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AMERICAN DG ENERGY INC.

ANNUAL REPORT 2009



Dear Shareholders,

We are pleased to report that American DG Energy Inc. continued to expand its installed base of energy systems during 2009 due to the increased desire for energy efficiency, green sustainability and reliable savings. Fluctuating energy prices, the search for real environmental solutions and a challenging economy have made our On-Site Utility energy program more valuable to our customer base. Our efforts to satisfy customers' energy, environmental and economic needs into a single, simple offering have made us a leading company in the alternative energy marketplace and one of the few companies whose installed fleet of energy systems produce positive cash flow.

American DG Energy markets an "On-Site Utility" offering clean electricity, heat, hot water and cooling to commercial, institutional and light industrial customers. Through long-term agreements, we sell the energy produced on-site as an alternative to the outright sale of energy equipment. Our services are most desirable wherever electric rates are high. We design, install, own, operate and maintain complete combined heat and power ("CHP") systems and cooling systems tailored to a customer's specific site requirements. We uniquely combine energy savings that improve the environment with exceptional economics. By outsourcing the ownership, management and financing of the CHP systems to us, our customers enjoy significant economic benefits without the requirement of capital investment, specialized in-house technical skills, manpower, operational responsibility or ownership.

With our "On-Site Utility" business model we relocate the production of electricity from a large, distant power plant to an appropriately-sized, on site CHP system. Since our energy systems have greater efficiency and can operate 24 hours per day, the potential carbon reduction is greater than most other energy technologies. A standard utility power plant, for example, is often only 33% efficient while our standard CHP system approaches 90% efficiency. In recognition of our efficiency and emissions reductions, we received an award from the U.S. Environmental Protection Agency stating that through 2009 our CHP systems produced an estimated 9,000 metric tons of carbon equivalents less than a typical separate heat and power system, resulting in reduced emissions equivalent to planting 2,311 acres of forest or removing the emissions of 1,861 cars.

With 2009 being a transition year for our company, we made significant progress including:

- The price of natural gas, which is the key component in calculating our thermal or hot water revenue, was significantly lower in 2009 compared to 2008. When comparing rates in the National Grid natural gas territory, which is our largest market, the price of natural gas was 32% lower in December 2009 compared to the same period in 2008. This had the dual effect of lowering our energy revenue by 10% while increasing our energy gross profit margin, without depreciation, by 4%. Our actual gross profit without depreciation increased by \$28,510 in 2009 compared to 2008.
- Our turnkey revenue decreased by 21% in 2009 compared to 2008, however, our gross profit margin increased by 36% and our actual gross profit increased by \$403,702 for the same period. We receive the majority of the revenue from turnkey projects upfront versus the 15-year period of our On-Site Utility energy projects and our 2008 revenues included a large turnkey contract.
- Our installed and operating project base increased by 20% in 2009 compared to 2008.
- We installed six new energy systems, three of which became operational in December, and at year-end we had 62 systems operating. Therefore, our remaining backlog was 18% of our installed fleet.

- We grew our business in 2009, as indicated by our new installations, and progressed closer to becoming cash-flow positive, as seen in our cash-flow statement. Our net cash used by operating activities was reduced by 47%, to \$648,816 in 2009 compared to \$1,227,183 in 2008.
- During the year, we raised over \$6.3 million in three separate transactions of common stock and filed a Form S-3 with the SEC to register the underlying shares. The S-3 was cleared by the SEC in early February 2010.
- We entered into a Revolving Line of Credit Agreement with John N. Hatsopoulos, our Chief Executive Officer for \$5 million, to ensure we have enough access to capital to pursue new sales.
- In 2009, we received \$232,483 in rebates and incentives for the efficiency of our energy systems. This cash is not recognized on our income statement.
- We grew our staff 25% by adding to our sales and operations teams.
- In October 2009, we began trading our common stock on the NYSE Amex under the ticker symbol "ADGE" and spent an initial listing fee of approximately \$77,000, not including legal fees and expenses.
- We finished the year with approximately \$4.2 million in cash, cash equivalents, and due from related party.
- We signed a distribution agreement with Ilios Inc., a subsidiary of Tecogen, Inc., to exclusively market its high-efficiency water heater products in Europe and New England.

In 2010, we are actively pursuing large, multi-property customers that will be valuable to accelerate our growth. Also, we are well positioned to continue implementing our three phase approach of deploying efficient energy systems into the market over the next few years. We have already begun transitioning from installing our original CHP systems to incorporating the Inverter-based CHP system with its back-up power capability as one of our solutions. The third phase will be adding the Ilios product line of high-efficient water heating systems when their anticipated availability occurs in 2011.

Thank you for your continued support.

Sincerely,



John N. Hatsopoulos
Chief Executive Officer



Barry J. Sanders
President and Chief Operating Officer

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

FORM 10-K

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

For the fiscal year ended December 31, 2009
or

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

Commission file number 0-52294

AMERICAN DG ENERGY INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of incorporation or organization)

04-3569304
(IRS Employer Identification No.)

45 First Avenue
Waltham, Massachusetts
(Address of Principal Executive Offices)

02451
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	NYSE Amex

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes [] No [X]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or an amendment to this Form 10-K. [X]

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

Large accelerated filer []

Accelerated filer []

Non-accelerated filer []

Smaller reporting company [X]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

As of June 30, 2009, the aggregate market value of the voting shares of the registrant held by non-affiliates on the OTC Bulletin Board was approximately \$41,397,788 based on a closing price per share of \$2.75. For purposes of this calculation, an aggregate of 20,717,659 shares of common stock held directly or by affiliates of the directors and officers of the registrant have been included in the number of shares held by affiliates.

As of March 31, 2010 the registrant's shares of common stock outstanding were: 44,088,964.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to our definitive Proxy Statement for our 2009 Annual Meeting of Shareholders scheduled to be held on May 21, 2009.

WARNING CONCERNING FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, AND ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY OUR FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS.

WE GENERALLY IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECTS," "PLANS," "ANTICIPATES," "COULD," "INTENDS," "TARGET," "PROJECTS," "CONTEMPLATES," "BELIEVES," "ESTIMATES," "PREDICTS," "POTENTIAL" OR "CONTINUE" OR THE NEGATIVE OF THESE TERMS OR OTHER SIMILAR WORDS. THESE STATEMENTS ARE ONLY PREDICTIONS. THE OUTCOME OF THE EVENTS DESCRIBED IN THESE FORWARD-LOOKING STATEMENTS IS SUBJECT TO KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE OUR, OUR CUSTOMERS' OR OUR INDUSTRY'S ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS, TO DIFFER.

THIS REPORT ALSO CONTAINS MARKET DATA RELATED TO OUR BUSINESS AND INDUSTRY. THESE MARKET DATA INCLUDE PROJECTIONS THAT ARE BASED ON A NUMBER OF ASSUMPTIONS. IF THESE ASSUMPTIONS TURN OUT TO BE INCORRECT, ACTUAL RESULTS MAY DIFFER FROM THE PROJECTIONS BASED ON THESE ASSUMPTIONS. AS A RESULT, OUR MARKETS MAY NOT GROW AT THE RATES PROJECTED BY THESE DATA, OR AT ALL. THE FAILURE OF THESE MARKETS TO GROW AT THESE PROJECTED RATES MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND THE MARKET PRICE OF OUR COMMON STOCK.

SEE "ITEM 1A. RISK FACTORS," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND "BUSINESS," AS WELL AS OTHER SECTIONS IN THIS REPORT, THAT DISCUSS SOME OF THE FACTORS THAT COULD CONTRIBUTE TO THESE DIFFERENCES. THE FORWARD-LOOKING STATEMENTS MADE IN THIS ANNUAL REPORT ON FORM 10-K RELATE ONLY TO EVENTS AS OF THE DATE OF WHICH THE STATEMENTS ARE MADE. EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO UPDATE OR RELEASE ANY FORWARD-LOOKING STATEMENTS AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

**AMERICAN DG ENERGY INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009**

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PART I

Item 1. Business.

General

American DG Energy Inc., or the company, we, our or us, distributes, owns and operates clean, on-site energy systems that produce electricity, hot water, heat and cooling. Our business model is to own the equipment that we install at customers' facilities and to sell the energy produced by these systems to the customers on a long-term contractual basis. We call this business the American DG Energy "On-Site Utility".

We offer natural gas powered cogeneration systems that are highly reliable and energy efficient. Our cogeneration systems produce electricity from an internal combustion engine driving a generator, while the heat from the engine and exhaust is recovered and typically used to produce heat and hot water for use at the site. We also distribute and operate water chiller systems for building cooling applications that operate in a similar manner, except that the engine's power drives a large air-conditioning compressor while recovering heat for hot water. Cogeneration systems reduce the amount of electricity that the customer must purchase from the local utility and produce valuable heat and hot water for the site to use as required. By simultaneously providing electricity, hot water and heat, cogeneration systems also have a significant, positive impact on the environment by reducing the carbon or CO₂ produced by offsetting the traditional energy supplied by the electric grid and conventional hot water boilers.

Distributed Generation of electricity or DG, or often referred to as cogeneration systems, or combined heat and power systems, or CHP, is an attractive option for reducing energy costs and increasing the reliability of available energy. DG has been successfully implemented by others in large industrial installations over 10 Megawatts, or MW, where the market has been growing for several years, and is increasingly being accepted in smaller size units because of technology improvements, increased energy costs and better DG economics. We believe that our target market (users of up to 1 MW) has been barely penetrated and that the reduced reliability of the utility grid, increasing cost pressures experienced by energy users, advances in new, low cost technologies and DG-favorable legislation and regulation at the state and federal level will drive our near-term growth and penetration into our target market. The company maintains a website at www.americandg.com, but our website address included in this Annual Report on Form 10-K is a textual reference only and the information in the website is not incorporated by reference into this Annual Report on Form 10-K.

The company was incorporated as a Delaware corporation on July 24, 2001 to install, own, operate and maintain complete DG systems and other complementary systems at customer sites and sell electricity, hot water, heat and cooling energy under long-term contracts at prices guaranteed to the customer to be below conventional utility rates. As of December 31, 2009, we had installed energy systems, representing approximately 4,210 kilowatts, or kW, 33.5 million British thermal units, or MMBtu's, of heat and hot water and 2,200 tons of cooling. kW is a measure of electricity generated, MMBtu is a measure of heat generated and a ton is a measure of cooling generated. Due to the high efficiency CHP systems, the Environmental Protection Agency, or EPA, has recognized them as a means to improve the environment. We have estimated that our currently installed energy systems running at 100% capacity have the potential to produce approximately 23,000 metric tons of carbon equivalents, less than typical separate heat and power systems, resulting in emissions reductions equivalent to planting 4,710 acres of forest or removing the emissions of 3,780 automobiles.

We believe that our primary near-term opportunity for DG energy and equipment sales is where commercial electricity rates exceed \$0.12 per kW hour, or kWh, which is predominantly in the Northeast and California. These areas represent approximately 15% of the U.S. commercial power market, with electricity revenues in excess of \$20.0 billion per year (see Figure 1 on page 6). Attractive DG economics are currently attainable in applications that include hospitals, nursing homes, multi-tenant residential housing, hotels, schools and colleges, recreational facilities, food processing plants, dairies and other light industrial facilities. Two CHP market analysis reports sponsored by the Energy Information Administration, or EIA, in 2000 detailed the prospective CHP market in the commercial and institutional sectors¹ and in the industrial sectors². These data sets were used to estimate the CHP market potential in the 100 kW to 1 MW size range. These target market segments comprise over 163,000 sites totaling 12.2 million kW of prospective DG capacity. This is the equivalent of an \$11.7 billion annual electricity market plus a \$7.3 billion heat and hot water energy market, for a combined market potential of \$19.0 billion.

¹ *The Market and Technical Potential for Combined Heat and Power in the Commercial/Institutional Sector*; Prepared for the Energy Information Administration; Prepared by ONSITE SYCOM Energy Corporation; January 2000

² *The Market and Technical Potential for Combined Heat and Power in the Industrial Sector*; Prepared for the Energy Information Administration; Prepared by ONSITE SYCOM Energy Corporation; January 2000

We believe that the largest number of potential DG users in the U.S. require less than 1 MW of electric power and less than 1,200 tons of cooling capacity. We are able to design our systems to suit a particular customer's needs because of our ability to place multiple units at a site. This approach is part of what allows our products and services to meet changing power and cooling demands throughout the day (also from season-to-season) and greatly improves efficiency through a customer's varying high and low power requirements.

American DG Energy purchases energy equipment from various suppliers. The primary type of equipment used is a natural gas-powered, reciprocating engine provided by Tecogen Inc., or Tecogen. Tecogen is a leading manufacturer of natural gas, engine-driven commercial and industrial cooling and cogeneration systems suitable for a variety of applications, including hospitals, nursing homes and schools.

As power sources that use alternative energy technologies mature to the point that they are both reliable and economical, we will consider employing them to supply energy for our customers. We regularly assess the technical, economic, and reliability issues associated with systems that use solar, micro-turbine or fuel cell technologies to generate power.

Background and Market

The delivery of energy services to commercial and residential customers in the U.S. has evolved over many decades into an inefficient and increasingly unreliable structure. Power for lighting, air conditioning, refrigeration, communications and computing demands comes almost exclusively from centralized power plants serving users through a complex grid of transmission and distribution lines and substations. Even with continuous improvements in central station generation and transmission technologies, today's power industry is only about 33% efficient³ meaning that it discharges to the environment roughly twice as much heat as the amount of electrical energy delivered to end-users. Since coal accounts for more than half of all electric power generation, these inefficiencies are a major contributor to rising atmospheric CO₂ emissions. As countermeasures are sought to limit global warming, pressures against coal will favor the deployment of alternative energy technologies.

On-site boilers and furnaces burning either natural gas or petroleum distillate fuels produce most thermal energy for space heating and hot water services. This separation of thermal and electrical energy supply services has persisted despite a general recognition that CHP can be significantly more energy efficient than central generation of electricity by itself. Except in large-scale industrial applications (e.g., paper and chemical manufacturing), cogeneration has not attained general acceptance. This was due, in part, to the long-established monopoly-like structure of the regulated utility industry. Also, the technologies previously available for small on-site cogeneration systems were incapable of delivering the reliability, cost and environmental performance necessary to displace or even substantially modify the established power industry structure.

The competitive balance began to change with the passage of the Public Utility Regulatory Policy Act of 1978, a federal statute that has opened the door to gradual deregulation of the energy market by the individual states. In 1979, the accident at Three Mile Island effectively halted the massive program of nuclear power plant construction that had been a centerpiece of the electric generating strategy among U.S. utilities for two decades. Several factors caused utilities' capital spending to fall drastically, including well publicized cost overruns at nuclear plants, an end to guaranteed financial returns on costly new facilities, and growing uncertainty over which power plant technologies to pursue. Recently, investors have become increasingly reluctant to support the risks of the long-term construction projects required for new conventional generating and distribution facilities.

Because of these factors, electricity reserve margins have declined, and the reliability of service has begun to deteriorate, particularly in regions of high economic growth. Widespread acceptance of computing and communications technologies by consumers and commercial users has further increased the demand for electricity, while also creating new requirements for very high power quality and reliability. At the same time, technological advances in emission control, microprocessors and internet technologies have sharply altered the competitive balance between centralized and DG. These fundamental shifts in economics and requirements are key to the emerging opportunity for DG equipment and services.

