized on a straight-line basis over the estimated economic life of the associated product, which range from approximately 7-10 years. The Company capitalized $226,726 and $146,981 of patent-related costs during the years ended December 31, 2013 and 2012, respectively. The Company also capitalized $240,000 certain developed technology in connection with an asset acquisition which is being amortized over its useful life of fifteen years. Intangible assets at December 31, 2013 and 2012 consist of the following:

	Product Certifications	Patents	Developed Technology	Total
Balance at December 31, 2013				
Intangible assets	$ 406,706	$441,609	240,000	$1,088,315
Less - accumulated amortization	(83,405)	(39,583)	(12,000)	(134,988)
	$ 323,301	$402,026	$ 228,000	$953,327
Balance at December 31, 2012				
Intangible assets	$ 235,482	$214,883	—	$450,365
Less - accumulated amortization	(57,798)	(20,547)	—	(78,345)
	$ 177,684	$194,336	$ —	$372,020

Amortization expense was $56,643 and $33,896 during the years ended December 31, 2013 and 2012, respectively. Estimated amortization expense at December 31, 2013 for each of the five succeeding years is as follows:

2014	$80,937
2015	119,758
2016	119,758
2017	119,758
2018	113,560
Thereafter	399,556
	$953,327

Note 6 – Property and equipment

Property and equipment at December 31, 2013 and 2012 consisted of the following:

	Estimated Useful Life (in Years)	2013	2012
Machinery and equipment	5 - 7 years	$773,894	$478,290
Furniture and fixtures	5 years	79,612	54,058
Computer software	3 - 5 years	67,215	56,935
Leasehold improvements	*	397,158	326,366
		1,317,879	915,649
Less - accumulated depreciation and amortization		(679,853)	(480,037)
Net property, plant and equipment		$638,026	$435,612

* Lesser of estimated useful life of asset or lease term

Depreciation and amortization expense on property and equipment for the years ended December 31, 2013 and 2012 was $199,816 and $169,879, respectively. Estimated depreciation expense at December 31, 2013 for each of the five succeeding years is as follows:

2014	$171,691
2015	130,287
2016	105,792
2017	79,616
2018	52,851
Thereafter	97,789
	$638,026

Note 7 – Demand notes payable, convertible debentures and line of credit

Demand notes payable to related parties consist of various demand notes outstanding to stockholders totaling $1,750,000 and $1,337,500 at December 31, 2013 and 2012, respectively. The primary lender is John N. Hatsopoulos, the company's Chief Executive Officer, who holds $1,750,000 and $1,300,000 of the demand notes as of December 31, 2013 and 2012, respectively. The demand notes accrue interest annually at rates ranging from 5%

to 6%. Unpaid principal and interest on the demand notes is due upon demand by the lender. On January 6, 2014, the Company repaid the then outstanding principal balance of $1,750,000 together with accrued interest of $175,311.

On September 24, 2001, the Company entered into subscription agreements with three investors for the sale of convertible debentures in the aggregate principal amount of $330,000. The primary investors were George N. Hatsopoulos, a member of the board of directors, who subscribed for $200,000 of the debentures and John N. Hatsopoulos, the Company's Chief Executive Officer, who subscribed for $100,000 of the debentures. The debentures accrue interest at a rate of 6% per annum and are due six years from issuance date. The debentures are convertible, at the option of the holder, into a number of shares of Common Stock as determined by dividing the original principal amount plus accrued and unpaid interest by a conversion price of $1.20. On September 24, 2011 the remaining holders of the Company's convertible debentures agreed to amend the terms of the debentures and extend the due date from September 24, 2011 to September 24, 2013.

On May 11, 2009 the Company sold 1,400,000.00 shares in Ilios at $0.50 per share to George Hatsopoulos and John Hatsopoulos in exchange for the extinguishment of $427,432 in demand notes payable, $109,033 in convertible debentures and $163,535 in accrued interest. The difference between the Company's purchase price of the Ilios shares and the amount of debt forgiveness was recorded as additional paid-in capital.

On September 30, 2009, Joseph J. Ritchie elected to convert $30,000 of the outstanding principal amount of the debenture, plus accrued interest of $14,433, into 37,028 shares of Common Stock at a conversion price of $1.20 per share.

On September 30, 2012, certain holders of the debentures converted the principal amount of $100,000 and accrued interest in the amount of $6,100 into 85,242 shares of the Company's Common Stock. At December 31, 2012 there were 75,806 shares of common stock issuable upon conversion of the Company’s outstanding convertible debentures. At December 31, 2012, the principal amount of the Company’s convertible debentures was $90,967 which was due on September 24, 2013.

On October 18, 2013, the remaining holder of the debentures, George N. Hatsopoulos, converted the principal balance of $90,967 into 75,806 shares of the Company's common stock at a conversion price of $1.20 per share. In addition, Mr. Hatsopoulos requested that the accrued interest earned in 2012 in the amount of $6,913 be converted into 2,161 shares of the Company's common stock at a conversion price of $3.20 per share and that the accrued interest earned on or after January 1, 2013 in the amount of $4,367 be converted into 970 shares of the Company's common stock at a conversion price of $4.50 per share.

On March 25, 2013, the Company entered into a Revolving Line of Credit Agreement, or the Credit Agreement, with John N. Hatsopoulos, our Chief Executive Officer. Under the terms of the Credit Agreement, as amended on August 13, 2013, Mr. Hatsopoulos has agreed to lend the Company up to an aggregate of $1,500,000 from time to time, at the written request of the Company. Any amounts borrowed by the Company pursuant to the Credit Agreement will bear interest at the Bank Prime Rate as quoted from time to time in the Wall Street Journal plus 1.5% per year. Repayment of the principal amount borrowed pursuant to the Credit Agreement will be due on March 1, 2014. In addition, the company may prepay accrued interest, provided that prepayment may not be made prior to January 1, 2014.The Credit Agreement terminated on March 1, 2014. As of December 31, 2013 the Company has borrowed $1,200,000 pursuant to the Credit Agreement. On January 6, 2014, the Company repaid the then outstanding principal balance of $1,200,000 together with accrued interest of $25,347.

On December 23, 2013, the company entered into a Senior Convertible Promissory Note (the "Note") with Michaelson Capital Special Finance Fund LP, ("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. The principal amount, if not converted, is due on the third anniversary of the Note, December 31, 2016. 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 185.19 shares of our common stock per $1,000 principal amount of Note (equivalent to a conversion price of $5.40 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 the 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 $5.40 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 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 financial statements.

Debt issuance costs of $140,433 are being amortized to interest expense over the term of the Note using the effective interest method. At December 31, 2013, there were 555,556 shares of common stock issuable upon conversion of the Company’s outstanding convertible debentures.