The Role of DG

DG, or cogeneration, is the production of two sources or two types of energy (electricity or cooling and heat) from a single energy source (natural gas). We use technology that utilizes a low-cost, mass-produced, internal combustion engine

³ *Energy Information Administration, Voluntary Reporting of Greenhouse Gases, 2004, Section 2, Reducing Emissions from Electric Power, Efficiency Projects: Definitions and Terminology, page 20*

from General Motors, used primarily in light trucks and sport utility vehicles that is modified to run on natural gas. The engine spins either a standard generator to produce electricity, or a conventional compressor to produce cooling. For heating, since the working engine generates heat, we capture the byproduct heat with a heat exchanger and utilize the heat for facility applications in the form of space heating and hot water for buildings or industrial facilities. This process is very similar to an automobile, where the engine provides the motion to the automobile and the byproduct heat is used to keep the passengers warm during the winter months. For refrigeration or cooling, standard available equipment uses an electric motor to spin a conventional compressor to make cooling. We replace the electric motor with the same modified engine that runs on natural gas to spin the compressor to run a refrigeration cycle and produce cooling.

DG refers to the application of small-scale energy production systems, including electricity generators, at locations in close proximity to the end-use loads that they serve. Integrated energy systems, operating at user sites but interconnected to existing electric distribution networks, can reduce demand on the nation's utility grid, increase energy efficiency, avoid the waste inherent in long distance wire and cable transmission of electricity, reduce air pollution and greenhouse gas emissions, and protect against power outages, while, in most cases, significantly lowering utility costs for power users and building operators.

The growing importance of DG as a key component of our future energy supply is underscored by the establishment of a Distributed Energy Program within the U.S. Department of Energy, or the DOE. The DOE has stated its position on this issue as follows:

"...there are two problems at the root of the current power crunch. There is not always enough power generation available to meet peak demand, and existing transmission lines cannot carry all of the electricity needed by consumers.... Distributed Energy resources are the power of choice for providing customers with reliable energy supplies.... These Distributed Energy products and services use natural gas and renewable energy and will be easily interconnected into the nation's infrastructure for the generation of electricity. Furthermore, our Program works to encourage the expanded use of Distributed Energy technologies in applications with the right combination and occurrence of electrical and thermal demand..."

Until recently, many DG technologies have not been a feasible alternative to traditional energy sources because of economic, technological and regulatory considerations. Even now, many "alternative energy" technologies (such as solar, wind, fuel cells and micro-turbines) have not been sufficiently developed and proven to economically meet the demands of commercial users or the ability to be connected to the existing utility grid.

We supply cogeneration systems that are capable of meeting the demands of commercial users and that can be connected to the existing utility grid. Specific advantages of the company's on-site DG of multiple energy services, compared with traditional centralized generation and distribution of electricity alone, include the following:

- Greatly increased overall energy efficiency (typically over 80% versus less than 33% for the existing power grid).
- Rapid adaptation to changing demand requirements (e.g., weeks, not years to add new generating capacity where and when it is needed).
- Ability to by-pass transmission line and substation bottlenecks in congested service areas.
- Avoidance of site and right-of-way issues affecting large-scale power generation and distribution projects.
- Clean operation, in the case of natural gas fired reciprocating engines using microprocessor combustion controls and low-cost exhaust catalyst technology developed for automobiles, producing exhaust emissions well below the world's strictest regional environmental standards (e.g., southern California).
- Rapid economic paybacks for equipment investments, often three to five years when compared to existing utility costs and technologies.
- Relative insensitivity to fuel prices due to high overall efficiencies achieved with cogeneration of electricity and thermal energy services, including the use of waste heat to operate absorption type air conditioning systems (displacing electric-powered cooling capacity at times of peak summer demand).

- Reduced vulnerability of multiple de-centralized small-scale generating units compared to the risk of major outages from natural disasters or terrorist attacks against large central-station power plants and long distance transmission lines.
- Ability to remotely monitor, control and dispatch energy services on a real-time basis using advanced switchgear, software, microprocessor and internet modalities. Through our on-site energy products and services, energy users are able to optimize, in real time, the mix of centralized and distributed electricity-generating resources.

The disadvantages of the company's on-site DG are:

- Cogeneration is a mechanical process and our equipment is susceptible to downtime or failure.
- The base-rate of an electric utility is determined by a certain number of subscribers. DG at a significant scale will reduce the number of subscribers and therefore it may increase the base-rate for the electric utility for its customer base.
- By committing to our long-term agreements, a customer may be forfeiting the opportunity to use more efficient technology that may become available in the future.

Also, DG systems possess significant positive environmental impact. The EPA has created a Combined Heat and Power Partnership to promote the benefits of DG systems. The company is a member of this Partnership. The following statement is found on the EPA web site.

"Combined heat and power systems offer considerable environmental benefits when compared with purchased electricity and onsite-generated heat. By capturing and utilizing heat that would otherwise be wasted from the production of electricity, CHP systems require less fuel than equivalent separate heat and power systems to produce the same amount of energy. Because less fuel is combusted, greenhouse gas emissions, such as carbon dioxide (CO₂), as well as criteria air pollutants like nitrogen oxides (NO_x) and sulfur dioxide (SO₂), are reduced."

The DG Market Opportunity

We believe that our primary near-term opportunity for DG energy and equipment sales is where commercial electricity rates exceed \$0.12 per kWh, which is predominantly in the Northeast and California. These areas represent approximately 15% of the U.S. commercial power market, with electricity revenues in excess of \$20 billion per year (see Figure 1. on page 6). Attractive DG economics are currently attainable in applications that include hospitals, nursing homes, multi-tenant residential housing, hotels, schools and colleges, recreational facilities, food processing plants, dairies and other light industrial facilities. Two CHP market analysis reports sponsored by the EIA in 2000 detailed the prospective CHP market in the commercial and institutional sectors⁴ and in the industrial sectors⁵. These data sets were used to estimate the CHP market potential in the 100 kW to 1 MW size range. These target market segments comprise over 163,000 sites totaling 12.2 million kW of prospective DG capacity. This is the equivalent of an \$11.7 billion annual electricity market plus a \$7.3 billion heat and hot water energy market, for a combined market potential of \$19 billion.

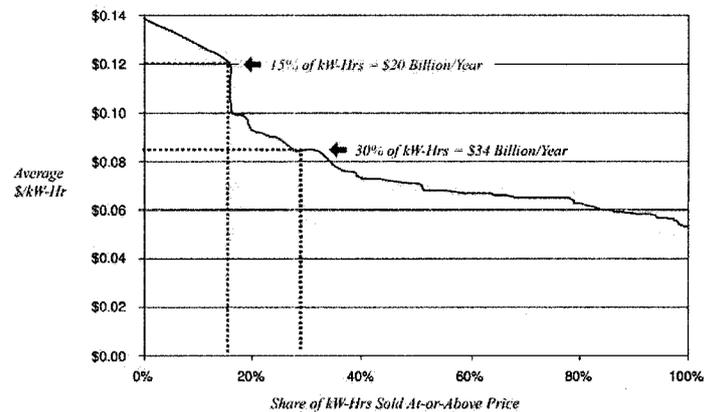
As shown in Figure 1 on page 6, there are substantial variations in the electric rates paid by commercial and institutional customers throughout the U.S. In high-cost regions, monthly payments for energy services supplied by on-site DG projects yield rapid paybacks (e.g., often 3-5 years) on an investment in our systems. An additional 15% of commercial sector electricity, representing annual revenues of \$14 billion, is sold at rates between \$0.085 and \$0.12 per kWh as shown in Figure 1 on page 6. Although paybacks on DG projects would be less rapid in such regions, future rate increases are expected to improve DG economics.

⁴ *The Market and Technical Potential for Combined Heat and Power in the Commercial/Institutional Sector*; Prepared for the Energy Information Administration; Prepared by ONSITE SYCOM Energy Corporation; January 2000

⁵ *The Market and Technical Potential for Combined Heat and Power in the Industrial Sector*; Prepared for the Energy Information Administration; Prepared by ONSITE SYCOM Energy Corporation; January 2000

Figure 1

The DG Market Opportunity
U.S. Commercial/Institutional Electric Rate Profile



Source: U.S. Energy Information Administration Data [2002]

Business Model

We are a DG onsite energy company that sells energy in the form of electricity, heat, hot water and air conditioning under long-term contracts with commercial, institutional and light industrial customers. We install our systems at no cost to our customers and retain ownership of the system. Because our systems operate at over 80% efficiency (versus less than 33% for the existing power grid), we are able to sell the energy produced by these systems to our customers at prices below their existing cost of electricity (or air conditioning), heat and hot water. Our cogeneration systems consist of natural gas-powered internal combustion engines that drive an electrical generator to produce electricity and that capture the engine heat to produce space heating and hot water. Our energy systems also can be configured to drive a compressor that produces air conditioning and that also captures the engine heat. As of December 31, 2009, we had 62 energy systems operational.

To date, each of our installations runs in conjunction with the electric utility grid and requires standard interconnection approval from the local utility. Our customers use both our energy system and the electric utility grid for their electricity requirements. We typically supply the first 20% to 60% of the building's electricity requirements while the remaining electricity is supplied by the electric utility grid. Our customers are contractually bound to use the energy we supply.

To date, the price that we have charged our customers is set in our customer contracts at a discount to the price of the building's local electric utility. For the 20% to 60% portion of the customer's electricity that we supply, the customer realizes immediate savings on its electric bill. In addition to electricity, we sell our customers the heat and hot water at the same price they were previously paying or at a discount equivalent to their discount from us on electricity. Our air conditioning systems are also priced at a discount so that the customer realizes overall cost savings from the installation.

Since we own and operate the energy systems and since our customers have no investment in the units, our customers benefit from no capital requirements and no operating responsibilities. We operate the energy systems so our customers require no staff and have no energy system responsibilities; they are bound, however, to pay for the energy supplied by the energy systems over the term of the agreement.

Energy and Products Portfolio

We provide a full range of CHP product and energy options. Our primary energy and products are listed below:

- Energy Sales
 - Electricity
 - Thermal (Hot Water, Heat and Cooling)
- Energy Producing Products
 - Cogeneration Packages

- Chillers
 - Complementary Energy Equipment (e.g., boilers, etc.)
 - Alternative Energy Equipment (e.g., solar, fuel cells, etc.)
- Turnkey Installation Energy Producing Products with Incentives
 - Other Revenue Opportunities

Energy Sales

For customers seeking an alternative to the outright purchase of CHP equipment, we will install, maintain, finance, own and operate complete on-site CHP systems that supply, on a long-term, contractual basis, electricity and other energy services. We sell the energy to customers at a guaranteed discount rate to the rates charged by conventional utility suppliers. Customers are billed monthly. Our customers benefit from a reduction in their current energy bills without the capital costs and risks associated with owning and operating a cogeneration or chiller system. Also, by outsourcing the management and financing of on-site energy facilities to us, they can reap the economic advantages of DG without the need for retaining specialized in-house staff with skills unrelated to their core business. Customers benefit from our On-Site Utility in a number of ways:

- Guaranteed lower price for energy
- Only pay for the energy they use
- No capital costs for equipment, engineering and installation
- No equipment operating costs for fuel and maintenance
- Immediate cash flow improvement
- Significant green impact by the reduction of carbon produced
- No staffing, operations and equipment responsibility

Our customers pay us for energy produced on site at a rate that is a certain percentage below the rate at which the utility companies provide them electrical and natural gas services. We measure the actual amount of electrical and thermal energy produced, and charge our customers accordingly. We agree to install, operate, maintain and repair our energy systems at our sole cost and expense. We also agree to obtain any necessary permits or regulatory approvals at our sole expense. Our agreements are generally for a term of 15 years, renewable for two additional five years terms upon the mutual agreement of the parties.

In regions where high electricity rates prevail, such as the Northeast, monthly payments for CHP energy services can yield attractive paybacks (e.g. often 3-5 years) on our investments in On-Site Utility projects. The price of natural gas has a minor effect on the financial returns obtained from our energy service contracts because the value of hot water and other thermal services produced from the recovered heat generated by the internal combustion engine in our on-site DG system will increase in proportion to higher fuel costs. This recovered energy, which comprises up to 60 % of the total heating value of fuel supplied to our CHP equipment, displaces fuel that would otherwise be burned in conventional boilers. Each of our customer sites becomes a profit center. The example below presents the energy supplied by two 75 kW cogeneration units and the economics of a typical energy service contract where we supply 80% of the site’s heat and hot water and 45% of the site’s electricity:

	<u>Annual</u>	<u>Term (15 years)</u>
American DG Energy Revenue	\$284,000	\$4,908,000
American DG Energy Gross Margin	\$84,000	\$1,456,000
Customer Savings	\$32,000	\$545,000

The example reflects an American DG Energy investment of \$345,000 with a payback in 4 years or a 25% internal rate of return. The example also reflects a 2% of expected annual increase in energy costs that should occur over the 15-year period.

Energy Producing Products

We typically offer cogeneration units sized to produce 75 kW to 100 kW of electricity and water chillers sized to produce 200 to 400 tons of cooling. For cogeneration, we prefer a modular design approach to allow us to group multiple units together to serve customers with considerably larger power requirements. Often, cogeneration units are conveniently dispersed within a large operation, such as a hospital or campus, serving multiple process heating systems that would

otherwise be impractical to serve from a single large machine. The equipment we select often yield overall energy efficiencies in excess of 80% (from our equipment supplier's specifications).

Many other DG technologies are challenged by technical, economic and reliability issues associated with systems that generate power using solar, micro-turbine or fuel cell technologies, which have not yet proven to be economical for typical customer needs. When alternative energy technologies mature to the point that they are both reliable and economical, we will employ them for the best-fit applications.

Service and Installation

Where appropriate, we utilize the best local service infrastructure for the equipment we deploy. We require long-term maintenance contracts and ongoing parts sales. Our centralized remote monitoring capability allows us to keep track of our equipment in the field. Our installations are performed by local contractors with experience in energy cogeneration systems.

For the occasional customers that want to own the CHP system themselves, we offer our "turn-key" option whereby we provide equipment, systems engineering, installation, interconnect approvals, on-site labor and startup services needed to bring the complete CHP system on-line. For some customers, we are also paid a fee to operate the systems and may receive a portion of the savings generated from the equipment.

Other Funding and Revenue Opportunities

American DG Energy is able to participate in the demand response market and receive payments due to the availability of our energy systems. Demand response programs provide payments for either the reduction of electricity usage or the increase in electricity production during periods of peak usage throughout a utility territory. We have also received grants and incentives from state organizations and natural gas companies for our installed energy systems.

Sales and Marketing

Our On-Site Utility services are sold directly to end-users by our in-house marketing team and by established sales agents and representatives. We offer standardized packages of energy, equipment and services suited to the needs of property owners and operators in healthcare, hospitality, large residential, athletic facilities and certain industrial sites. This includes national accounts and other customer groups having a common set of energy requirements at multiple locations.

Our energy offering is translated into direct financial gain for our clients, and is best appreciated by senior management. These clients recognize the gain in cash flow, the increase in net income and the preservation of capital we offer. As such, our energy sales are focused on reaching these decision makers. Additionally, we have benefited with increased sales and maintenance support through our joint venture, called American DG NY LLC, or ADGNY, with AES-NJ Cogen Co., or AES-NJ, an established developer of small cogeneration systems.

The company is continually expanding its sales efforts by developing joint marketing initiatives with key suppliers to our target industries. Particularly important are our collaborative programs with natural gas utility companies. Since the economic viability of any CHP project is critically dependent upon effective utilization of recovered heat, the insight of the gas supplier to the customer energy profile is particularly effective in prospecting the most cost-effective DG sites in any region.