Michaelson has the option to call the Note upon an event of default at the optional 120% prepayment amount discussed above. One event of default is defined as the Company’s failure to issue a registration statement covering the resale of the Company’s Common Stock that is declared effective within one year of the funding date of the Note. The Company has classified this Note as current on the accompanying consolidated balance sheet due to this event of default as the company cannot control when the registration statement, originally filed on February 6, 2014, will become effective. Additionally, the Note contains a contingent interest clause in connection with events of default, including this event of default. This registration rights provision is not indexed to credit risk, and therefore is not clearly and closely related to the Note. This provision creates an embedded derivative in accordance with 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 financial statements.

While, prior to this transaction, Michaelson was an unrelated party, due to their beneficial ownership percentage of 6.4% after this transaction, Michaelson is now considered a related party.

Note 8 – Commitments and contingencies

Operating Lease Obligations

The Company leases office space and warehouse facilities under various lease agreements which expire through March 2024. The Company subleases portions of its corporate offices and manufacturing facility to sub-tenants under annual sublease agreements, on a calendar year basis (see *Note 13 – Related party transactions*). Total rent expense for the years ended December 31, 2013 and 2012 amounted to $616,041 and $595,851, offset by $127,784 and $173,898 in rent paid by sub-lessees, to both related and unrelated parties, for a net amount of $488,257 and $421,953.

As of December 31, 2013, the future minimum lease payments receivable on subleases were $51,033 on sub-leases.

The Company leased one service vehicle under a lease agreement which expired January 2012. Vehicle rent expense amounted to $387 during the year ended December 31, 2012.

Future minimum lease payments under all non-cancelable operating leases as of December 31, 2013 consist of the following:

Years Ending December 31,	Amount
2014	$579,495
2015	535,349
2016	485,040
2017	491,920
2018	499,122
2019 and thereafter	2,742,217
Total	$5,333,143

Letters of Credit

On October 26, 2011, the Company entered into an agreement with Digital Energy Corp., a customer of the Company, whereby the Company provided a letter of credit in the amount of $180,000, for the benefit of Digital Energy Corp., to satisfy a requirement of the New York Independent System Operator, Inc. A certificate of deposit for $180,000 secures the letter of credit. In exchange for providing this letter of credit, Digital Energy Corp. provided a promissory note to the Company for $180,000, with interest at 6%, payable in monthly installments of interest only. Principal would only be owed if the letter of credit was drawn upon and would become due and payable on the first anniversary date of the note. On February 19, 2013 this letter of credit and certificate of deposit restriction were released.

As of December 31, 2013, $583,073 in a letter of credit was outstanding under a revolving bank credit facility needed to collateralize a performance bond on a certain installation project. This revolving bank credit facility expires June 14, 2014. In addition, approximately $1,055,000 in letters of credit were required to collateralize performance bonds on several installation projects. This letter of credit is collateralized by an account owned by John N. Hatsopoulos and expires July 22, 2014. In each case, a performance bond has been furnished on the project and would be drawn upon only in the event that Tecogen fails to complete the project in accordance with the contract.

Legal Proceedings

From time to time the Company may be involved in various claims and other legal proceedings which arise in the normal course of business. Such matters are subject to many uncertainties and outcomes that are not predictable. Based on the information available to the Company and after discussions with legal counsel, the Company does not believe any such proceedings will have a material adverse effect on the business, results of operations, financial position or liquidity.

Note 9 – Product warranty

The Company reserves an estimate of its exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The majority of the Company's products carry a one-year warranty. The Company assesses the adequacy of its recorded warranty liability annually and adjusts the amount as necessary. The warranty liability is included in accrued expenses on the accompanying consolidated balance sheets.

Changes in the Company’s warranty reserve were as follows:

Warranty reserve, December 31, 2011	$57,000
Warranty provision for units sold	160,684
Costs of warranty incurred	(127,484)
Warranty reserve, December 31, 2012	90,200
Warranty provision for units sold	179,841
Costs of warranty incurred	(175,041)
Warranty reserve, December 31, 2013	$95,000

Note 10 – Stockholders’ equity

Common Stock

In 2013 and 2012 the Company raised additional funds through private placements of common stock to a limited number of accredited investors. In connection with the 2013 private placements the Company sold an aggregate of 1,476,789 shares of common stock at a purchase price of $4.50 per share. In connection with this private placement the Company incurred commissions, legal fees and various other costs of $678,746 which were offset against the proceeds in additional paid in capital, resulting in net cash proceeds of $5,966,805. In connection with the 2012 private placements the Company sold an aggregate of 212,500 shares of common stock at a purchase price $3.20 per share, resulting in net cash proceeds after commissions and other offering costs of $680,000.

The holders of Common Stock have the right to vote their interest on a per share basis. At December 31, 2013 and 2012 there were 15,156,600 and 13,611,974 shares of Common Stock outstanding, respectively.

Preferred Stock

On February 13, 2013, the authorized preferred stock of 10 million shares, as of December 31, 2013 none of these shares were issued or outstanding.

Receivable from Shareholder

On June 3, 2010 the Company issued a promissory note to an investor in the amount of $345,000. The note was due in full on June 3, 2012 and bears interest at the Bank Prime Rate plus three percent. Accrued interest is paid on a quarterly basis. The note was secured by 287,500 shares of Tecogen Common Stock. The note was repaid with cash of $105,000 and return of 100,000 shares of common stock at a value of $2.40 per share, which were retired by the Company on December 7, 2012.

Stock-Based Compensation

In 2006, the Company adopted the 2006 Stock Option and Incentive Plan (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 to increase the reserved shares of common stock issuable under the Plan from 1,000,000 to 1,838,750 as of December 31, 2013 (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 December 31, 2013 and 2012 was 58,683 and 135,183, respectively.

In 2012, the company granted nonqualified options to purchase an aggregate of 17,500 shares of common stock at $3.20 per share to a director. These options have a vesting schedule of four years and expire in ten years. The fair value of the options issued in 2012 was $20,223. The weighted-average grant date fair value of stock options granted during 2012 was $1.16 per option.

In 2013, the company granted nonqualified options to purchase an aggregate of 37,500 and 39,000 shares of common stock at $3.20 and $4.50 per share, respectively to certain employees. These options have a vesting schedule of four years and expire in five and ten years, respectively. The fair value of the options issued in 2013 was $80,952. The weighted-average grant date fair value of stock options granted during 2013 was $0.75 and $1.35 per option. Stock option activity for the years ended December 31, 2013 and 2012 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, 2011	1,095,250	$0.12-$2.80	$ 1.92	5.53 years	$1,387,150
Granted	17,500	3.20	3.20		
Exercised	—	—	—		
Canceled and forfeited	(15,938)	1.20 - 2.60	1.28		
Expired	(313)	2.60	2.60		
Outstanding, December 31, 2012	1,096,500	$0.12-$3.20	$ 1.96	4.66 years	$1,356,400
Exercisable, December 31, 2012	662,563		$ 1.56		$1,096,225
Vested and expected to vest, December 31, 2012	1,096,500		$ 1.96		$1,356,400
Outstanding, December 31, 2012	1,096,500	$0.12-$3.20	$ 1.96	4.66 years	$1,356,400
Granted	76,500	3.20-4.50	3.86		
Exercised	(25,000)	0.12	0.12		
Canceled and forfeited	—	—	—		
Expired	—	—	—		
Outstanding, December 31, 2013	1,148,000	$1.20-$4.50	$ 2.13	5.80 years	$2,721,100
Exercisable, December 31, 2013	799,500		$ 1.79		$2,166,550
Vested and expected to vest, December 31, 2013	1,148,000		$ 2.13		$2,721,100

The Company does not expect any forfeitures and the table above represents all stock options expected to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the average volatility of four comparable publicly traded companies. The average expected life was estimated using the simplified method to determine the expected life based on the vesting period and contractual terms, since it does not have the necessary historical exercise data to determine an expected life for stock options. The Company uses a single weighted-average expected life to value option awards and recognizes compensation on a straight-line basis over the requisite service period for each separately vesting portion of the awards. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant.

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The weighted average assumptions used in the Black-Scholes option pricing model for options granted in 2013 and 2012 are as follows:

	2013	2012
Stock option awards:		
Expected life	5.63 years	6.25 years
Risk-free interest rate	1.34%	0.70%
Expected volatility	26.5%-36.1%	35.9%-36.0%

The Company has granted restricted stock awards to its employees and directors. The performance based awards have vesting schedules ranging from 100% 90 days after an initial public offering (IPO) up to 100% one year after an IPO.

Restricted stock activity for the years ended December 31, 2013 and 2012 was as follows:

	Number of Restricted Stock	Weighted Average Grant Date Fair Value
Unvested, December 31, 2011	483,317	$ 1.44
Granted	—	—
Vested	—	—
Forfeited	(84,247)	1.36
Unvested, December 31, 2012	399,070	$ 1.44
Granted	—	—
Vested	—	—
Forfeited	(37,500)	2.60
Unvested, December 31, 2013	361,570	$ 1.31

During the years ended December 31, 2013 and 2012, the Company recognized stock-based compensation of $59,678 and $136,184, respectively, related to the issuance of stock options and restricted stock. No tax benefit was recognized related to the stock-based compensation recorded during the years. At December 31, 2013 and 2012 there were 361,570 and 399,070 unvested shares of restricted stock outstanding, respectively. At December 31, 2013 and 2012 the total compensation cost related to unvested restricted stock awards and stock option awards not yet recognized is $124,845 and $183,230, respectively. This amount will be recognized over a weighted average period of 0.56 years.

Stock Based Compensation - Ilios

In 2009, Ilios adopted the 2009 Stock Incentive Plan (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 Plan is 2,000,000 shares of common stock.

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 Plan. The options are not transferable except by will or domestic relations order. The option price per share under the Plan cannot be less than the fair market value of the underlying shares on the date of the grant.

In 2012, Ilios granted nonqualified options to purchase 50,000 shares of common stock to a director at $0.50 per share. These options have a vesting schedule of four years and expire in ten years. The total fair value of the options issued in 2012 was $9,750. The weighted-average grant date fair value of stock options granted during 2012 was $0.20.

During the years ended December 31, 2013 and 2012 Ilios recognized stock-based compensation of $(41,311) and $59,361, related to the forfeiture and issuance of stock options and restricted stock, respectively. No tax benefit was recognized related to the stock-based compensation recorded during the year. At December 31, 2013 and 2012 there were 310,000 and 510,000 unvested shares of restricted stock outstanding. At December 31, 2013 and 2012 the total compensation cost related to unvested restricted stock awards and stock option awards not yet recognized is $9,004 and $67,493, respectively. This amount will be recognized over the weighted average period of 1.59 years.

Stock option activity relating to Ilios for the year ended December 31, 2013 and 2012 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, 2011	525,000	$0.10-$0.50	$ 0.27	8.23 years	$ 120,000
Granted	50,000	0.50	0.50		
Exercised	—	—	—		
Canceled and forfeited	—	—	—		
Expired	—	—	—		
Outstanding, December 31, 2012	575,000	$0.10-$0.50	$ 0.29	7.44 years	$ 120,000
Exercisable, December 31, 2012	—		$ —		$ —
Vested and expected to vest, December 31, 2012	575,000		$ 0.29		$ 120,000
Outstanding, December 31, 2012	575,000	$0.10-$0.50	$ 0.29	7.44 years	$ 120,000
Granted	—	—	—		
Exercised	—	—	—		
Canceled and forfeited	—	—	—		
Expired	—	—	—		
Outstanding, December 31, 2013	575,000	$0.10-$0.50	$ 0.29	6.44 years	$ 120,000
Exercisable, December 31, 2013	—		$ 0.50		$ —
Vested and expected to vest, December 31, 2013	575,000		$ 0.29		$ 120,000

Ilios does not expect any forfeitures and the table above represents all stock options expected to vest. Ilios uses the Black-Scholes option pricing model to determine the fair value of stock options granted. Expected volatility was calculated based on the average volatility of comparable publicly traded companies, the expected life of the options was calculated using the simplified method, and the risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant. The Company uses a single weighted-average expected life to value option awards and recognizes compensation on a straight-line basis over the requisite service period for each separately vesting portion of the awards.

For the Ilios awards, the weighted average assumptions used in the Black-Scholes option pricing model for options granted in 2012 are as follows:

	2012	
Stock option awards:		
Expected life	6.25 years	
Risk-free interest rate	2.03	%
Expected volatility	36.1	%

Ilios has granted restricted stock awards to its employees and directors. The awards have only service conditions and carry vesting schedules ranging from 100% 90 days after an IPO up to 100% one year after an IPO.

Restricted stock activity for the Ilios awards, for the years ended December 31, 2013 and 2012 was as follows:

	Number of Restricted Stock	Weighted Average Grant Date Fair Value
Unvested, December 31, 2011	560,000	$ 0.24
Granted	—	—
Vested	—	—
Forfeited	(50,000)	0.10
Unvested, December 31, 2012	510,000	$ 0.24
Granted	—	—
Vested	—	—
Forfeited	(200,000)	0.50
Unvested, December 31, 2013	310,000	$ 0.10

Note 11 – Noncontrolling interests

As of January 1, 2012 Tecogen owned 63.0% of Ilios. During the year ended December 31, 2012 Tecogen purchased 1,000,000 shares of Ilios common stock at $0.50 per share for an aggregate amount of $750,000 which increased Tecogen's ownership interest to 67.4%.

During the year ended December 31, 2012 Ilios sold 1,000,000 shares of common stock to an accredited investor at $0.50 per share for an aggregate amount of $500,000. Also during the year ended December 31, 2012, Tecogen purchased 1,000,000 shares of Ilios common stock at $0.50 per share for an aggregate amount of $500,000. The net result decreased Tecogen’s ownership interest to 65.0%. The table below presents the changes in equity resulting from net loss attributable to Tecogen and transfers to or from noncontrolling interests for the years ended December 31, 2013 and 2012.