DG is enjoying growing support among state utility regulators seeking to increase the reliability of electricity supply with cost effective environmentally responsible demand-side resources. New York, New Jersey, Connecticut and Massachusetts are among the states that encourage DG through inter-connecting standards, incentives and/or supply planning. Unlike large central station power plants, DG investments can be made in small increments and with lead-times as short as just a few months.

The U.S. government has been developing and refining various funding opportunities related to its economic recovery or stimulus initiatives. While the final decision has not been determined as of the date of this Annual Report on Form 10-K, it appears that "shovel ready" projects related to energy and the environment will hold great prominence. Also, there appears to be interest in upgrading government buildings. The company's CHP systems would fit very well with any of these programs. Other than funding opportunities related to the economic recovery or stimulus initiatives, there does not appear to be any new government regulations that will affect the company.

Competition

We believe that the main competition for our DG products is the established electric utility infrastructure. DG is beginning to gain acceptance in regions where energy customers are dissatisfied with the cost and reliability of traditional electricity service. These end-users, together with growing support from state legislatures and regulators, are creating a favorable climate for the growth of DG that is overcoming the objections of established utility providers. In our target markets, we compete with large utility companies such as Consolidated Edison in New York City and Westchester County, Long Island Power Authority in Long Island, New York, Public Service Gas and Electric in New Jersey, and NSTAR and National Grid in Massachusetts.

Engine manufacturers sell DG units that range in size from a few kW's to many MW's in size. Those manufacturers are predominantly greater than 1 MW and include Caterpillar, Cummins, and Waukesha. In many cases, we view these companies as potential suppliers of equipment and not as competitors. For example, we are currently installing a Waukesha unit at a customer site.

The alternative energy market is emerging rapidly. Many companies are developing alternative and renewable energy sources including solar power, wind power, fuel cells and micro-turbines. Some of the companies in this sector include General Electric, BP, Shell, Sun Edison and Evergreen Solar (in the solar energy space); Plug Power and Fuel Cell Energy (in the fuel cell space); and Capstone, Ingersoll Rand and Elliott Turbomachinery (in the micro-turbine space). The effect of these developing technologies on our business is difficult to predict; however, when their technologies become more viable for our target markets, we may be able to adopt their technologies into our business model.

There are a number of energy service companies that offer related services. These companies include Siemens, Honeywell and Johnson Controls. In general, these companies seek large, diverse projects for electric demand reduction for campuses that include building lighting and controls, and electricity (in rare occasions) or cooling. Because of their overhead structures, these companies often solicit large projects and stay away from individual properties. Since we focus on smaller projects for energy supply, we are well suited to work in tandem with these companies when the opportunity arises.

There are also a few local emerging cogeneration developers and contractors that are attempting to offer services similar to ours. To be successful, they will need to have the proper experience in equipment and technology, installation contracting, equipment maintenance and operation, site economic evaluation, project financing and energy sales plus the capability to cover a broad region.

Material Contracts

In January 2006, the company entered into the 2006 Facilities, Support Services and Business Agreement, or the Agreement, with Tecogen, to provide the company with certain office and business support services for a period of one year, renewable annually by mutual agreement. The company also shares personnel support services with Tecogen. The company is allocated its share of the cost of the personnel support services based upon the amount of time spent by such support personnel while working on the company's behalf. To the extent Tecogen is able to do so under its current plans and policies, Tecogen includes the company and its employees in several of its insurance and benefit programs. The costs of these programs are charged to the company on an actual cost basis. Under this agreement, the company receives pricing based on a volume discount if it purchases cogeneration and chiller products from Tecogen. For certain sites, the company hires Tecogen to service its Tecogen chiller and cogeneration products. Under the current Agreement, as amended, Tecogen provides the company with office space and utilities at a monthly rate of \$5,526.

We have sales representation rights to Tecogen's products and services. In New England, we have exclusive sales representation rights to their cogeneration products. We have granted Tecogen sales representation rights to our On-Site Utility energy service in California.

Government Regulation

We are not subject to extensive government regulation. We are required to file for local construction permits (electrical, mechanical and the like) and utility interconnects, and we must make various local and state filings related to environmental emissions.

The U.S. government has been developing and refining various funding opportunities related to its economic recovery or stimulus initiatives. While the final decision has not been determined as of the date of this Annual Report on Form 10-K, it appears that "shovel ready" projects related to energy and the environment will hold great prominence. Also, there appears to be interest in upgrading government buildings. The company's CHP systems would fit very well with any of

these programs. Other than funding opportunities related to the economic recovery or stimulus initiatives, there does not appear to be any new government regulations that will affect the company.

Employees

As of December 31, 2009, we employed thirteen active full-time employees and two part-time employees. We believe that our relationship with our employees is satisfactory. None of our employees are represented by a collective bargaining agreement.

Item 1A. Risk Factors.

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer and the trading price of our common stock could decline. Investors and prospective investors should consider the following risks and the information contained under the heading “Warning Concerning Forward-Looking Statements” before deciding whether to invest in our securities.

We have incurred losses, and these losses may continue.

We have incurred losses in each of our fiscal years since inception. Losses continued to be incurred in 2009. There is no assurance that profitability will be achieved in the near term, if at all.

Because unfavorable utility regulations make the installation of our systems more difficult or less economical, any slowdown in the utility deregulation process would be an impediment to the growth of our business.

In the past, many electric utility companies have raised opposition to DG, a critical element of our On-Site Utility business. Such resistance has generally taken the form of unrealistic standards for interconnection, and the use of targeted rate structures as disincentives to combined generation of on-site power and heating or cooling services. A DG company’s ability to obtain reliable and affordable back-up power through interconnection with the grid is essential to our business model. Utility policies and regulations in most states are often not prepared to accommodate widespread on-site generation. These barriers erected by electric utility companies and unfavorable regulations, where applicable, make more difficult or uneconomic our ability to connect to the electric grid at customer sites and are an impediment to the growth of our business. Development of our business could be adversely affected by any slowdown or reversal in the utility deregulation process or by difficulties in negotiating backup power supply agreements with electric providers in the areas where we intend to do business.

Our onsite utility concept is largely unproven and may not be accepted by a sufficient number of customers.

The sale of cogeneration and cooling equipment has been successfully carried out for more than a decade. However, our On-Site Utility concept (i.e., the sale of on-site energy services, rather than equipment) is still in an early stage of implementation. Unresolved issues include the pricing of energy services and the structuring of contracts to provide cost savings to customers and optimum financial returns to us. There is no assurance that we will be successful in developing a profitable On-Site Utility business model, and failure to do so would have a material adverse effect on our business and financial performance.

The economic viability of our projects depends on the price spread between fuel and electricity, and the variability of the prices of these components creates a risk that our projects will be uneconomic.

The economic viability of DG projects is dependent upon the price spread between fuel and electricity prices. Volatility in one component of the spread, the cost of natural gas and other fuels (e.g., propane or distillate oil) can be managed to a greater or lesser extent by means of futures contracts. However, the regional rates charged for both base load and peak electricity services may decline periodically due to excess capacity arising from over-building of utility power plants or recessions in economic activity. Any sustained weakness in electricity prices could significantly limit the market for our cogeneration, cooling equipment and On-Site Utility energy services.

We may fail to make sales to certain prospective customers because of resistance from facilities management personnel to the outsourcing of their service function.

Any outsourcing of non-core activities by institutional or commercial entities will generally lead to reductions in permanent on-site staff employment. As a result, our proposals to implement On-Site Utility contracts are likely to encounter strong initial resistance from the facilities managers whose jobs will be threatened by energy outsourcing. The growth of our business will depend upon our ability to overcome such barriers among prospective customers.

Future government regulations, such as increased emissions standards, safety standards and taxes, may adversely impact the economics of our business.

The operation of DG equipment at our customers' sites may be subject to future changes in federal, state and local laws and regulations (e.g., emissions, safety, taxes, etc.). Any such new or substantially altered rules and standards may adversely affect our revenues, profits and general financial condition.

If we cannot expand our network of skilled technical support personnel, we will be unable to grow our business.

Each additional customer site for our services requires the initial installation and subsequent maintenance and service of equipment to be provided by a team of technicians skilled in a broad range of technologies, including combustion, instrumentation, heat transfer, information processing, microprocessor controls, fluid systems and other elements of DG. If we are unable to recruit, train, motivate, sub-contract, and retain such personnel in each of the regional markets where our business operates we will be unable to grow our business in those markets.

The company operates in highly competitive markets and may be unable to successfully compete against competitors having significantly greater resources and experience.

Our business may be limited by competition from energy services companies arising from the breakup of conventional regulated electric utilities. Such competitors, both in the equipment and energy services sectors, are likely to have far greater financial and other resources than us, and could possess specialized market knowledge with existing channels of access to prospective customer locations. We may be unable to successfully compete against those competitors.

Future technology changes may render obsolete various elements of equipment comprising our On-Site Utility installations.

We must select equipment for our DG projects so as to achieve attractive operating efficiencies, while avoiding excessive downtimes from the failure of unproven technologies. If we are unable to achieve a proper balance between the cost, efficiency and reliability of equipment selected for our projects, our growth and profitability will be adversely impacted.

We have limited historical operating results upon which to base projections of future financial performance, making it difficult for prospective investors to assess the value of our stock.

Our experience is primarily on-site energy services, and we have only a few years of actual operating experience. These limitations make developing financial projections more difficult. We will expand our business infrastructure based on these projections. If these projections prove to be inaccurate, we will sustain additional losses and will jeopardize the success of our business.

We will need to raise additional capital for our business, which will dilute existing shareholders.

Additional financings will be required to implement our overall business plan. We will need additional capital. Equity financings will dilute the percentage ownership of our existing shareholders. Our ability to raise an adequate amount of capital and the terms of any capital that we are able to raise will be dependent upon our progress in implementing demonstration projects and related marketing service development activities. If we do not make adequate progress, we may be unable to raise adequate funds, which will limit our ability to expand our business. If the terms of any equity financings are unfavorable, the dilutive impact on our shareholders might be severe.

We may make acquisitions that could harm our financial performance.

In order to expedite development of our corporate infrastructure, particularly with regard to equipment installation and service functions, we anticipate the future acquisition of complementary businesses. Risks associated with such

acquisitions include the disruption of our existing operations, loss of key personnel in the acquired companies, dilution through the issuance of additional securities, assumptions of existing liabilities and commitment to further operating expenses. If any or all of these problems actually occur, acquisitions could negatively impact our financial performance and future stock value.

We are controlled by a small group of majority shareholders, and our minority shareholders will be unable to effect changes in our governance structure or implement actions that require shareholder approval, such as a sale of the company.

George Hatsopoulos and John Hatsopoulos, who are brothers, beneficially own a majority of our outstanding shares of common stock. These stockholders have the ability to control various corporate decisions, including our direction and policies, the election of directors, the content of our charter and bylaws and the outcome of any other matter requiring shareholder approval, including a merger, consolidation and sale of substantially all of our assets or other change of control transaction. The concurrence of our minority shareholders will not be required for any of these decisions.

We may be exposed to substantial liability claims if we fail to fulfill our obligations to our customers.

We enter into contracts with large commercial and not-for-profit customers under which we will assume responsibility for meeting a portion of the customers' building energy demand and equipment installation. We may be exposed to substantial liability claims if we fail to fulfill our obligations to customers. There can be no assurance that we will not be vulnerable to claims by customers and by third parties that are beyond any contractual protections that we are able to negotiate. We may be unable to obtain liability and other insurance on terms and at prices that are commercially acceptable to us. As a result, liability claims could cause us significant financial harm.

Investment in our common stock is subject to price fluctuations which have been significant for development stage companies like us.

Historically, valuations of many companies in the development stage have been highly volatile. The securities of many of these companies have experienced significant price and trading volume fluctuations, unrelated to the operating performance or the prospects of such companies. If the conditions in the equity markets further deteriorate, we may be unable to finance our additional funding needs in the private or the public markets. There can be no assurance that any future offering will be consummated or, if consummated, will be at a share price equal or superior to the price paid by our investors even if we meet our technological and marketing goals.

Future sales of common stock by our existing stockholders may cause our stock price to fall.

The market price of our common stock could decline as a result of sales by our existing stockholders of shares of common stock in the market or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate and thus inhibit our ability to raise additional capital when it is needed.

Because we do not intend to pay cash dividends, our stockholders will receive no current income from holding our stock.

We have paid no cash dividends on our capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any future debt or credit facility may preclude us from paying these dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future. We currently expect to retain earnings for use in the operation and expansion of our business, and therefore do not anticipate paying any cash dividends for the foreseeable future.

Our ability to access capital for the repayment of debts and for future growth is limited as the financial markets are currently in a period of disruption and recession and the company does not expect these conditions to improve in the near future.

Our ability to continue to access capital could be impacted by various factors including general market conditions and the continuing slowdown in the economy, interest rates, the perception of our potential future earnings and cash distributions, any unwillingness on the part of lenders to make loans to us and any deterioration in the financial position of lenders that might make them unable to meet their obligations to us.

Our business is affected by general economic conditions and related uncertainties affecting markets in which we operate. The current economic conditions including the global recession could adversely impact our business in 2010 and beyond.

The current economic conditions including the global recession could adversely impact our business in 2010 and beyond, resulting in reduced demand for our products, increased rate of order cancellations or delays, increased risk of excess and obsolete inventories, increased pressure on the prices for our products and services; and greater difficulty in collecting accounts receivable.

Trading of our common stock is restricted by the Securities and Exchange Commission's, or the SEC's, "penny stock" regulations which may limit a stockholder's ability to buy and sell our stock.

The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and other quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statement showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure and suitability requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our capital stock. Trading of our capital stock is restricted by the SEC's "penny stock" regulations which may limit a stockholder's ability to buy and sell our stock.

There has been a material weakness in our financial controls and procedures, which could harm our operating results or cause us to fail to meet our reporting obligations.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have performed an evaluation of controls and procedures and concluded that our controls were not effective to provide reasonable assurance that information required to be disclosed by our company in reports that we file under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported as when required. Management conducted an evaluation of our internal control over financial reporting and based on this evaluation, management concluded that the company's internal control over financial reporting was not effective as of the end of the period covered by this report. The company currently does not have personnel with a sufficient level of accounting knowledge, experience and training in the selection, application and implementation of generally acceptable accounting principles as it relates to complex transactions and financial reporting requirements. The company also has a small number of employees dealing with general controls over information technology security and user access. This constitutes a material weakness in financial reporting. Any failure to implement effective internal controls could harm our operating results or cause us to fail to meet our reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock, and may require us to incur additional costs to improve our internal control system.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our headquarters are located in Waltham, Massachusetts and consist of 3,339 square feet of office and storage space that are leased from Tecogen. The lease expires on March 31, 2014. We believe that our facilities are appropriate and adequate for our current needs.

Item 3. Legal Proceedings.

We are not currently a party to any material litigation, and we are not aware of any pending or threatened litigation against us that could have a material adverse affect on our business, operating results or financial condition.

Item 4. Reserved.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market

Our common stock started trading on November 8, 2007, on the OTC Bulletin Board, or OTCBB, under the symbol "ADGE". OTCBB market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

During the period from November 8, 2007 to December 31, 2007, the high price was \$1.25 and the low price was \$0.83 as reported by the OTCBB. The following table sets forth the high and low per share sales prices for our common stock for each of the quarters in the period beginning January 1, 2008, through December 31, 2009, as reported by the OTCBB. On October 19, 2009, the company's common stock began trading on the NYSE Amex market.