Net loss attributable to Tecogen Inc. and

Transfers (to) from the Noncontrolling Interest

Years ended December 31,	2013	2012
Net loss attributable to Tecogen Inc.	$(3,449,489)	$(1,636,957)
Transfers (to) from the noncontrolling interest		
Decrease in Tecogen's paid-in capital for purchase of 1,000,000 Ilios common shares	—	(174,958)
Increase in Tecogen's paid-in capital upon the sale of 1,000,000 Ilios common shares	—	289,606
Net transfers to noncontrolling interest	—	114,648
Change from net loss attributable to Tecogen Inc. and transfers to noncontrolling interest	$(3,449,489)	$(1,522,309)

Note 12 – Retirement plans

The Company has a defined contribution retirement plan (the “Plan”), which qualifies under Section 401(k) of the Internal Revenue Code (IRC). Under the Plan, employees meeting certain requirements may elect to contribute a percentage of their salary up to the maximum allowed by the IRC. The Company matches a variable amount based on participant contributions up to a maximum of 4.5% of each participant’s salary. The Company contributed approximately $125,680 and $116,850 to the Plan for the years ended December 31, 2013 and 2012.

Note 13 – Related party transactions

The Company has five affiliated companies, namely American DG Energy, EuroSite Power, GlenRose Instruments Inc., or GlenRose Instruments, Pharos LLC, or Pharos, and Levitronix Technologies LLC, or Levitronix. These companies are affiliates because several of the major stockholders of those companies, have a significant ownership position in the Company. American DG Energy, EuroSite Power, GlenRose Instruments, Pharos or Levitronix do not own any shares of the Company, and the Company does not own any shares of American DG Energy, EuroSite Power, GlenRose Instruments, Pharos or Levitronix. The business of GlenRose Instruments, Pharos and Levitronix is not related to the business of the Company.

American DG Energy, EuroSite Power, GlenRose Instruments, Pharos and Levitronix are affiliated companies by virtue of common ownership. The common stockholders include:

- John N. Hatsopoulos, the Company’s Chief Executive Officer who is also: (a) the Chief Executive Officer and a director of American DG Energy and holds 10.7% of American DG Energy’s common stock; (b) the Chairman of EuroSite Power; (c) a director of Ilios and holds 7.2% of EuroSite Power’s common stock; and (d) the Chairman of GlenRose Instruments and holds 15.7% of GlenRose Instruments’ common stock.

- Dr. George N. Hatsopoulos, who is John N. Hatsopoulos’ brother, and is also: (a) a director of American DG Energy and holds 13.6% of American DG Energy’s common stock; (b) an investor in Ilios and holds 3.1% of Ilios' common stock; (c) an investor of GlenRose Instruments and holds 15.7% of GlenRose Instruments' common stock; (d) an investor of Pharos and may be deemed to hold 24.4% of Pharos' common stock; and (e) an investor of Levitronix and may be deemed to hold 21.4% of Levitronix’s common stock.

Additionally, the following related persons had or may have a direct or indirect material interest in our transactions with our affiliated companies:

- Barry J. Sanders, who is: (a) the President and Chief Operating Officer of American DG Energy, (b) the Chief Executive Officer and a director of EuroSite Power and (c) the Chairman of Ilios.
- Anthony S. Loumidis, the Company's former Vice President and Treasurer who is: (a) the former Chief Financial Officer Secretary and Treasurer of American DG Energy, (b) the former Chief Financial Officer Secretary and Treasurer of EuroSite Power, (c) the former Chief Financial Officer Secretary and Treasurer of GlenRose Instruments and (d) the former Treasurer of Ilios.

American DG Energy has sales representation rights to the Company's products and services in New England. Revenue from sales of cogeneration and chiller systems, parts and service to American DG Energy during the years ended December 31, 2013 and 2012 amounted to $758,930 and $3,795,666, respectively.

On October 20, 2009, American DG Energy, in the ordinary course of its business, signed a Sales Representative Agreement with Ilios to promote, sell and service the Ilios high-efficiency heating products, such as the high efficiency water heater, in the marketing territory of the New England States, including Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont, and Maine. The marketing territory also includes all of the nations in the European Union. The initial term of this Agreement is for five years, after which it may be renewed for successive one-year terms upon mutual written agreement.

On September 24, 2001, the Company entered into subscription agreements with investors for the sale of convertible debentures. The primary investors were George N. Hatsopoulos, who subscribed for $200,000 of the debentures, and the John N. Hatsopoulos 1989 Family Trust for the benefit of Mr. Hatsopoulos' adult children, who subscribed for a total amount of $100,000 of the debentures. The debentures accrue interest at a rate of 6% per annum and are due on September 24, 2007. The debentures are convertible, at the option of George N. Hatsopoulos, and the John N. Hatsopoulos 1989 Family Trust for the benefit of Mr. Hatsopoulos' adult children, into shares of Common Stock at a conversion price of $1.20 per share.

On September 24, 2007, George N. Hatsopoulos, and the John N. Hatsopoulos 1989 Family Trust for the benefit of Mr. Hatsopoulos' adult children agreed to extend the debenture term to September 24, 2011. On May 11, 2009, George N. Hatsopoulos converted a portion of the principal in the amount of $109,033 of the debentures and accrued interest in the amount of $90,967 into 400,000 shares of Common Stock in the Company's newly formed subsidiary, Ilios, at $2.00 per share. Also, on May 11, 2009, John N. Hatsopoulos converted principal amount of $427,432 in demand notes payable and accrued interest in the amount of $72,567 into 1,000,000 shares of Ilios Common Stock at $2.00 per share. The difference between the Company's purchase price of the Ilios shares and the amount of debt forgiveness was recorded as additional paid-in capital.

On September 30, 2009, Joseph J. Ritchie elected to convert $30,000 of the outstanding principal amount of the debenture, plus accrued interest of $14,433, into 37,028 shares of Common Stock at a conversion price of $1.20 per share. On September 24, 2011, George N. Hatsopoulos, and the John N. Hatsopoulos 1989 Family Trust for the benefit of Mr. Hatsopoulos' adult children, agreed to extend their term to September 24, 2013 and requested that accrued interest in the amount of $72,959 be converted into the Company's Common Stock at $2.00 per share (which was the average price of the Company's stock from September 24, 2001 to September 24, 2011).

On September 30, 2012, the debentures, including accrued interest, were converted into 170,480 shares of Common Stock held in the JNH 1989 Family Trust for the benefit of Nia Marie Hatsopoulos and 170,480 shares of Common Stock held in the JNH 1989 Family Trust for the benefit of Alexander J. Hatsopoulos for whom Mr. and Mrs. Paris Nicolaidis are the trustees. Mr. John N. Hatsopoulos disclaims beneficial ownership of the shares held by this trust.

On October 18, 2013, the remaining holder of the debentures, George N. Hatsopoulos, converted the principal balance of $90,967 into 75,806 shares of the Company's common stock at a conversion price of $1.20 per share. In addition, Mr. Hatsopoulos requested that the accrued interest earned in 2012 in the amount of $6,913 be converted into 2,161 shares of the Company's common stock at a conversion price of $3.20 per share and that the accrued interest earned on or after January 1, 2013 in the amount of $4,367 be converted into 970 shares of the Company's common stock at a conversion price of $4.50 per share.

On September 10, 2008 the Company entered into a demand note agreement with John N. Hatsopoulos, in the principal amount of $250,000 at an annual interest rate of 5%. On September 7, 2011 the Company entered in to an additional demand note agreement with John N. Hatsopoulos, in the principal amount of $750,000 at an annual interest rate of 6%. On November 30, 2012 the Company entered into an additional demand note agreement with John N. Hatsopoulos, in the principal amount of $300,000 at an annual interest rate of 6%. Unpaid principal and interest on the demand notes are due upon demand. On October 3, 2013 the Company entered into an additional demand note agreement with John N. Hatsopoulos, in the principal amount of $450,000 at an annual interest rate of 6%. On January 6, 2014, the Company repaid the then outstanding principal balance of 1,750,000 together with accrued interest of $175,311.

On March 25, 2013, the Company entered into a Revolving Line of Credit Agreement, or the Credit Agreement, with John N. Hatsopoulos, our Chief Executive Officer. Under the terms of the Credit Agreement, as amended on August 13, 2013, Mr. Hatsopoulos has agreed to lend the Company up to an aggregate of $1,500,000 from time to time, at the written request of the Company. Any amounts borrowed by the Company pursuant to the Credit Agreement will bear interest at the Bank Prime Rate as quoted from time to time in the Wall Street Journal plus 1.5% per year. Repayment of the principal amount borrowed pursuant to the Credit Agreement will be due on March 1, 2014. In addition, the company may prepay accrued interest, provided that prepayment may not be made prior to January 1, 2014.The Credit Agreement terminates on March 1, 2014. As of December 31, 2013 the Company has borrowed $1,200,000 pursuant to the Credit Agreement. On January 6, 2014, the Company repaid the then outstanding principal balance of $1,200,000 together with accrued interest of $25,347.

On December 23, 2013, the company entered into a Senior Convertible Promissory Note (the "Note") with Michaelson Capital Special Finance Fund LP, ("Michaelson"), for the principal amount of $3,000,000 with interest at 4% per annum for a term of three years. 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. The principal amount, if not converted, is due on the third anniversary of the Note, December 31, 2016.The Note is senior in right of payment to any unsecured indebtedness that is expressly subordinated in right of payment to the Note. The Note is convertible into shares of the Company's common stock at 185.19 shares of our common stock per $1,000 principal amount of Note (equivalent to a conversion price of $5.40 per share). Debt issuance costs of $140,433 are being amortized to expense over the term of the Note using the effective interest method. At December 31, 2013, there were 555,556 shares of common stock issuable upon conversion of the Company’s outstanding convertible debentures.

In addition, on December 23, 2013, Michaelson participated in our private placement, investing $2,000,000 to purchase 444,445 shares of common stock at $4.50 per share. As of the purchase date and December 31, 2010, Michaelson, on a fully diluted basis, owns 6.4% of the Company. As Michaelson's beneficial ownership is 6.4% after this transaction, it is now considered a related party.

For additional disclosure on the Company’s debt see *Note 7 – Demand notes payable, convertible debentures and line of credit – related party.*

John N. Hatsopoulos’ salary is $1.00 per year. On average, Mr. Hatsopoulos spends approximately 50% of his business time on the affairs of the Company; however such amount varies widely depending on the needs of the business and is expected to increase as the business of the Company develops.

On January 1, 2006 the Company signed a Facilities and Support Services Agreement with American DG Energy for a period of one year, renewable annually, on January 1st, by mutual agreement. That agreement was amended July 1, 2012. Under this agreement, the Company provides American DG Energy with certain office and business support services and also provides pricing based on a volume discount depending on the level of American DG Energy purchases of cogeneration and chiller products. For certain sites, American DG Energy hires the Company to service its chiller and cogeneration products. The Company also provides office space and certain utilities to American DG Energy based on a monthly rate set at the beginning of each year. Also, under this agreement, American DG Energy has sales representation rights to the Company's products and services in New England.

The Company subleases portions of its corporate offices and manufacturing facility to sub-tenants under annual sublease agreements. For the years ended December 31, 2013 and 2012, the Company received $113,784 and $158,898, respectively, from American DG Energy, Levitronix LLC and Alexandros Partners LLC. In addition, for the years ended December 31, 2013 and 2012 the Company received from the same companies, $90,348 and $101,218, respectively, to offset common operating expenses incurred in the administration and maintenance of its corporate office and warehouse facility.

The Company’s headquarters are located in Waltham, Massachusetts and consist of 27,000 square feet of office and storage space that are shared with American DG Energy and other tenants. The lease expires on March 31, 2024. We believe that our facilities are appropriate and adequate for our current needs.

Revenue from sales of cogeneration and chiller systems, parts and service to American DG Energy during the years ended December 31, 2013 and 2012 amounted to $758,930 and $3,795,666, respectively. In addition, Tecogen pays certain operating expenses, including benefits and insurance, on behalf of American DG Energy. Tecogen was reimbursed for these costs. As of December 31, 2013 and 2012, the total amount due (to) or from American DG Energy was $(119,667) and $70,811, respectively.

Note 14 – Fair value measurements

The Company has categorized its financial assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement the instrument. The three levels of the hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. We currently do not have any Level 1 financial assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1. Level 2 inputs include quoted prices for identical assets or liabilities in non-active markets, quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for substantially the full-term of the asset or liability.

Level 3 - Unobservable inputs reflecting management’s own assumptions about the input used in pricing the asset or liability. We currently do not have any Level 3 financial assets or liabilities.

There were no financial instruments measured at fair value on a recurring basis as of December 31, 2013. The following table presents the input level used to determine the fair values of the Company’s financial instruments measured at fair value on a recurring basis for the year ended December 31, 2012:

	December 31, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets</u>				
Certificates of deposit	181,859	—	181,859	—

Total Assets	$ 181,859	$ —	$ 181,859	$ —

Certificates of deposits approximate fair value, based on estimates using current market rates offered for deposits with similar remaining maturities. The Company has no assets or liabilities that are measured at fair value on a non-recurring basis.

Note 15 - Asset acquisition

On January 9, 2013 the Company purchased certain assets, both tangible and intangible, required to manufacture the generator used in its InVerde product from Danotek Motion Technologies. The aggregate consideration paid in cash by the Company was $497,800, of which $17,400 represents the fair value of inventory and $199,530 represents the estimated fair value of property, plant and equipment consisting of machinery and equipment, computer equipment, and tooling, which is depreciated over useful lives ranging from 5 to 8.5 years. The fair value of the property, plant and equipment was estimated utilizing a replacement cost method. In addition, $240,000 of the purchase consideration represents the fair value of identified intangible assets using a relief from royalty method with a useful life of fifteen years. The balance of $40,870 is included in goodwill in the accompanying condensed consolidated balance sheet, which consists largely of economies of scale expected from combining the manufacturing of the generator into Tecogen's operations. Acquisition related costs were not material to the financial statements and were expensed as incurred to general and administrative expenses.