	2009		2008	
	High	Low	High	Low
First Quarter	\$ 2.20	\$ 1.50	\$ 1.09	\$ 0.73
Second Quarter	3.25	2.45	1.92	1.01
Third Quarter	3.08	2.70	2.05	1.35
Fourth Quarter	3.55	2.52	2.31	1.65

The closing price of our common stock as reported on the NYSE Amex on March 30, 2010, was \$2.95 per share.

Holders

As of February 2, 2010, there were approximately 610 beneficial holders of our common stock.

Dividends

We have never declared or paid any cash dividends on shares of our common stock. We currently intend to retain earnings, if any, to fund the development and growth of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, cash needs and growth plans.

Recent Sales of Unregistered Securities

Set forth below is information regarding common stock issued, warrants issued and stock options granted by the company during fiscal year 2008 and 2009. Also included is the consideration, if any, we received and information relating to the section of the Securities Act of 1933, as amended, or the Securities Act, or rule of the SEC, under which exemption from registration was claimed.

Common Stock and Warrants

In 2008, the company raised \$707,000 through the exercise of 1,010,000 warrants at a price of \$0.70 per share. The warrant exercises were done exclusively by 17 accredited investors, representing 3.1% of the total shares then outstanding.

In 2008, two holders of the company's 8% Convertible Debenture, elected to convert \$150,000 of the outstanding principal amount of the debenture into 178,572 shares of common stock.

On February 24, 2009, the company sold a warrant to purchase shares of the company's common stock to an accredited investor, for a purchase price of \$10,500. The warrant, which expires on February 24, 2012, gives the investor the right but not the obligation to purchase 50,000 shares of the company's common stock at an exercise price per share of \$3.00.

On April 23, 2009, the company raised \$2,260,000 in a private placement of 1,076,190 shares of common stock at a price of \$2.10 per share. The private placement was done exclusively by 5 accredited investors, representing 3.1% of the total shares then outstanding.

On July 24, 2009, the company raised \$3,492,650 in a private placement of 1,663,167 shares of common stock at a price of \$2.10 per share. The company also granted the investors the right to purchase additional shares of common stock at a purchase price of \$3.10 per share by December 18, 2009, which as of December 31, 2009, have expired unexercised. The private placement was done exclusively by 22 accredited investors, representing 4.7% of the total shares then outstanding.

On October 1, 2009, the company signed an investor relations consulting agreement with Hayden IR for a period of twelve months. In connection with that agreement the company granted Hayden IR a warrant to purchase 12,000 shares of the company's common stock at an exercise price per share of \$2.98, with one-third vesting on October 1, 2009, one-third vesting on February 1, 2010, and one-third vesting on June 1, 2010, provided that at any such vesting date the agreement is still in effect and Hayden IR has provided all required services to the company. The warrants carry a cashless exercise provision and expire on May 30, 2013.

On October 14, 2009, the company raised \$525,000 in a private placement of 250,000 shares of common stock at a price of \$2.10 per share. The company also granted the investor the right to purchase additional shares of common stock at a purchase price of \$3.10 per share by December 18, 2009, which as of December 31, 2009, have expired unexercised. The private placement was done exclusively by an accredited investor, representing 0.7% of the total shares then outstanding.

All of such investors were accredited investors, and such transactions were exempt from registration under the Securities Act under Section 4(2) and/or Regulation D thereunder.

Restricted Stock Grants

In December 2008, the company made a restricted stock grant to one employee by permitting him to purchase an aggregate of 40,000 shares of common stock, representing 0.1% of the total shares then outstanding at a price of \$0.001 per share. Those shares have a vesting schedule of four years.

Such transactions were exempt from registration under the Securities Act under Section 4(2), Regulation D and/or Rule 701 thereunder.

Stock Options

In December 2008, the company granted nonqualified options to purchase 100,000 shares of the common stock to one employee at \$1.95 per share. Those options have a vesting schedule of 4 years and expire in 10 years. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

In February 2009, the company granted nonqualified options to purchase 13,000 shares of the common stock to three employees at \$1.82 per share. Those options have a vesting schedule of 4 years and expire in 5 years. The grant of such options was exempt from registration under Rule 701 under the Securities Act.

In July 2009, the company granted nonqualified options to purchase 6,000 shares of the common stock to one employee at \$2.95 per share. Those options have a vesting schedule of 4 years and expire in 5 years. 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 of shares of our convertible debentures and warrants described above represented to us in connection with their purchase that they were accredited investors and made customary investment representations. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

Rule 144

Under Rule 144 under the Securities Act, in general, a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned shares of our common stock for more than six months but less than one year would be entitled to sell an unlimited number of shares. Sales under Rule 144 during this time period are still subject to the requirement that current public information is available about us for at least 90 days prior to the sale. After such person beneficially owns shares of our common stock for a period of one year or more, the person is entitled to sell an unlimited number of shares without complying with the public information requirement or any of the other provisions of Rule 144. As of March 31, 2010, all of our outstanding shares of common stock held by non-affiliates were registered for resale, or eligible for resale under Rule 144.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review "Item 1A. Risk Factors" beginning on page 10 of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Recently, there has been a slowdown in the economy, a decline in the availability of financing from the capital markets, and a widening of credit spreads which has, or may in the future, adversely affect us to varying degrees. Such conditions may impact our ability to meet obligations to our suppliers and other third parties. These market conditions could also adversely affect the amount of revenue we report, require us to increase our allowances for losses, result in impairment charges and valuation allowances that decrease our equity, increase our loss and reduce our cash flows from operations. In addition, these conditions or events could impair our credit rating and our ability to raise additional capital.

Overview

We derive sales from selling energy in the form of electricity, heat, hot water and cooling to our customers under long-term energy sales agreements (with a typical term of 10 to 15 years). The energy systems are owned by us and are installed in our customers' buildings. Each month we obtain readings from our energy meters to determine the amount of energy produced for each customer. We multiply these readings by the appropriate published price of energy (electricity, natural gas or oil) from our customers' local energy utility, to derive the value of our monthly energy sale, less the applicable negotiated discount. Our revenues per customer on a monthly basis vary based on the amount of energy produced by our energy systems and the published price of energy (electricity, natural gas or oil) from our customers' local energy utility that month. Our revenues commence as new energy systems become operational. As of December 31, 2009, we had 62 energy systems operational. As a by-product of our energy business, in some cases the customer may choose to have us construct the system for them rather than have it owned by American DG Energy.

As a by-product of our energy business, in some cases the customer may choose to have us construct the system for them rather than have it owned by American DG Energy. In this case, we account for revenue and costs using the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, revenues are recognized by applying percentages of completion to the total estimated revenues for the respective contracts. Costs are recognized as incurred. The percentages of completion are determined by relating the actual cost of work performed to date to the current estimated total cost at completion of the respective contracts. When the estimate on a contract indicates a loss, the company's policy is to record the entire expected loss, regardless of the percentage of completion. 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 is recorded as deferred revenue. Customers may buy out their long-term obligation under energy contracts and purchase the underlying equipment from the company. Any resulting gain on these transactions is recognized over the payment period in the accompanying consolidated statements of operations. Revenues from operation and maintenance services, including shared savings are recorded when provided and verified.

We have experienced total net losses since inception of approximately \$12.2 million. For the foreseeable future, we expect to experience continuing operating losses and negative cash flows from operations as our management executes our current business plan. The cash and cash equivalents available at December 31, 2009 will provide sufficient working capital to meet our anticipated expenditures including installations of new equipment for the next twelve months; however, as we continue to grow our business by adding more energy systems, the cash requirements will increase. We believe that our cash and cash equivalents available at December 31, 2009 and our ability to control certain costs, including those related to general and administrative expenses, will enable us to meet our anticipated cash expenditures through January 1, 2011. Beyond January 1, 2011, we may need to raise additional capital through a debt financing or equity offering to meet our operating and capital needs. There can be no assurance, however, that we will be successful in our fundraising efforts or that additional funds will be available on acceptable terms, if at all.

In 2009, we raised \$6,310,525 through various private placements of common stock, the issuance of warrants and exercise of stock options. If we are unable to raise additional capital in 2011 we may need to terminate certain of our employees and adjust our current business plan. Financial considerations may cause us to modify planned deployment of new energy systems and we may decide to suspend installations until we are able to secure additional working capital. We will evaluate possible acquisitions of, or investments in, businesses, technologies and products that are complementary to our business; however, we are not currently engaged in such discussions.

The company's operations are comprised of one business segment. Our business is selling energy in the form of electricity, heat, hot water and cooling to our customers under long-term sales agreements.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or FASB issued guidance on changes in the accounting and reporting of business acquisitions. The guidance requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in purchased entities, measured at their fair values at the date of acquisition based upon the definition of fair value. This guidance was effective for the company beginning January 1, 2009. The guidance had no impact on the company's consolidated financial statements and any future effect will depend on the extent that the company makes business acquisitions in the future.

In December 2007, the FASB issued new rules on noncontrolling interests in consolidated financial statements. The noncontrolling interest guidance changed the accounting for minority interests, which are reclassified as noncontrolling interests and classified as a component of equity. This guidance was effective for the company beginning January 1, 2009, and resulted in a change in presentation of minority interests in the consolidated financial statements consistent with the new rules.

In September, 2006, the FASB issued guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February, 2008, the FASB delayed the effective date of the fair value guidance for all non-financial assets and non-financial liabilities, except those that are measured on a recurring basis. Effective January 1, 2009, the Company adopted fair value guidance with respect to non-financial assets and liabilities measured on a non-recurring basis. The adoption of this guidance did not have an impact on the Company's financial position or results of operations.

In March 2008, the FASB issued a pronouncement pertaining to disclosures about derivative instruments and hedging activities. This guidance requires disclosures of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The rule was effective for the company beginning January 1, 2009. The company does not expect the guidance to have a material impact on its results of operations and financial condition.

In April 2009, the FASB issued guidance on providing interim disclosures about fair value of financial instruments. This new guidance requires the fair value disclosures that were previously disclosed only annually to be disclosed now on an interim basis. This guidance was effective for the company in the second quarter of 2009, and has resulted in additional disclosures in our interim financial statements, and therefore did not impact our financial position, results of operations or cash flows.

In May 2009, the FASB issued a pronouncement on subsequent event accounting. The guidance identifies the following: the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The pronouncement was effective for the company's second quarter 2009, and did not have an impact on our financial position, results of operations, or cash flows.

In June 2009, the FASB issued guidance on the FASB Accounting Standards Codification and the hierarchy of generally accepted accounting principles. The FASB Accounting Standards Codification, or the Codification, is the single source of authoritative nongovernmental generally accepted accounting principles in the U.S. The Codification was effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification had no impact on the company's financial position, results of operations or cash flows.

In June, 2009 the FASB updated existing guidance to improve financial reporting by enterprises involved with variable interest entities. The new guidance requires an enterprise to perform an analysis to determine whether the

enterprise's variable interest(s) give it a controlling financial interest in a variable interest entity. This guidance is effective for the company beginning in January 2010. The company does not believe adoption of this guidance will have a material effect on its consolidated financial statements.

In September 2009, the Emerging Issues Task Force issued new rules pertaining to the accounting for revenue arrangements with multiple deliverables. The new rules provide an alternative method for establishing fair value of a deliverable when vendor specific objective evidence cannot be determined. The guidance provides for the determination of the best estimate of selling price to separate deliverables and allows the allocation of arrangement consideration using this relative selling price model. The guidance supersedes the prior multiple element revenue arrangement accounting rules that are currently used by the company. This guidance is effective for us January 1, 2011 and is not expected to have a material effect on our consolidated financial position or results of operations.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Management believes the following critical accounting policies involve more significant judgments and estimates used in the preparation of our consolidated financial statements.

Partnerships, Joint Ventures and Entities under Common Control

Certain contracts are executed jointly through partnerships and joint ventures with unrelated third parties. The company consolidates all joint ventures and partnerships in which it owns, directly or indirectly, 50% or more of the membership interests. All significant intercompany accounts and transactions are eliminated. Noncontrolling interest in net assets and earnings or losses of consolidated entities are reflected in the caption "Noncontrolling interest" in the accompanying consolidated financial statements. Noncontrolling interest adjusts the consolidated results of operations to reflect only the company's share of the earnings or losses of the consolidated entities. Upon dilution of ownership below 50%, the accounting method is adjusted to the equity or cost method of accounting, as appropriate.

The company evaluates the applicability of the FASB, guidance on variable interest entities to partnerships and joint ventures at the inception of its participation to ensure its accounting is in accordance with the appropriate standards. The company has contractual interests in Tecogen and determined that Tecogen was a Variable Interest Entity, as defined by the applicable guidance; however, the company was not considered the primary beneficiary and does not have any exposure to loss as a result of its involvement with Tecogen. Therefore, Tecogen was not consolidated in our consolidated financial statements through December 31, 2009. See "Note 7 - Related Parties" for further discussion.

The company has a variable interest in Tecogen through its contractual interests in that entity; however, the company is not the primary beneficiary and does not have any exposure to loss as a result of its involvement with Tecogen. See "Note 7 - Related Parties" footnote to the company's consolidated financial statement for discussion of the company's involvement with Tecogen.

Related Party Transactions

The company purchases the majority of its cogeneration units from Tecogen Inc., or Tecogen, an affiliate company sharing similar ownership. In addition, Tecogen pays certain operating expenses, including benefits and payroll, on behalf of the company and the company leases office space from Tecogen. These costs were reimbursed by the company. Tecogen has a sublease agreement for the office building, which expires on March 31, 2014.

In January 2006, the company entered into the 2006 Facilities, Support Services and Business Agreement, or the Agreement, with Tecogen, to provide the company with certain office and business support services for a period of one year, renewable annually by mutual agreement. Under the current amendment to the Agreement, Tecogen provides the company with office space and utilities at a monthly rate of \$5,526.

On February 15, 2007, the company loaned the non controlling interest partner in ADGNY \$20,000 by signing a two year loan agreement earning interest at 12% per annum. On April 1, 2007, the company loaned an additional \$75,000 to the same non controlling partner by signing a two year note agreement earning interest at 12% per annum, and on May 16, 2007, the company loaned an additional \$55,000 to the same partner by signing a two year note agreement under the same terms. On October 11, 2007, we extended to our non controlling interest partner a line of credit of \$500,000. At December 31, 2008,

\$265,012 was outstanding and due to the company under the combination of the above agreements. All notes were classified in the Due from related party account in the December 31, 2008 balance sheet and were secured by the partner's non controlling interest. Effective April 1, 2009 the company reached an agreement with the noncontrolling interest partner in ADGNY to purchase its interest in the Riverpoint location. As a result of this transaction, the company owns 100% of that location and the noncontrolling interest partners' share of that location was applied to his outstanding debt to the company related to the above mentioned loan agreements and line of credit. Additionally, in 2009 ADGNY financed capital improvements at several projects, which per project agreements was the responsibility of the noncontrolling interest partner. This further reduced the noncontrolling interest partner's noncontrolling interest in ADGNY. The result of these transactions appears as "Ownership changes to noncontrolling interests" in the amount of \$405,714 in the accompanying consolidated statement of stockholder's equity for the year ended December 31, 2009.

On October 22, 2009, the company signed a five-year exclusive distribution agreement with Ilios Dynamics, a subsidiary of Tecogen. Under terms of the agreement, the company has exclusive rights to incorporate Ilios Dynamics' ultra high-efficiency heating products in its energy systems throughout the European Union and New England. The company also has non-exclusive rights to distribute Ilios Dynamics' product in the remaining parts of the United States and the world in cases where the company retains ownership of the equipment for its On-Site Utility business.