This transaction was accounted for under the purchase method of accounting in accordance with FASB ASC Topic 805, *Business Combinations*. Under the purchase method of accounting, the total purchase price has been allocated to the net tangible and intangible assets acquired based on estimates of their fair values by the Company's management. There is one reporting unit within the Company.

Under the purchase method of accounting, an acquisition is recorded as of the closing date, reflecting the purchased assets, at their acquisition date fair values. Intangible assets that are identifiable are recognized separately from goodwill which is measured and recognized as the excess of the fair value, as a whole, over the net amount of the recognized identifiable assets acquired.

The purchase price has been allocated as follows:

Inventory	$17,400
Machinery and equipment	171,910
Computer equipment	22,070
Tooling	5,550
Developed technology	240,000
Goodwill	40,870
	$497,800

Note 16 – Income taxes

A reconciliation of the federal statutory income tax provision to the Company's actual provision for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Benefit at federal statutory tax rate	$1,280,000	$680,000
Unbenefited operating losses	(1,280,000)	(680,000)
Income tax provision	$—	$—

The components of net deferred tax assets recognized in the accompanying consolidated balance sheets at December 31, 2013 and 2012 are as follows:

	2013	2012

Net operating loss carryforwards	$4,850,000	$3,380,000
Accrued expenses and other	598,000	676,000
Accounts receivable	40,000	60,000
Inventory	117,000	130,000
Property, plant and equipment	155,000	94,000
	5,760,000	4,340,000
Valuation allowance	(5,760,000)	(4,340,000)
Net deferred tax asset	$—	$—

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As of December 31, 2013, the company has federal loss carryforwards of approximately $12,300,000, which expire beginning in 2021 through 2033. In addition, the Company has varying amounts of state net operating losses, expiring at various dates starting in 2012 through 2033. The federal net operating losses include approximately $2,800,000 attributable to the Company's majority owned subsidiary, which can only be used against income of that entity.

Management has determined that it is more likely than not that the company will not recognize the benefits of the federal and state deferred tax assets and as a result has recorded a valuation allowance against the entire net deferred tax asset. The valuation allowance has increased by $1,420,000 during the year ended December 31, 2013. If the company should generate sustained future taxable income, against which these tax attributes may be recognized, some portion or all of the valuation allowance would be reversed.

The Company did not record a benefit for income taxes related to its operating losses for the years ended December 31, 2013 and 2012.

The Company has analyzed its current tax return compliance positions and has determined that no uncertain tax positions have been taken that would require recognition.

Note 17 – Subsequent events

On January 2, 2014, the Company opened a Certificate of Deposit in the amount of $583,073 to collateralize a letter of credit, at the request of Michaelson. This Certificate of Deposit allowed the bank to remove their UCC filing on the Company. These funds will remain restricted until the letter of credit is released. See Note 8 for further discussion.

On January 6, 2014, the Company repaid all debt owed to its Chief Executive Officer including demand notes with a principal balance $1,750,000 and accrued interest of $175,311 and the line of credit with an outstanding principal balance of $1,200,000 and accrued interest of $25,347.

The Company continued its private placement through January 17, 2014. During 2014 the Company sold an additional 1,400 shares of common stock at $4.50 per share for a total of $6,300 of additional funds raised after year end 2013.

On February 25, 2014, the Company executed a Collective Bargaining Agreement with International Union of Operating Engineers, Local 68 covering 3 of its service employees in New Jersey.

On March 26, 2014, the Company secured a working capital line of credit with John Hatsopoulos, the Company's Chief Executive Officer, in the amount of $3,500,000 which may be used in the occurrence of certain events.

The Company has evaluated subsequent events through the date of this report and determined that no additional subsequent events occurred that would require recognition in the consolidated financial statements or disclosure in the notes thereto.

PART II - INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth our expenses in connection with this registration statement. All such amounts are estimates, other than the fees payable to the SEC, the Financial Industry Regulatory Authority, Inc. ("FINRA"), and the NASDAQ Capital Market.

SEC registration fee	$1,031
FINRA filing fee	1,700
NASDAQ Capital Market listing fee	75,000
Legal fees and expenses	175,000
Accounting fees and expenses	150,000
Transfer Agent's fees and expenses	5,000
Printing expenses	20,000
Miscellaneous	22,269
Total	$450,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 102 of the Delaware General Corporation Law allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law, or obtained an improper personal benefit. We have included such a provision in our amended and restated charter.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee, or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he or she is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; *provided that,* in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

Our amended and restated charter includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to the Company or its stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- under section 174 of the Delaware General Corporation Law regarding unlawful dividends and stock purchases; or

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- for any transaction from which the director derived an improper personal benefit.

Our amended and restated charter also provides that:

- we must indemnify our directors and officers to the fullest extent permitted by Delaware law;
- we may, to the extent authorized from time to time by our Board of Directors, indemnify our other employees and agents to the same extent that we indemnified our officers and directors; and
- in the event we do not assume the defense in a legal proceeding, we must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent permitted by Delaware law.

The indemnification provisions contained in our amended and restated charter and bylaws are not exclusive of any other rights to which a person may be entitled by law, agreement, vote of stockholders, or disinterested directors or otherwise.

In addition to the indemnification provided for in our restated charter and bylaws, we intend to enter into indemnification agreements with each of our directors and executive officers. Each indemnification agreement will provide that we will indemnify the director or executive officer to the fullest extent permitted by law for claims arising in his or her capacity as our director, officer, employee, or agent, provided that he or she acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, our best interests and, with respect to any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful. In the event that we do not assume the defense of a claim against a director or executive officer, we are required to advance his or her expenses in connection with his or her defense, provided that he or she undertakes to repay all amounts advanced if it is ultimately determined that he or she is not entitled to be indemnified by us.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling our Company pursuant to the foregoing provisions, the opinion of the SEC is that such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

In addition, we may maintain insurance on behalf of our directors and executive officers insuring them against any liability asserted against them in their capacities as directors or officers or arising out of such status.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Set forth below is information regarding Common Stock issued, warrants issued, and stock options granted by the Company since January 1, 2010 through April 11, 2014. Also included is the consideration, if any, we received and information relating to the section of the Securities Act, or rule of the SEC, under which exemption from registration was claimed.

Common Stock and Warrants

On March 26, 2010, the Company raised $142,500 through the exercise of 118,750 warrants of Common Stock at a price of $1.20 per share. The warrant exercise was done by three accredited investors representing 1.0% of the total shares then outstanding. Prior to this transaction the company had 11,628,936 shares of Common Stock outstanding. Included in those shares are 56,250 shares to George N. Hatsopoulos, 56,250 shares to John N. Hatsopoulos, and 6,250 shares to Ravinder K. Sakhuja. Such transactions were exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On October 20, 2010, the Company raised $1,211,250 in a private placement of 466,866 shares of Common Stock at a price of $2.60 per share. The private placement was done exclusively by eight accredited investors, representing 4.0% of the total shares then outstanding. Prior to this transaction the company had 11,747,686 shares of Common Stock outstanding. Included in those shares are 192,308 shares to Nettlestone Enterprises Limited, 192,308 shares to RBC cees Nominees Ltd, 37,500 shares to Stephen B. Brodeaur, 25,000 shares to Kenneth G. Eisner, 6,250 shares to Ernest Aloi and Joseph Aloi, 6,250 shares to Ernest Aloi and Catherine Aloi, and 6,250 shares to Ernest Aloi and Karen Mauro. Such transactions were exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On June 10, 2011, the Company raised $666,075 in a private placement of 256,183 shares of Common Stock at a price of $2.60 per share. The private placement was done exclusively by twelve accredited investors, representing 2.1% of the total shares then outstanding. Prior to this transaction the company had 12,232,762 shares of Common Stock outstanding. Included in those shares are 192,308 shares to the Southern California Gas Company, 25,000 shares to Giordano Venzi, 5,000 shares to Ioannis Retsos, 5,000 shares Vasileios Kakoulidis, 5,000 shares to Sandro Reginelli, 5,000 shares to Jean Skeparnias, 3,750 shares to Franco Venzi, 3,750 shares to Nicola Bianchi, 3,750 shares to Charlotte Maier, 3,750 shares to Fermin Alou, 2,500 shares to Stephano Venzi, and 1,375 shares to Athanasios Kyranis. Such transactions were exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On May 31, 2011, the Company raised $14,000 in a private placement of 5,000 shares of Common Stock at a price of $2.80 per share. The private placement was done by Michael Zuk, Jr. & Gayle Line Zuk JTWROS, an accredited investor representing 0.04% of the total shares then outstanding. Prior to this transaction the company had 12,488,945 shares of Common Stock outstanding. Such transaction was exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On September 24, 2011, holders of the Company's convertible debentures elected to convert accrued interest of $72,959, into 36,480 shares of Common Stock at a conversion price of $2.00 per share. The conversion was done exclusively by three accredited investors, representing 0.3% of the total shares then outstanding. Prior to this transaction the company had 12,543,945 shares of Common Stock outstanding. Included in those shares are 6,474 shares to George N. Hatsopoulos, 15,003 shares to Paris and Aliki Nikolaidis, trustees for the John N. Hatsopoulos 1989 Family Trust for the benefit of Nia Marie Hatsopoulos, and 15,003 shares to Paris and Aliki Nikolaidis, trustees for the John N. Hatsopoulos 1989 Family Trust for the benefit of Alexander John Hatsopoulos. Such transaction was exempt from registration under Section 3(a)(9) of the Securities Act and/or under Rule 506 of Regulation D.

On November 30, 2011, the Company raised $2,937,750 in a private placement of 918,047 shares of Common Stock at a price of $3.20 per share. The private placement represented 7.3% of the total shares then outstanding and was sold exclusively to three accredited investors. Prior to this transaction the company had 12,580,424 shares of Common Stock outstanding. Included in those shares are 711,797 shares to RBC cees Nominees Limited, 156,250 shares to Nettlestone Enterprises Limited, and 50,000 shares to Jeremy Benjamin. Such transactions were exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On May 24, 2012, the Company raised $480,000 in a private placement of 150,000 shares of Common Stock at a price of $3.20 per share. The private placement represented 1.1% of the total shares then outstanding and was sold exclusively to three accredited investors. Prior to this transaction the company had 13,498,471 shares of Common Stock outstanding. Included in those shares are 62,500 shares to Bruno Meier, 25,000 shares to Hans Schopper, and 62,500 shares to Pictet Bank & Trust. Such transactions were exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On September 30, 2012, certain holders of the debentures converted the principal amount of $100,000 and accrued interest in the amount of $6,100 into 85,240 shares of the Company's Common Stock. The conversion was done by a related party representing 0.6% of the total shares then outstanding. Prior to this transaction the company had 13,648,471 shares of Common Stock outstanding. Included in those shares are 42,620 shares to Paris and Aliki Nikolaidis, trustees for the John N. Hatsopoulos Family Trust for the benefit of Nia Marie Hatsopoulos and 42,620 shares to Paris and Aliki Nikolaidis, trustees for the John N. Hatsopoulos Family Trust for the benefit of Alexander John Hatsopoulos. Such transaction was exempt from registration under Section 3(a)(9) of the Securities Act and/or under Rule 506 of Regulation D.

On December 3, 2012, the Company raised $200,000 in a private placement of 62,500 shares of Common Stock at a price of $3.20 per share. The private placement was done by Bruno Meier, an accredited investor representing 0.5% of the total shares then outstanding. Prior to this transaction the company had 13,733,711 shares of Common Stock outstanding. Such transaction was exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

From October 16, 2013 to January 17, 2014, the Company raised $6,651,844 in a private placement of 1,478,189 shares of Common Stock at a price of $4.50 per share. The private placement was done with ninety seven accredited investors representing 10.8% of the total shares then outstanding. Prior to this transaction the company had 13,678,411 shares of Common Stock outstanding. Such transaction was exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

On December 23, 2013, the Company entered into a Senior Convertible Promissory Note with Michaelson Capital Special Finance Fund LP, or Michaelson, for the principal sum of $3,000,000 with interest at 4.0% per annum for a term of three years. At Michaelson's option, the Senior Convertible Promissory Note, or a portion thereof, may be converted into shares of the Company's common stock at a conversion price of $5.40 per share, subject to adjustment. Such transaction was exempt from registration under Section 4(a)(2) of the Securities Act and/or under Rule 506 of Regulation D.

Restricted Stock Grants

On September 15, 2010, the Company made restricted stock grants to three employees, permitting them to purchase an aggregate of 19,211 shares of Common Stock at a price of $0.004 per share. Such transactions were exempt from registration under Section 4(a)(2) of the Securities Act.

On June 20, 2011, the Company made a restricted stock grant to an employee, granting him the right to purchase an aggregate of 50,000 shares of Common Stock at a price of $0.004 per share. Such transaction was exempt from registration under the Securities Act under Section 4(a)(2).