During the quarter ended September 30, 2009, the non-controlling interest partner in ADGNY, a related party, purchased certain units and supporting equipment from the company for \$370,400. That amount, as of December 31, 2009, was classified as "Due from related party" in the accompanying balance sheet. The cost of the units and supporting equipment was \$208,225 and the company booked a profit of \$162,175.

On December 17, 2009, the company entered into a revolving line of credit agreement, or the agreement, with John N. Hatsopoulos, the company's Chief Executive Officer. Under the terms of the agreement, during the period extending to December 31, 2012, Mr. Hatsopoulos will lend to the company on a revolving line of credit basis a principal amount up to \$5,000,000. All sums advanced pursuant to this agreement shall bear interest from the date each advance is made until paid in full at the Bank Prime Rate as quoted from time to time in the Wall Street Journal plus 1.5% per year. Interest shall be due and payable quarterly in arrears and prepayment of principal, together with accrued interest, may be made at any time without penalty. As of December 31, 2009, the company has not drawn funds on this line of credit.

The company's Chief Financial Officer devotes part of his business time to the affairs of GlenRose Instruments Inc., or GlenRose, and part of his salary is reimbursed by GlenRose. Also, the company's Chief Executive Officer is the Chairman of the Board and a significant investor in GlenRose and does not receive a salary, bonus or any other compensation from GlenRose.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method at rates sufficient to write off the cost of the applicable assets over their estimated useful lives. Repairs and maintenance are expensed as incurred. The company receives rebates and incentives from various utility companies which are accounted as a reduction in the book value of the assets.

The company evaluates the recoverability of its long-lived assets by comparing the net book value of the assets to the estimated future undiscounted cash flows attributable to such assets. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. The company reviews long-lived assets for impairment annually or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be fully recoverable or that the useful lives of the assets are no longer appropriate. At December 31, 2009 the company determined that its long-lived assets are recoverable.

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 statement of operations over the requisite service period. The fair value of stock options granted is estimated using the Black-Scholes option pricing valuation model. The company recognizes compensation on a straight-line basis for each separately vesting portion of the option award. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the average volatility of 20 companies in the same industry as the company. The average expected life is estimated using the simplified method for "plain vanilla" options. The expected life in years is based on the "simplified" method. The simplified method determines the expected life in years based on the vesting period and contractual terms as set forth when the award is made. The company uses the simplified method for awards of stock-based compensation since it does not have the necessary

historical exercise and forfeiture data to determine an expected life for stock options. 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. When options are exercised the company normally issues new shares.

Revenue Recognition

Revenue from energy contracts is recognized when electricity, heat, and chilled water is produced by the cogeneration systems on-site. The company bills each month based on various meter readings installed at each site. The amount of energy produced by on-site energy systems is invoiced, as determined by a contractually defined formula. Under certain energy contracts, the customer directly acquires the fuel to power the systems and receives credit for that expense from the company. The credit is recorded as revenue and cost of fuel. When a sales arrangement contains multiple elements, revenue is allocated to each element based upon its relative fair value. Fair value is determined based on the price of a deliverable sold on a standalone basis.

As a by-product of our energy business, in some cases the customer may choose to have us construct the system for them rather than have it owned by American DG Energy. In this case, we account for revenue and costs using the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, revenues are recognized by applying percentages of completion to the total estimated revenues for the respective contracts. Costs are recognized as incurred. The percentages of completion are determined by relating the actual cost of work performed to date to the current estimated total cost at completion of the respective contracts. When the estimate on a contract indicates a loss, the company's policy is to record the entire expected loss, regardless of the percentage of completion. 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 is recorded as deferred revenue. Customers may buy out their long-term obligation under energy contracts and purchase the underlying equipment from the company. Any resulting gain on these transactions is recognized over the payment period in the accompanying consolidated statements of operations. Revenues from operation, including shared savings are recorded when provided and verified. Maintenance service revenue is recognized over the term of the agreement and is billed on a monthly basis in arrears.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and certain accrued liabilities for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. As of December 31, 2009, there was no deferred income tax asset on our books. We recorded a valuation allowance of \$4,224,000 against the entire gross deferred income tax asset due to uncertainties related to our ability to utilize our net operating loss carry forwards before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

Results of Operations for the Years Ended December 31, 2009 and December 31, 2008

Fiscal 2009 Compared with Fiscal 2008

Revenues

Revenues in 2009 were \$5,763,827 compared to \$6,579,437 for the same period in 2008, a decrease of \$815,610 or 12.4%. The decrease in revenue was due to a decrease in our turn-key installation projects that in 2009 decreased to \$1,130,839 compared to \$1,434,932, for the same period in 2008, and our On-Site Utility energy revenues that in 2009 decreased to \$4,632,988 compared to \$5,144,505 for the same period in 2008, a decrease of 9.9%. The decrease in our turn-key installation projects revenue was caused by the construction of fewer projects. The decrease in our core On-Site Utility energy revenues was primarily caused by significantly lower natural gas prices in our existing markets which translated into lower hot water revenue.

During 2009, we were operating 62 energy systems at 36 locations in the Northeast, representing 4,210 kW of installed electricity plus thermal energy, compared to 56 energy systems at 30 locations, representing 4,240 kW of installed electricity plus thermal energy for the same period in 2008. Our revenues per customer on a monthly basis is based on the sum of the amount of energy produced by our energy systems and the published price of energy (electricity, natural gas or oil) from our customers' local energy utility that month less the discounts we provide our customers. Our revenues commence as new energy systems become operational.

Cost of Sales

Cost of sales, including depreciation, in 2009 were \$4,677,323 compared to \$5,733,175 for the same period in 2008, a decrease of \$1,055,852 or 18.4%. Included in the cost of sales was depreciation expense of \$788,885 in 2009, compared to \$596,915 for the same period in 2008. Our cost of sales for our core On-Site Utility business consists of fuel required to operate our energy systems, the cost of maintenance, and minimal communications costs. During 2009, our gross margins were 18.9% compared to 12.9% for the same period in 2008, primarily due to lower cost of natural gas which is the majority of our cost of goods. Our On-Site Utility energy margins excluding depreciation were 31.4% in 2009 compared to 27.7% for the same period in 2008.

Operating Expenses

Our general and administrative expenses consist of executive staff, accounting and legal expenses, office space, general insurance and other administrative expenses. Our general and administrative expenses in 2009 were \$1,546,743 compared to \$1,504,968 for the same period in 2008, an increase of \$41,775 or 2.8%. Those expenses include non-cash compensation expense related to the issuance of restricted stock and option awards to our employees and an expense of \$76,875 for original listing fees to the NYSE Amex.

Our selling expenses consist of sales staff, commissions, marketing, travel and other selling related expenses including provisions for bad debt write-offs. We sell energy using both direct sales and commissioned agents. Our marketing efforts consisted of trade shows, print literature, media relations and event driven direct mail. Our selling expenses in 2009 were \$850,975 compared to \$533,874 for the same period in 2008, an increase of \$317,101 or 59.4%. The increase in our selling expenses was primarily due to the addition of a new salesperson, the additional commission paid to our outside sales agents and an increase in bad debt expense related to three of our On-Site Utility sites.

Our engineering expenses consisted of technical staff and other engineering related expenses. The role of engineering is to evaluate potential customer sites based on technical and economic feasibility, manage the installed base of energy systems and oversee each new installation project. Our engineering expenses in 2009 were \$642,858 compared to \$401,361 for the same period in 2008, an increase of \$241,497 or 60.2%. The increase in our engineering expenses was primarily due to the addition of an engineer and travel expenses to our energy sites.

Loss from Operations

The loss from operations in 2009 was \$1,954,072 compared to \$1,593,941 for the same period in 2008. The increase in the operating loss was affected by higher operating expenses. Our non-cash compensation expense related to the issuance of restricted stock and option awards to our employees was \$286,844 in 2009, compared to \$364,231 for the same period in 2008.

Other Income (Expense), Net

Our other income (expense), net, in 2009 was \$366,359 compared to \$334,717 for the same period in 2008. Other income (expense), net, includes interest income, interest expense and other items. Interest and other income was \$71,185 in 2009 compared to \$139,690 for the same period in 2008. The decrease was primarily due to lower yields on our invested funds. Interest expense was \$437,544 in 2009 compared to \$474,407 for the same period in 2008, due to less interest paid on our convertible debenture issued in 2006 because of conversions.

Provision for Income Taxes

Our provision for state income taxes in 2009 was \$7,450 compared to \$34,087 for the same period in 2008. No benefit for Federal taxes to the company's losses has been provided in either period.

Noncontrolling Interest

The noncontrolling interest share in the profits in ADGNY was \$202,684 in 2009 compared to \$305,336 for the same period in 2008. The decrease in noncontrolling interest is due to the overall decrease in joint venture volume and profits and due to changes in ownership structure of underlying joint partners. In 2009, the company made a distribution of \$333,704 to the noncontrolling interest partner.

Liquidity and Capital Resources

Consolidated working capital at December 31, 2009 was \$4,132,378, compared to \$3,477,991 at December 31, 2008. Included in working capital were cash, cash equivalents and short-term investments of \$3,828,143 at December 31, 2009, compared to \$2,445,112 at December 31, 2008. The increase in working capital was a result of additional funds raised during the year, offset by cash needed to fund operations.

Cash used by operating activities was \$648,816 in 2009 compared to \$1,227,183 for the same period in 2008. The company's short and long-term receivables balance, including unbilled revenue, decreased to \$665,319, in 2009 compared to \$1,046,319 at December 31, 2008, providing \$381,000 of cash. The decrease was due to reduced revenue during the year. Amount due to the company from related parties, increased to \$370,400 in 2009 compared to \$297,417 at December 31, 2008, using \$72,983 of cash. The increase was due to an increase in debt by our noncontrolling interest partner as a result of purchased certain units and supporting equipment from the company. Our inventory increased to \$379,303 in 2009 compared to \$355,852 at December 31, 2008, using \$23,451 of cash. Our prepaid and other current assets decreased to \$104,119 in 2009 compared to \$163,121 at December 31, 2008, providing \$59,002 of cash.

Accounts payable increased to \$740,474 in 2009, compared to \$270,852 at December 31, 2008, providing \$469,622 of cash. Our accrued expenses and other current liabilities including accrued interest expense increased to \$453,536 in 2009 compared to \$384,340 at December 31, 2008, providing \$69,196 of cash, offset by an accrual of \$106,400 for future interest payments. Our due to related party decreased to \$17,531 in 2009, compared to \$166,560 at December 31, 2008, using \$149,029 of cash.

During 2009, the primary investing activities of the company's operations were expenditures for the purchase of property, plant and equipment for the company's energy system installations. The company used \$4,171,867 for purchases and installation of energy systems and received \$232,483 in rebates and incentives. The company's short-term investments provided \$82,693 of cash as our funds invested in certificates of deposits matured and converted into cash. The company's financing activities provided \$5,971,231 of cash in 2009 from the sale of common stock, exercise of common stock warrants and stock options, offset by distributions to our noncontrolling interest partner and payments on capital lease obligations. In December 2009, the company entered into a revolving line of credit agreement with John N. Hatsopoulos, the company's Chief Executive Officer, to lend to the company an amount of up to \$5,000,000. As of December 31, 2009, the company has not drawn funds on this line of credit.

The company's On-Site Utility energy program allows customers to reduce both their energy costs and site carbon production by deploying CHP technology on its customers' premises at no cost. Therefore the company is capital intensive. The company believes that its existing resources, including cash and cash equivalents and future cash flow from operations, are sufficient to meet the working capital requirements of its existing business for the foreseeable future, including the next 12 months. We believe that our cash and cash equivalents and our ability to control certain costs, including those related to general and administrative expenses, will enable us to meet our anticipated cash expenditures through the end of 2010. Beyond January 1, 2011, as we continue to grow our business by adding more energy systems, our cash requirements will increase. We may need to raise additional capital through a debt financing or an equity offering to meet our operating and capital needs for future growth.

Our ability to continue to access capital could be impacted by various factors including general market conditions and the continuing slowdown in the economy, interest rates, the perception of our potential future earnings and cash distributions, any unwillingness on the part of lenders to make loans to us and any deterioration in the financial position of lenders that might make them unable to meet their obligations to us. If these conditions continue and we cannot raise funds through a public or private debt financing, or an equity offering, our ability to grow our business may be negatively affected. In such case, the company may need to suspend any new installation of energy systems and significantly reduce its operating costs until market conditions improve.

Seasonality

The majority of our heating systems sales are in the winter and the majority of our chilling systems sales are in the summer.

Inflation

We install, maintain, finance, own and operate complete on-site CHP systems that supply, on a long-term, contractual basis, electricity and other energy services. We sell the energy to customers at a guaranteed discount rate to the rates charged by conventional utility suppliers. Our customers benefit from a reduction in their current energy bills without the capital costs and risks associated with owning and operating a CHP or chiller system. Inflation will cause an increase in the rates charged by conventional utility suppliers, and since we bill our customers based on the electric utility rates, our pricing will increase in tandem and positively affect our revenue. However, inflation might cause both our investment and cost of goods sold to increase, therefore lowering our return on investment and depressing our gross margins.

Off Balance Sheet Arrangements

The company has no material off balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The information required by this item is included in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A(T). Controls and Procedures.

Management's Evaluation of Disclosure Controls and Procedures:

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, or the Evaluation Date, have concluded that as of the Evaluation Date, our Disclosure Controls were not effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and that material information relating to our company and any consolidated subsidiaries is made known to management, including our Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting:

In connection with the evaluation referred to in the foregoing paragraph, we have made changes in our internal controls over financial reporting during the period ended December 31, 2009. We hired a consultant to review existing controls and review recent updates and changes to the company's documentation to ensure that any process or control changes are properly identified and documented, including updating the company's existing risk matrix. The engagement included the creation of testing plans based upon the current state of processes and key controls and the identification of areas for process improvements and documentation updates. The company has already implemented many of the recommended processes.

Report of Management on Internal Control over Financial Reporting:

The management of the company is responsible for establishing and maintaining adequate internal control over financial reporting in accordance with the Exchange Act. Management conducted an evaluation of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion of this evaluation. Based on this evaluation, management concluded that the company's internal control over financial reporting was not effective as of December 31, 2009.

The company had thirteen active full-time employees and two part-time employees as of December 31, 2009. The company currently does not have personnel with a sufficient level of accounting knowledge, experience and training in the selection, application and implementation of generally acceptable accounting principles as it relates to complex transactions and financial reporting requirements. The company also has a small number of employees dealing with general controls over information technology security and user access. This constitutes a material weakness in financial reporting. At this time, management has decided that considering the employees involved and the control procedures in place, there are risks associated with the above, but the potential benefits of adding additional employees to mitigate these weaknesses, does not justify the expenses associated with such increases. Management will continue to evaluate the above weaknesses.

The company reported in previous periods the lack of segregation of duties as a material weakness in financial reporting. The company hired a consultant to review its existing controls and propose changes to the company's procedures to proper segregation of duties. Based on the consultant's recommendation, the company has put procedures in place and has trained additional personnel to mitigate the risk. Management believes the previous weakness in financial reporting due to the lack of segregation of duties has been remediated.