Stock Options

On February 18, 2010, the Company granted nonqualified options to purchase 25,000 shares of Common Stock to one employee at $2.60 per share. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

On February 15, 2011, the Company granted nonqualified options to purchase 480,250 shares of the Common Stock to 28 employees at $2.60 per share. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

On December 31, 2013, the Company granted nonqualified options to purchase 39,000 shares of the Common Stock to 26 employees and 1 director at $4.50 per share. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

On February 18, 2014, a former officer of the Company exercised an option to purchase 5,000 shares of Common Stock at $1.20 per share. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

On February 28, 2014, the Company granted nonqualified options to purchase 43,325 shares of the Common Stock to 31 employees at $4.50 per share. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

No underwriters were involved in the foregoing sales of securities. All purchasers represented to us in connection with their purchase that they were accredited investors and made other customary investment representations. All of the foregoing securities were deemed restricted securities when granted for purposes of the Securities Act.

ITEM 16. EXHIBITS.

The exhibits to the Registration Statement are listed in the Exhibit Index attached hereto and incorporated by reference herein.

ITEM 17. UNDERTAKINGS.

(h) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(i) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Waltham, Massachusetts, on April 23, 2014.

TECOGEN INC.

By: /s/ John N. Hatsopoulos
John N. Hatsopoulos

Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Angelina M. Galiteva* Angelina M. Galiteva	Chairman of the Board	April 23, 2014
/s/ John N. Hatsopoulos John N. Hatsopoulos	Chief Executive Officer (Principal Executive Officer) & Director	April 23, 2014
/s/ Bonnie J. Brown* Bonnie J. Brown	Chief Financial Officer (Principal Financial and Accounting Officer)	April 23, 2014
/s/ George N. Hatsopoulos* George N. Hatsopoulos	Director	April 23, 2014
/s/ Charles T. Maxwell* Charles T. Maxwell	Director	April 23, 2014
/s/ Ahmed F. Ghoniem* Ahmed F. Ghoniem	Director	April 23, 2014
/s/ Joseph E. Aoun* Joseph E. Aoun	Director	April 23, 2014

*By: /s/ John H. Hatsopoulos

Attorney-in-Fact

EXHIBIT INDEX

Exhibit Number	Description
1.1**	Placement Agent Agreement between Tecogen Inc. and Scarsdale Equities LLC.
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to the registrant's Current Report on Form 8-K, dated July 25, 2013).
3.3	Amended and Restated Bylaws (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
4.1	Specimen Common Stock Certificate of Tecogen Inc. (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
4.2	Form of Restricted Stock Purchase Agreement (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
4.3+	Form of Stock Option Agreement (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
4.4+	Indenture and Form of 6% Convertible Debenture Due 2004, dated September 24, 2001 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
4.5**	Form of Securities Purchase Agreement.
5.1**	Opinion of Sullivan & Worcester LLP.
10.1+	Tecogen Inc. 2006 Stock Incentive Plan, as amended on November 10, 2011 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.2	Form of Tecogen Inc. Subscription Agreement for private placement of Common Stock (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.3#	Facilities and Support Services Agreement between American DG Energy Inc. and Tecogen Inc., dated July 1, 2012 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.4	First Amendment to the Facilities, Support Services, and Business Agreement between American DG Energy Inc. and Tecogen Inc., dated July 1, 2013 (incorporated by reference to the registrant's current report on Form 8-K filed July 3, 2013).
10.5	Second Amendment to the Facilities, Support Services, and Business Agreement between American DG Energy Inc. and Tecogen Inc., dated November 12, 2013 (incorporated by reference to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2013).
10.6#	General Motors LLC, Customer Care and Aftersales Agreement, dated November 15, 2011 (incorporated by reference to the registrant's Registration Statement on Form S-1, as

	amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.7	Lease Agreement between Atlantic-Waltham Investment II, LLC, and Tecogen Inc., dated May 14, 2008 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.8+	Form of Demand Promissory Note Agreement by Tecogen Inc. in favor of John N. Hatsopoulos (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).

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Exhibit Number	Description
10.9	Demand Promissory Note by Tecogen Inc., dated October 3, 2013, in favor of John N. Hatsopoulos (incorporated by reference to the registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2013).
10.10	Form of Sales Representative Agreement (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.11#	Asset Purchase Agreement with Danotek (assignment for the benefit of creditors), LLC, dated January 8, 2013 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.12#	Exclusive License Agreement between Tecogen Inc. and the Wisconsin Alumni Research Foundation, dated February 5, 2007 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.13#	Grant Award Number PIR-08-022, dated July 2, 2009 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.14#	Sales Representative Agreement between American DG Energy Inc. and Ilios Dynamics, dated October 20, 2009 (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
10.15	First Amendment to the Sales Representative Agreement, dated November 12, 2013, between Ilios Inc. and American DG Energy Inc. (incorporated by reference to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2013).
10.16	Revolving Line of Credit Agreement, dated March 25, 2013, between Tecogen Inc. and John N. Hatsopoulos (incorporated by reference to the registrant's Current Report on Form 8-K, dated March 25, 2013).
10.17	First Amendment to the Revolving Line of Credit Agreement, dated August 13, 2013, between Tecogen Inc. and John N. Hatsopoulos (incorporated by reference to the registrant's Quarterly Report on Form 10-Q, for the quarter ended June 30, 2013).
10.18	Form of Common Stock Purchase Agreement (incorporated by reference to the registrant's Form 8-K, originally filed with the SEC on October 21, 2013).
10.19	Form of Common Stock Purchase Agreement (incorporated by reference to the registrant's Form 8-K, originally filed with the SEC on November 8, 2013 and November 13, 2013).
10.20	Senior Convertible Promissory Note, dated December 23, 2013, by Tecogen Inc. in favor of Michaelson Capital Special Finance Fund LP (incorporated by reference to the registrant's current report on Form 8-K dated December 23, 2013).
10.21	Collective Bargaining Agreement, dated February 25, 2014, between Tecogen Inc. and International Union of Operating Engineers, Local 68, 68A, 68B (incorporated by reference to the registrant's annual report on Form 10-K for the fiscal year ended December 31, 2013).
10.22	Revolving Line of Credit Agreement between Tecogen Inc. and John N. Hatsopoulos, dated March 26, 2014 (incorporated by reference to the registrant's annual report on Form 10-K for the fiscal year ended December 31, 2013).
21.1	List of subsidiaries (incorporated by reference to the registrant's Registration Statement on Form S-1, as amended, originally filed with the SEC on December 22, 2011 (Registration No. 333 178697)).
23.1*	Consent of McGladrey LLP.
23.2	Consent of Sullivan & Worcester LLP (included in the opinion filed as Exhibit 5.1).
24.1**	Power of Attorney.

101.1*	The following materials from pages F-2 through F-27 of the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Registrant's Consolidated Balance Sheets; (ii) the Registrant's Consolidated Statements of Operations; (iii) the Registrant's Consolidated Statements of Stockholders' Equity; (iv) the Registrant's Consolidated Statement of Cash Flows; and (v) related notes to these financial statements, tagged as blocks of text.

*	Filed herewith.
**	Previously filed.
#	Confidential Treatment has been granted for portions of this document. The confidential portions were omitted and filed separately, on a confidential basis, with the Securities and Exchange Commission.
+	Management contract or compensatory plan or agreement.