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our Disclosure Controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control

system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

This Annual Report on Form 10-K does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this Annual Report on Form 10-K.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is incorporated by reference to the our definitive Proxy Statement for our 2010 annual meeting of shareholders, or our Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to the Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is incorporated by reference to the Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated by reference to the Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is incorporated by reference to the Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Index To Financial Statements and Financial Statements Schedules:

Report of Independent Registered Public Accounting Firm Caturano and Company, P.C. as of March 31, 2010

Consolidated Balance Sheets as of December 31, 2009 and December 31, 2008

Consolidated Statements of Operations for the years ended December 31, 2009 and December 31, 2008

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2009 and December 31, 2008

Consolidated Statements of Cash Flows for the years ended December 31, 2009 and December 31, 2008

Notes to Consolidated 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.

b) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation, as amended and restated December 9, 2009 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
3.2	By-laws, as amended and restated August 31, 2009 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
4.1	Form of Warrant (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
4.2	Warrant to Purchase Shares of Common Stock dated February 24, 2009 (incorporated by reference to the registrant's current report on Form 8-K, filed with the SEC on February 26, 2009).
10.1	Audit Committee Charter, as amended October 13, 2009 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
10.2	Compensation Committee Charter (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
10.3	Nominating and Governance Committee Charter dated August 31, 2009 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
10.4	American Distributed Generation Inc. 2001 Stock Incentive Plan (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
10.5*	2005 Stock Incentive Plan (incorporated by reference to our definitive proxy statement for the 2008 Annual Meeting of shareholders originally filed with the SEC on April 29, 2008).
10.6	Facilities, Support Services and Business Agreement with Tecogen Inc. (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 22, 2006. Confidential treatment has been granted for portions of this document. The confidential portions have been omitted and have been filed separately, on a confidential basis, with the SEC).
10.7	Amendment to Facilities, Support Services and Business Agreement with Tecogen Inc. dated April 1, 2008 (incorporated by reference to the registrant's Form 10-Q, filed with the SEC on May 14, 2008, for the quarter ended March 31, 2008).
10.8	Amendment No. 2 to Facilities, Support Services and Business Agreement with Tecogen Inc. dated May 15, 2008 (incorporated by reference to the registrant's Form 10-K, originally filed, filed with the SEC on March 20, 2009).
10.9	Amendment No. 3 to Facilities, Support Services and Business Agreement with Tecogen Inc. dated January 2, 2009 (incorporated by reference to the registrant's Form 10-K, originally filed, filed with the SEC on March 20, 2009).
10.10	Operating Agreement of American DG New York LLC (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 22, 2006).
10.11	Form of Energy Purchase Agreement (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
10.12	Form of Subscription Agreement for private placement of common stock for American Distributed Generation Inc. (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
10.13*	Restricted Stock Purchase Agreement with Charles T. Maxwell dated February 20, 2007 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
10.14	Form of 8% Senior Convertible Debenture Due 2011 (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).

- 10.15 Form of Subscription Agreement for private placement of common stock, February 2007 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
- 10.16 Form of Warrant to purchase shares of common stock, dated February 24, 2009, entered into between the company and Daniel Barnett (incorporated by reference to the registrant's current Form 8-K, originally filed with the SEC on February 26, 2009).
- 10.17 Form of Subscription Agreement for private placement of common stock, April 2009 (incorporated by reference to the registrant's current Form 8-K, originally filed with the SEC on April 27, 2009).
- 10.18 Form of Subscription Agreement for private placement of common stock, July 2009 (incorporated by reference to the registrant's current Form 8-K, originally filed with the SEC on July 27, 2009).
- 10.19 Form of Subscription Agreement for private placement of common stock, October 2009 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
- 10.20 Warrant Agreement with Hayden IR dated October 1, 2009 (incorporated by reference to the registrant's Form S-3, as amended, originally filed with the SEC on December 23, 2009).
- 10.21 Slide show presentation (incorporated by reference to the registrant's current Form 8-K, originally filed with the SEC on December 9, 2009).
- 10.22 Revolving Line of Credit Agreement with John N. Hatsopoulos (incorporated by reference to the registrant's current Form 8-K, originally filed with the SEC on December 17, 2009).
- 10.23# Amendment No. 4 to Facilities, Support Services and Business Agreement with Tecogen Inc. dated January 2, 2010.
- 10.24# Letter to John N. Hatsopoulos dated February 22, 2010.
- 14.1 Code of Business Conduct and Ethics (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
- 16.1 Letter on change in certifying accountant (incorporated by reference to, the company's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
- 21.1 List of subsidiaries (incorporated by reference to the registrant's Form 10-SB, as amended, originally filed with the SEC on November 2, 2006).
- 23.2# Consent of Caturano and Company, P.C.
- 31.1# Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2# Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer (Furnished herewith).

Filed herewith.

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

AMERICAN DG ENERGY INC.
(Registrant)

By: /s/ JOHN N. HATSOPOULOS
Chief Executive Officer
(Principal Executive Officer)

By: /s/ ANTHONY S. LOUMIDIS
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GEORGE N. HATSOPOULOS</u> George N. Hatsopoulos	Chairman of the Board	March 31, 2010
<u>/s/ JOHN N. HATSOPOULOS</u> John N. Hatsopoulos	Chief Executive Officer and Director	March 31, 2010
<u>/s/ ANTHONY S. LOUMIDIS</u> Anthony S. Loumidis	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2010
<u>/s/ BARRY J. SANDERS</u> Barry J. Sanders	President and Chief Operating Officer	March 31, 2010
<u>/s/ EARL R. LEWIS</u> Earl R. Lewis	Director	March 31, 2010
<u>/s/ CHARLES T. MAXWELL</u> Charles T. Maxwell	Director	March 31, 2010
<u>/s/ ALAN D. WEINSTEIN</u> Alan D. Weinstein	Director	March 31, 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
American DG Energy Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of American DG Energy Inc. and subsidiaries (collectively, the "Company") as of December 31, 2009 and December 31, 2008, 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 the consolidated 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. An audit includes 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the Company at December 31, 2009, and December 31, 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Company retrospectively adopted the presentation and disclosure requirements of the Financial Accounting Standards Board Statement No. 160 "Non-Controlling Interests in Consolidated Financial Statements, an amendment of ARB No.51" which is codified in Accounting Standards Codification 810.

/s/ CATURANO AND COMPANY, P.C.

Boston, Massachusetts
March 31, 2010

AMERICAN DG ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,149,222	\$ 1,683,498
Short-term investments	678,921	761,614
Accounts receivable, net	518,379	835,922
Unbilled revenue	146,940	204,750
Due from related party	370,400	297,417
Inventory	379,303	355,852
Prepaid and other current assets	104,119	163,121
Total current assets	<u>5,347,284</u>	<u>4,302,174</u>
Property, plant and equipment, net	9,502,346	6,627,540
Accounts receivable, long- term	-	5,647
TOTAL ASSETS	<u><u>14,849,630</u></u>	<u><u>10,935,361</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	740,474	270,852
Accrued expenses and other current liabilities	453,536	384,340
Due to related party	17,531	166,560
Capital lease obligations	3,365	2,431
Total current liabilities	<u>1,214,906</u>	<u>824,183</u>
Long-term liabilities:		
Convertible debentures	5,320,000	5,875,000
Capital lease obligations, long-term	10,095	14,394
Total liabilities	<u>6,545,001</u>	<u>6,713,577</u>
Stockholders' equity:		
American DG Energy Inc. shareholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 37,676,817 and 34,034,496 issued and outstanding at December 31, 2009 and December 31, 2008, respectively	37,677	34,034
Additional paid- in- capital	19,725,793	12,614,332
Common stock subscription	-	(35,040)
Accumulated deficit	(12,239,110)	(9,708,545)
Total American DG Energy Inc. stockholders' equity	<u>7,524,360</u>	<u>2,904,781</u>
Noncontrolling interest	780,269	1,317,003
Total stockholders' equity	<u>8,304,629</u>	<u>4,221,784</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 14,849,630</u></u>	<u><u>\$ 10,935,361</u></u>

See accompanying notes to consolidated financial statements

AMERICAN DG ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	December 31,	
	2009	2008
Net Sales	\$ 5,763,827	\$ 6,579,437
Cost of sales		
Fuel, maintenance and installation	3,888,438	5,136,260
Depreciation expense	788,885	596,915
	<u>4,677,323</u>	<u>5,733,175</u>
Gross profit	<u>1,086,504</u>	<u>846,262</u>
Operating expenses		
General and administrative	1,546,743	1,504,968
Selling	850,975	533,874
Engineering	642,858	401,361
	<u>3,040,576</u>	<u>2,440,203</u>
Loss from operations	<u>(1,954,072)</u>	<u>(1,593,941)</u>
Other income (expense)		
Interest and other income	71,185	139,690
Interest expense	(437,544)	(474,407)
	<u>(366,359)</u>	<u>(334,717)</u>
Loss, before income taxes	(2,320,431)	(1,928,658)
Provision for state income taxes	(7,450)	(34,087)
Consolidated net loss	<u>(2,327,881)</u>	<u>(1,962,745)</u>
		-
Less: Income attributable to the noncontrolling interest	(202,684)	(305,336)
Net loss attributable to American DG Energy Inc.	<u>(2,530,565)</u>	<u>(2,268,081)</u>
Net loss per share - basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>
Weighted average shares outstanding - basic and diluted	<u>35,554,303</u>	<u>32,872,006</u>

See accompanying notes to consolidated financial statements

AMERICAN DG ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	American DG Energy Inc. Shareholders					Noncontrolling Interest
	Total	Accumulated Deficit	Common Stock \$0.001 Par Value	Common Stock Subscription	Additional Paid-In Capital	
Balance at December 31, 2007	\$ 5,045,417	\$ (7,440,464)	\$ 32,806	\$ -	\$ 11,394,289	\$ 1,058,786
Distributions to noncontrolling interest	(47,119)	-	-	-	-	(47,119)
Conversion of convertible debenture to common stock	150,000	-	178	-	149,822	-
Issuance of restricted stock	-	-	40	(40)	-	-
Stock based compensation expense	364,231	-	-	-	364,231	-
Exercise of warrants	672,000	-	1,010	(35,000)	705,990	-
Net loss	(1,962,745)	(2,268,081)	-	-	-	305,336
Balance at December 31, 2008	<u>4,221,784</u>	<u>(9,708,545)</u>	<u>34,034</u>	<u>(35,040)</u>	<u>12,614,332</u>	<u>1,317,003</u>
Distributions to noncontrolling interest	(333,704)	-	-	-	-	(333,704)
Ownership changes to noncontrolling interest, Note 7	(405,714)	-	-	-	-	(405,714)
Conversion of convertible debenture to common stock	555,000	-	661	-	554,339	-
Issuance of restricted stock	40	-	-	40	-	-
Cancellation of restricted stock	(40)	-	(40)	-	-	-
Sale of common stock, net of costs	5,878,079	-	2,991	-	5,875,088	-
Issuance of common stock warrants	372,815	-	-	-	372,815	-
Stock based compensation expense	286,844	-	-	-	286,844	-
Exercise of stock options	22,406	-	31	-	22,375	-
Exercise of warrants	35,000	-	-	35,000	-	-
Net loss	(2,327,881)	(2,530,565)	-	-	-	202,684
Balance at December 31, 2009	<u>\$ 8,304,629</u>	<u>\$ (12,239,110)</u>	<u>\$ 37,677</u>	<u>\$ -</u>	<u>\$ 19,725,793</u>	<u>\$ 780,269</u>

See accompanying notes to consolidated financial statements

AMERICAN DG ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,530,565)	\$ (2,268,081)
Income attributable to noncontrolling interest	202,684	305,336
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	806,776	604,525
Provision for losses on accounts receivable	299,994	51,759
Amortization of deferred financing costs	8,526	8,526
Stock-based compensation	286,844	364,231
 <i>Changes in operating assets and liabilities</i>		
<i>(Increase) decrease in:</i>		
Accounts receivable	168,294	(330,849)
Due from related party	(308,183)	272,957
Inventory	(23,451)	(269,714)
Prepaid assets	50,476	(93,794)
<i>Increase (decrease) in:</i>		
Accounts payable	469,622	(83,239)
Accrued expenses and other current liabilities	69,196	44,600
Due to related party	(149,029)	166,560
Net cash used in operating activities	(648,816)	(1,227,183)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(4,171,867)	(2,165,899)
Sale (purchases) of short-term investments	82,693	(761,614)
Rebates and incentives	232,483	155,831
Net cash used in investing activities	(3,856,691)	(2,771,682)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of warrants	372,815	-
Proceeds from exercise of warrants	35,000	672,000
Proceeds from sale of common stock, net of costs	5,878,079	-
Proceeds from issuance of stock options	22,406	-
Principal payments on capital lease obligations	(3,365)	-
Distributions to noncontrolling interest	(333,704)	(47,119)
Net cash provided by financing activities	5,971,231	624,881
Net increase (decrease) in cash and cash equivalents	1,465,724	(3,373,984)
Cash and cash equivalents, beginning of the year	1,683,498	5,057,482
Cash and cash equivalents, ending of the year	\$ 3,149,222	\$ 1,683,498
 Supplemental disclosures of cash flows information:		
<i>Cash paid during the year for:</i>		
Interest	\$ 448,645	\$ 477,422
Income taxes	\$ 35,460	\$ 86,130
 Non-cash investing and financing activities:		
Conversion of convertible debenture to common stock	\$ 555,000	\$ 150,000
Acquisition of equipment under capital lease	\$ -	\$ 16,825

See accompanying notes to consolidated financial statements

AMERICAN DG ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The company:

American DG Energy Inc. (“American DG Energy”, the “company”, “us” or “we”) distributes and operates on-site cogeneration systems that produce both electricity and heat. Our business is to own the equipment that we install at customers’ facilities and to sell the energy produced by these systems to the customers on a long-term contractual basis. We call this business the American DG Energy “On-Site Utility”.

The company was incorporated as a Delaware corporation on July 24, 2001 to install, own, operate and maintain complete distributed generation systems and other complementary systems at customer sites and sell electricity, hot water, heat and cooling energy under long-term contracts at prices guaranteed to the customer to be below conventional utility rates. As of December 31, 2009, we had installed energy systems, representing approximately 4,210 kilowatts, or kW, 33.5 million British thermal units, or MMBtu’s, of heat and hot water and 2,200 tons of cooling. Kilowatt is a measure of electricity generated, MMBtu is a measure of heat generated and a ton is a measure of cooling generated.

We derive sales from selling energy in the form of electricity, heat, hot water and cooling to our customers under long-term energy sales agreements (with a typical term of 10 to 15 years). The energy systems are owned by us and are installed in our customers’ buildings. Each month we obtain readings from our energy meters to determine the amount of energy produced for each customer. We multiply these readings by the appropriate published price of energy (electricity, natural gas or oil) from our customers’ local energy utility, to derive the value of our monthly energy sale, less the applicable negotiated discount. Our revenues per customer on a monthly basis vary based on the amount of energy produced by our energy systems and the published price of energy (electricity, natural gas or oil) from our customers’ local energy utility that month. Our revenues commence as new energy systems become operational. As of December 31, 2009, we had 62 energy systems operational. As a by-product of our energy business, in some cases the customer may choose to have us construct the system for them rather than have it owned by American DG Energy.

Note 2 — Summary of significant accounting policies:

Principles of Consolidation and Basis of Presentation:

The accompanying consolidated financial statements include the accounts of the company, its wholly owned subsidiary American DG Energy and its 51% joint venture, American DG New York, LLC, or (“ADGNY”), after elimination of all material intercompany accounts, transactions and profits. The Company owns a controlling, 51% legal interest in ADGNY. The Company’s ownership interest in energy system projects (referred to hereafter as “Investee entities”) of ADGNY varies between projects with its joint venture partner. On January 1, 2009, the company adopted (retrospectively for all periods presented) the new presentation requirements for noncontrolling interests required by ASC 810 Consolidations. 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 earnings or losses of consolidated Investee entities are reflected in the caption “Noncontrolling interest” in the accompanying consolidated financial statements. Since Investee entity ownership percentages vary, noncontrolling interest adjusts the consolidated results of operations to reflect only the company’s share of the earnings or losses of the consolidated Investee entities. Upon dilution of ownership in ADGNY below 50%, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods.

The company evaluates the applicability of the Financial Accounting Standards Board, or FASB, guidance on variable interest entities to partnerships and joint ventures at the inception of its participation to ensure its accounting is in accordance with the appropriate standards. The company has contractual interests in Tecogen and determined that Tecogen was a Variable Interest Entity, as defined by the applicable guidance; however, the company was not considered the primary beneficiary and does not have any exposure to loss as a result of its involvement with Tecogen. Therefore, Tecogen was not consolidated in our consolidated financial statements through December 31, 2009. See “Note 7 - Related Parties” for further discussion.

The company’s operations are comprised of one business segment. Our business is selling energy in the form of electricity, heat, hot water and cooling to our customers under long-term sales agreements.

We have experienced total net losses since inception of approximately \$12.2 million. For the foreseeable future, we expect to experience continuing operating losses and negative cash flows from operations as our management executes our current business plan. The cash and cash equivalents available at December 31, 2009 will provide sufficient working capital

AMERICAN DG ENERGY INC.

to meet our anticipated expenditures including installations of new equipment for the next twelve months; however, as we continue to grow our business by adding more energy systems, the cash requirements will increase. We believe that our cash and cash equivalents available at December 31, 2009 and our ability to control certain costs, including those related to general and administrative expenses, will enable us to meet our anticipated cash expenditures through January 1, 2011. Beyond January 1, 2011, we may need to raise additional capital through a debt financing or equity offering to meet our operating and capital needs. There can be no assurance, however, that we will be successful in our fundraising efforts or that additional funds will be available on acceptable terms, if at all.

In 2009, we raised \$6,310,525 through various private placements of common stock, the issuance of warrants and exercise of stock options. If we are unable to raise additional capital in 2011 we may need to terminate certain of our employees and adjust our current business plan. Financial considerations may cause us to modify planned deployment of new energy systems and we may decide to suspend installations until we are able to secure additional working capital. We will evaluate possible acquisitions of, or investments in, businesses, technologies and products that are complementary to our business; however, we are not currently engaged in such discussions.

Use of Estimates

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

Revenue Recognition

Revenue from energy contracts is recognized when electricity, heat, and chilled water is produced by the cogeneration systems on-site. The company bills each month based on various meter readings installed at each site. The amount of energy produced by on-site energy systems is invoiced, as determined by a contractually defined formula. Under certain energy contracts, the customer directly acquires the fuel to power the systems and receives credit for that expense from the company. The credit is recorded as revenue and cost of fuel. When a sales arrangement contains multiple elements, revenue is allocated to each element based upon its relative fair value. Fair value is determined based on the price of a deliverable sold on a standalone basis.

As a by-product of our energy business, in some cases the customer may choose to have us construct the system for them rather than have it owned by American DG Energy. In this case, we account for revenue and costs using the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, revenues are recognized by applying percentages of completion to the total estimated revenues for the respective contracts. Costs are recognized as incurred. The percentages of completion are determined by relating the actual cost of work performed to date to the current estimated total cost at completion of the respective contracts. When the estimate on a contract indicates a loss, the company's policy is to record the entire expected loss, regardless of the percentage of completion. 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 is recorded as deferred revenue. Customers may buy out their long-term obligation under energy contracts and purchase the underlying equipment from the company. Any resulting gain on these transactions is recognized over the payment period in the accompanying consolidated statements of operations. Revenues from operation, including shared savings are recorded when provided and verified. Maintenance service revenue is recognized over the term of the agreement and is billed on a monthly basis in arrears.

Cash and Cash Equivalents

The company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The company has cash balances in certain financial institutions in amounts which occasionally exceed current federal deposit insurance limits. The financial stability of these institutions is continually reviewed by senior management. The company believes it is not exposed to any significant credit risk on 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 are recorded at fair value.

AMERICAN DG ENERGY INC.

Concentration of Credit Risk

Financial instruments, which potentially subject the company to concentrations of credit risk, consist of highly liquid cash equivalents and trade receivables. The company's cash equivalents are placed with certain financial institutions and issuers. As of December 31, 2009, the company had a balance of \$3,578,143 in cash and cash equivalents and short-term investments that exceeded the Federal Deposit Insurance Corporation limit of \$250,000.

Accounts Receivable

The company maintains receivable balances primarily with customers located throughout New York and New Jersey. The company reviews its customers' credit history before extending credit and generally does not require collateral. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Generally, such losses have been within management's expectations. Bad debt is written off when identified.

Accounts receivable are presented net of an allowance for doubtful collections of \$51,821 and \$51,759 at December 31, 2009 and December 31, 2008 respectively. Included in accounts receivable are amounts from four major customers accounting for approximately 22% and 45% of total accounts receivable for the years ended December 31, 2009 and December 31, 2008, respectively. There were sales to three customers accounting for approximately 26% and 27% of total sales for the years ended December 31, 2009 and December 31, 2008, respectively.

Inventory

Inventories are stated at the lower of cost or market, valued on a first-in, first-out basis. Inventory is reviewed periodically for slow-moving and obsolete items. As of December 31, 2009 and December 31, 2008, there were no reserves or write-downs recorded against inventory.

Accounts Payable

Included in accounts payable are amounts due to five major vendors accounting for approximately 66% and 51% of total accounts payable for the years ended December 31, 2009 and December 31, 2008, respectively. Purchases from four vendors accounted for approximately 67% and 50% of total purchases for the years ended December 31, 2009, and December 31, 2008, respectively.

Supply Concentrations

All of the company's cogeneration unit purchases for the years ended December 31, 2009 and 2008 were from one vendor (see "Note 7 - Related Parties"). We believe there are sufficient alternative vendors available to ensure a constant supply of cogeneration units on comparable terms. However, in the event of a change in suppliers, there could be a delay in obtaining units which could result in a temporary slowdown of installing additional income producing sites. In addition, the majority of the company's units are installed and maintained by the noncontrolling interest holder or maintained by Tecogen. The company believes there are sufficient alternative vendors available to ensure a constant supply of maintenance and installation services on comparable terms. However, in the event of a change of vendor, there could be a delay in installation or maintenance services.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method at rates sufficient to write off the cost of the applicable assets over their estimated useful lives. Repairs and maintenance are expensed as incurred. The company receives rebates and incentives from various utility companies which are accounted for as a reduction in the book value of the assets.

The company evaluates the recoverability of its long-lived assets by comparing the net book value of the assets to the estimated future undiscounted cash flows attributable to such assets. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. The company reviews long-lived assets for impairment annually or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be fully recoverable or that the useful lives of the assets are no longer appropriate. At December 31, 2009 the company determined that its long-lived assets are recoverable.

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Stock Based Compensation

Stock based compensation cost is measured at the grant date based on the estimated fair value of the award and is recognized as an expense in the consolidated statement of operations over the requisite service period. The fair value of stock options granted is estimated using the Black-Scholes option pricing valuation model. The company recognizes compensation on a straight-line basis for each separately vesting portion of the option award. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the average volatility of 20 companies in the same industry as the company. The average expected life is estimated using the simplified method for "plain vanilla" options. The expected life in years is based on the "simplified" method. The simplified method determines the expected life in years based on the vesting period and contractual terms as set forth when the award is made. The company uses the simplified method for awards of stock-based compensation since it does not have the necessary historical exercise and forfeiture data to determine an expected life for stock options. 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. When options are exercised the company normally issues new shares.

See "Note 5 – Stockholders' Equity" for a summary of the restricted stock and stock option activity under our stock-based employee compensation plan for the years ended December 31, 2009 and December 31, 2008.

Loss per Common Share

We compute basic loss per share by dividing net income (loss) for the period by the weighted average number of shares of common stock outstanding during the period. We compute our diluted earnings per common share using the treasury stock method. For purposes of calculating diluted earnings per share, we consider our shares issuable in connection with convertible debentures, stock options and warrants to be dilutive common stock equivalents when the exercise price is less than the average market price of our common stock for the period. As of the year ended December 31, 2009, we excluded 9,643,460 anti-dilutive shares resulting from conversion of debentures and exercise of stock options, warrants and unvested restricted stock, and as of the year ended December 31, 2008, we excluded 10,543,049 anti-dilutive shares resulting from conversion of debentures and exercise of stock options, warrants and unvested restricted stock. All shares issuable for both years were anti-dilutive because of the reported net loss.

Other Comprehensive Net Loss

The comprehensive net loss for the years ended December 31, 2009 and 2008 does not differ from the reported loss.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and certain accrued liabilities for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance.

The tax years 2005 through 2008 remain open to examination by major taxing jurisdictions to which we are subject, which are primarily in the United States, as carry forward attributes generated in years past may still be adjusted upon examination by the Internal Revenue Service or state tax authorities if they are or will be used in a future period. We are currently not under examination by the Internal Revenue Service or any other jurisdiction for any tax years. We did not recognize any interest and penalties associated with unrecognized tax benefits in the accompanying financial statements. We would record any such interest and penalties as a component of interest expense. We do not expect any material changes to the unrecognized benefits within 12 months of the reporting date.

Fair Value of Financial Instruments

The company's financial instruments are cash and cash equivalents, short-term investments, accounts receivable, accounts payable, convertible debentures and notes due from related parties. The recorded values of cash and cash equivalents, accounts receivable, accounts payable and notes due from related parties approximate their fair values based on their short-term nature. Short-term investments are recorded at fair value. The carrying value of the convertible debentures on

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the balance sheet at December 31, 2009 approximates fair value as the terms approximate those currently available for similar instruments. See Note 8 for discussion of fair value measurements.

Recent Accounting Pronouncements

In December 2007, the FASB issued guidance on changes in the accounting and reporting of business acquisitions. The guidance requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in purchased entities, measured at their fair values at the date of acquisition based upon the definition of fair value. This guidance was effective for the company beginning January 1, 2009. The guidance had no impact on the company's consolidated financial statements and any future effect will depend on the extent that the company makes business acquisitions in the future.

As noted in Note 2, in December 2007, the FASB issued new rules on noncontrolling interests in consolidated financial statements. The noncontrolling interest guidance changed the accounting for minority interests, which are reclassified as noncontrolling interests and classified as a component of equity. This guidance was effective for the company beginning January 1, 2009, and resulted in a change in presentation of minority interests in the consolidated financial statements consistent with the new rules.

In September, 2006, the FASB issued guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February, 2008, the FASB delayed the effective date of the fair value guidance for all non-financial assets and non-financial liabilities, except those that are measured on a recurring basis. Effective January 1, 2009, the company adopted fair value guidance with respect to non-financial assets and liabilities measured on a non-recurring basis. The adoption of this guidance did not have an impact on the Company's financial position or results of operations.

In March 2008, the FASB issued a pronouncement pertaining to disclosures about derivative instruments and hedging activities. This guidance requires disclosures of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The rule was effective for the company beginning January 1, 2009. The guidance did not have a material impact on its results of operations and financial condition.

In April 2009, the FASB issued guidance on providing interim disclosures about fair value of financial instruments. This new guidance requires the fair value disclosures that were previously disclosed only annually to be disclosed now on an interim basis. This guidance was effective for the company in the second quarter of 2009, and has resulted in additional disclosures in our interim financial statements, and therefore did not impact our financial position, results of operations or cash flows.

In May 2009, the FASB issued a pronouncement on subsequent event accounting. The guidance identifies the following: the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The pronouncement was effective for the company's second quarter 2009, and did not have an impact on our financial position, results of operations, or cash flows.

In June 2009, the FASB issued guidance on the FASB Accounting Standards Codification and the hierarchy of generally accepted accounting principles. The FASB Accounting Standards Codification, or the Codification, is the single source of authoritative nongovernmental generally accepted accounting principles in the U.S. The Codification was effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification had no impact on the company's financial position, results of operations or cash flows.

In June, 2009 the FASB updated existing guidance to improve financial reporting by enterprises involved with variable interest entities. The new guidance requires an enterprise to perform an analysis to determine whether the enterprise's variable interest(s) give it a controlling financial interest in a variable interest entity. This guidance is effective for the company beginning in January 2010. The company does not believe adoption of this guidance will have a material effect on its consolidated financial statements.

In September 2009, the Emerging Issues Task Force issued new rules pertaining to the accounting for revenue arrangements with multiple deliverables. The new rules provide an alternative method for establishing fair value of a deliverable when vendor specific objective evidence cannot be determined. The guidance provides for the determination of

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the best estimate of selling price to separate deliverables and allows the allocation of arrangement consideration using this relative selling price model. The guidance supersedes the prior multiple element revenue arrangement accounting rules that are currently used by the company. This guidance is effective for us January 1, 2011 and is not expected to have a material effect on our consolidated financial position or results of operations.

Note 3 — Property, plant and equipment:

Property, plant and equipment consist of the following as of December 31, 2009 and December 31, 2008:

	December 31,	
	2009	2008
Co-generation units	\$ 8,559,132	\$ 7,187,382
Computer equipment and software	42,531	20,199
Furniture and fixtures	28,087	26,846
Vehicles	37,193	37,193
	8,666,943	7,271,620
Less -- accumulated depreciation	(2,168,063)	(1,506,511)
	6,498,880	5,765,109
Construction in progress	3,003,466	862,431
	\$ 9,502,346	\$ 6,627,540

Depreciation expense of property, plant and equipment totaled \$806,776 and \$604,525 for the years ended December 31, 2009 and December 31, 2008.

Note 4 — Convertible debentures:

In April and June of 2006, the company issued convertible debentures totaling \$6,075,000 to existing investors (the “debentures”). The debentures accrue interest at a rate of 8% per annum and are due five years from the 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 outstanding amount of the respective debenture by the conversion price in effect at the time. The initial conversion price of the debenture is \$0.84 and is subject to adjustment in accordance with the agreement. As of December 31, 2009 the conversion price of the debenture has not been adjusted.

In 2008, two holders of the company’s 8% Convertible Debenture elected to convert \$150,000 of the outstanding principal amount of the debentures into 178,572 shares of common stock. In 2009, three holders of the company’s 8% Convertible Debenture elected to convert \$555,000 of the outstanding principal amount of the debentures into 660,714 shares of common stock. At December 31, 2009, there were 6,333,335 shares of common stock issuable upon conversion of our outstanding convertible debentures.

On February 9, 2010, all holders of the convertible debentures elected to convert their principal amount outstanding into shares of common stock at a conversion price of \$0.84. See “Note 11 – Subsequent events.”

Note 5 — Stockholders’ equity:

Common Stock

On April 23, 2009, the company raised \$2,260,000 in a private placement of 1,076,190 shares of common stock at a price of \$2.10 per share. The private placement was done exclusively with 5 accredited investors.

On July 24, 2009, the company raised \$3,492,650 in a private placement of 1,663,167 shares of common stock at a price of \$2.10 per share. The company also granted the investors the right to purchase additional shares of common stock at a purchase price of \$3.10 per share by December 18, 2009, which as of December 31, 2009, have expired unexercised. The private placement was done exclusively with 22 accredited investors.

On October 14, 2009, the company raised \$525,000 in a private placement of 250,000 shares of common stock at a price of \$2.10 per share. The company also granted the investor the right to purchase additional shares of common stock at a

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purchase price of \$3.10 per share by December 18, 2009, which as of December 31, 2009, had expired unexercised. The private placement was done exclusively by an accredited investor.

The holders of common stock have the right to vote their interest on a per share basis. At December 31, 2009, there were 37,676,817 shares of common stock outstanding.

Warrants

From December 1, 2003 to December 31, 2005, the company raised funds through a private placement of shares of common stock to a limited number of accredited investors. In connection with the private placement, the company issued warrants to purchase an aggregate of 3,895,000 shares of common stock at a price of \$0.70. The company issued 1,030,000, 775,000 and 2,090,000 warrants in 2003, 2004 and 2005 respectively. Each warrant represents the right to purchase one share of common stock for a period of three or five years from the date the warrant was issued.

During the year ended December 31, 2007, investors exercised 200,000 warrants with expiration dates in 2007, for gross proceeds to the company of \$140,000 and during the year 575,000 warrants expired. During the year ended December 31, 2008, investors exercised 1,010,000 warrants with expiration dates in 2008, for gross proceeds to the company of \$707,000. Of these warrants, 50,000 were exercised towards the end of the year, therefore, the company established a receivable shown as common stock subscription on the balance sheet and that amount was collected early in 2009.

On February 24, 2009, the company sold a warrant to purchase shares of the company's common stock to an accredited investor, for a purchase price of \$10,500. The warrant, which expires on February 24, 2012, gives the investor the right but not the obligation to purchase 50,000 shares of the company's common stock at an exercise price per share of \$3.00.

Stock Based Compensation

The company has adopted the 2005 Stock Incentive Plan, or the Plan, under which the board of directors may grant incentive or non-qualified stock options and stock grants to key employees, directors, advisors and consultants of the company. On April 17, 2008 the board unanimously amended the Plan, subject to shareholder approval, to increase the reserved shares of common stock issuable under the Plan from 4,000,000 to 5,000,000, or the Amended Plan. On May 30, 2008, at the company's annual meeting, the shareholders voted in favor of an amendment to increase the number of shares of common stock of the company available for issuance under the Plan from 4,000,000 to 5,000,000 shares.

The maximum number of shares of stock allowable for issuance under the Amended Plan is 5,000,000 shares of common stock, including 1,190,500 shares of restricted stock outstanding as of December 31, 2009. Stock options vest based upon the terms within the individual option grants, usually over a two- or ten-year period with an acceleration of the unvested portion of such options upon a liquidity event, as defined in the company's stock option agreement. The options are not transferable except by will or domestic relations order. The option price per share under the Amended Plan is not less than the fair market value of the shares on the date of the grant. The number of securities remaining available for future issuance under the Amended Plan was 1,051,250 at December 31, 2009.

During the years ended December 31, 2009 and December 31, 2008, the company recognized employee non-cash compensation expense of \$286,844 and \$364,231, respectively, related to the issuance of stock options and restricted stock. At December 31, 2009 there were 440,125 unvested shares of restricted stock outstanding. At December 31, 2009 the total compensation cost related to unvested restricted stock awards and stock option awards not yet recognized is \$423,607. This amount will be recognized over the weighted average period of 5.46 years.

In 2008, the company granted to one of its employees nonqualified options to purchase 100,000 shares of the common stock at \$1.95 per share. Those options have a vesting schedule of four years and expire in ten years. The fair value of the options issued in 2008 was \$93,977, with a weighted average grant date fair value of \$0.94 per option.

In 2009, the company granted to three of its employees nonqualified options to purchase 13,000 shares of the common stock at \$1.82 per share. Those options have a vesting schedule of four years and expire in five years. During 2009, the company also granted to one of its employees nonqualified options to purchase 6,000 shares of the common stock at \$2.95 per share. Those options have a vesting schedule of four years and expire in five years. The fair value of all options issued in 2009 was \$16,161, with a weighted average grant date fair value of \$0.85 per option.

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The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	2009	2008
Stock options and restricted stock awards		
Expected life	5.94 years	6.95 years
Risk-free interest rate	0.37%	1.62%
Expected volatility	48.4%	48.4%

Stock option activity for the years ended December 31, 2009 and 2008 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, 2007	2,241,000	\$0.07-\$0.90	\$ 0.63	7.71 years	\$ 607,600
Granted	100,000	\$1.95	1.95		
Exercised	-	-	-		-
Canceled	(12,000)	\$0.90	0.90		
Expired	-	-	-		
Outstanding, December 31, 2008	2,329,000	\$0.07-\$1.95	\$ 0.68	6.95 years	\$ 3,017,920
Exercisable, December 31, 2008	1,244,500		\$ 0.42		\$ 1,937,660
Vested or expected to vest, December 31, 2008	2,329,000		\$ 0.68		\$ 3,017,920
Outstanding, December 31, 2008	2,329,000	\$0.07-\$1.95	\$ 0.68	6.95 years	\$ 3,017,920
Granted	19,000	\$1.82-\$2.95	2.18		
Exercised	(31,250)	\$0.70-\$0.90	0.72		
Canceled	-	-	-		
Expired	(8,750)	\$0.70-\$0.90	0.87		
Outstanding, December 31, 2009	2,308,000	\$0.07-\$2.95	\$ 0.70	5.94 years	\$ 5,203,740
Exercisable, December 31, 2009	1,421,000		\$ 0.50		\$ 3,488,400
Vested or expected to vest, December 31, 2009	2,308,000		\$ 0.70		\$ 5,203,740

The aggregate intrinsic value of options outstanding as of December 31, 2009 is calculated as the difference between the exercise price of the underlying options and the price of the company's common stock for options that were in-the-money as of that date. Options that were not in-the-money as of that date, and therefore have a negative intrinsic value, have been excluded from this amount.

In 2008, the company made a restricted stock grant to one employee by permitting him to purchase an aggregate of 40,000 shares of common stock, at a price of \$0.001 per share. The fair value of the restricted stock issued in 2008 was \$77,960 and vests in four years. There were no restricted stock grants to employees in 2009.

Restricted stock activity for the years ended December 31, 2009 and 2008 was as follows:

	Number of Restricted Stock	Grant Date Fair Value
Unvested, December 31, 2007	948,875	0.70
Granted	40,000	1.95
Vested	(268,875)	0.70
Forfeited	-	-
Unvested, December 31, 2008	720,000	\$ 0.77
Granted	-	-
Vested	(240,875)	0.75
Forfeited	(39,000)	0.70
Unvested, December 31, 2009	440,125	\$ 0.79

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Note 6 — Employee benefit plan:

The company has a defined contribution retirement plan, or the Retirement Plan, which qualifies under Section 401(k) of the Internal Revenue Code, or the IRC. Under the Retirement 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 \$39,075 and \$31,717 to the Retirement Plan for the years ended December 31, 2009 and 2008, respectively.

Note 7 — Related parties:

The company purchases the majority of its cogeneration units from Tecogen Inc., or Tecogen, an affiliate company sharing similar ownership. In addition, Tecogen pays certain operating expenses, including benefits and payroll, on behalf of the company and the company leases office space from Tecogen. These costs were reimbursed by the company. Tecogen has a sublease agreement for the office building, which expires on March 31, 2014.

In January 2006, the company entered into the 2006 Facilities, Support Services and Business Agreement, or the Agreement, with Tecogen, to provide the company with certain office and business support services for a period of one year, renewable annually by mutual agreement. Under the current amendment to the Agreement, Tecogen provides the company with office space and utilities at a monthly rate of \$5,526.

The company has sales representation rights to Tecogen's products and services. In New England, the company has exclusive sales representation rights to Tecogen's cogeneration products. The company has granted Tecogen sales representation rights to its On-Site Utility energy service in California.

On February 15, 2007, the company loaned the non controlling interest partner in ADGNY \$20,000 by signing a two year loan agreement earning interest at 12% per annum. On April 1, 2007, the company loaned an additional \$75,000 to the same non controlling partner by signing a two year note agreement earning interest at 12% per annum, and on May 16, 2007, the company loaned an additional \$55,000 to the same partner by signing a two year note agreement under the same terms. On October 11, 2007, the company extended to its non controlling interest partner a line of credit of \$500,000. At December 31, 2008, \$265,012 was outstanding and due to the company under the combination of the above agreements. All notes were classified in the Due from related party account in the December 31, 2008 balance sheet and were secured by the partner's non controlling interest. Effective April 1, 2009 the company reached an agreement with the noncontrolling interest partner in ADGNY to purchase its interest in the Riverpoint location. As a result of this transaction, the company owns 100% of that location and the noncontrolling interest partners' share of that location was applied to his outstanding debt to the company related to the above mentioned loan agreements and line of credit. Additionally, in 2009, ADGNY financed capital improvements at several projects, which per project agreements was the responsibility of the noncontrolling interest partner. This further reduced the noncontrolling interest partner's noncontrolling interest in ADGNY. The result of these transactions appears as "Ownership changes to noncontrolling interests" in the amount of \$405,714 in the accompanying consolidated statement of stockholder's equity for the year ended December 31, 2009.

On October 22, 2009, the company signed a five-year exclusive distribution agreement with Ilios Dynamics, a subsidiary of Tecogen. Under terms of the agreement, the company has exclusive rights to incorporate Ilios Dynamics' ultra high-efficiency heating products in its energy systems throughout the European Union and New England. The company also has non-exclusive rights to distribute Ilios Dynamics' product in the remaining parts of the United States and the world in cases where the company retains ownership of the equipment for its On-Site Utility business.

During the quarter ended September 30, 2009, the non-controlling interest partner in ADGNY, a related party, purchased certain units and supporting equipment from the company for \$370,400. That amount, as of December 31, 2009, was classified as "Due from related party" in the accompanying balance sheet. The cost of the units and supporting equipment was \$208,225 and the company recorded a profit of \$162,175.

On December 17, 2009, the company entered into a revolving line of credit agreement, or the agreement, with John N. Hatsopoulos, the company's Chief Executive Officer. Under the terms of the agreement, during the period extending to December 31, 2012, Mr. Hatsopoulos will lend to the company on a revolving line of credit basis a principal amount up to \$5,000,000. All sums advanced pursuant to this agreement shall bear interest from the date each advance is made until paid in full at the Bank Prime Rate as quoted from time to time in the Wall Street Journal plus 1.5% per year. Interest shall be due and payable quarterly in arrears and prepayment of principal, together with accrued interest, may be made at any time without penalty. As of December 31, 2009, the company has not drawn funds on this line of credit.

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The company's Chief Financial Officer devotes part of his business time to the affairs of GlenRose Instruments Inc., or GlenRose, and part of his salary is reimbursed by GlenRose. Also, the company's Chief Executive Officer is the Chairman of the Board and a significant investor in GlenRose and does not receive a salary, bonus or any other compensation from GlenRose.

Note 8 — Fair value measurements:

The fair value topic of the FASB Accounting Standards Codification defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

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.

At December 31, 2009, the company had \$678,921 in short-term investments that are comprised of certificates of deposits which are categorized as Level 2. The company determines the fair value of certificates of deposits using information provided by the issuing bank which includes discounted expected cash flow estimates using current market rates offered for deposits with similar remaining maturities.

Note 9 — Income taxes:

A reconciliation of federal statutory income tax provision to the company's actual provision for the years ended December 31, 2009 and December 31, 2008, respectively, are as follows:

	2009	2008
Benefit at federal statutory tax rate	\$ (860,000)	\$ (760,000)
Unbenefited operating losses	860,000	760,000
Provision for state income taxes	7,450	34,087
Income tax provision	\$ 7,450	\$ 34,087

The components of net deferred tax assets recognized in the accompanying balance sheets at December 31, 2009 and December 31, 2008, respectively, are as follows:

	2009	2008
Net operating loss carryforwards	\$ 4,676,000	\$ 3,149,000
Accrued expenses and other	312,000	178,000
Depreciation	(764,000)	(271,000)
	4,224,000	3,056,000
Valuation allowance	(4,224,000)	(3,056,000)
Net deferred tax asset	\$ -	\$ -

As of December 2009, the company has federal and state loss carryforwards of approximately \$12,400,000 and \$8,300,000, respectively, which may be used to offset future federal and state taxable income, expiring at various dates through 2029. Under IRC Section 382, certain substantial changes in the company's ownership may limit the amount of net operating loss carryforwards that can be utilized in any one year to offset future taxable income. As a result of the company's various private placements of common stock, it is possible that, net operating loss carryforwards and other tax attributes may

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have been limited by these rules. The change-in-control provisions of IRC section 382 have not been fully investigated in relation to these transactions.

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. 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 adopted accounting for uncertain tax positions effective January 1, 2007. The adoption of this statement had no effect on the company's financial position. The company has no uncertain tax positions as of either the date of the adoption, or as of December 31, 2009.

Note 10 — Commitments and contingencies:

In January 2006, the company entered into the Agreement with Tecogen to provide the company with certain office and business support services for a period of one year, renewable annually by mutual agreement. The company also shares personnel support services with Tecogen. The company is allocated its share of the cost of the personnel support services based upon the amount of time spent by such support personnel while working on the company's behalf. To the extent Tecogen is able to do so under its current plans and policies, Tecogen includes the company and its employees in several of its insurance and benefit programs. The costs of these programs are charged to the company on an actual cost basis. Under this agreement, the company receives pricing based on a volume discount if it purchases cogeneration and chiller products from Tecogen. For certain sites, the company hires Tecogen to service its Tecogen chiller and cogeneration products. Under the current amendment to the Agreement, Tecogen provides the company with office space and utilities at a monthly rate of \$5,526.

In November 2008, the company received from Georgia King Village, an On-Site Utility energy customer, a notice to terminate operations at their location. The company notified the management of Georgia King Village that the termination notice violated the terms of the agreement between the company and Georgia King Village and that termination charges would apply. The company proceeded to remove five energy systems and other supporting equipment from the Georgia King Village site and placed them in inventory. The customer has recently proposed a settlement regarding the aforementioned dispute and as a result the company has postponed the arbitration hearing. The company does not expect the outcome to have a material impact on its results of operations and financial condition.

The company is the lessee of certain equipment under capital lease expiring in 2013. The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease payments under capital leases as of December 31, 2009.

	Payments
2010	\$ 5,221
2011	5,221
2012	5,221
2013	5,221
Total lease payments	20,884
Less: Amount representing interest	(7,424)
Present value of minimum lease payments	\$ 13,460

Note 11 — Subsequent events:

On January 4, 2010, the company entered into an agreement with Codale Ltd., whereby Codale will provide the company an amount up to two hundred fifty thousand British Pounds sterling (£250,000) to cover expenses incurred in connection with an investigation and research effort for the development of the company's business in European markets. Expenses relating to this investigation will be incurred over a period of up to one year, and in consideration for the funds provided to the company, if the company forms a new subsidiary within two years from the signing of the agreement, Codale will be entitled to an equity interest in such subsidiary equal to 10% of the equity thereof.

On February 9, 2010, the company issued a Notice of Redemption to all holders of its outstanding 8% Convertible Debentures to announce redemption as of February 26, 2010, of all of its outstanding convertible debentures that had not been converted into common stock. The aggregate principal amount of convertible debentures outstanding on February 26, 2010 was \$5,320,000 and accrued interest was \$66,204. All holders of the convertible debentures elected to convert their principal amount outstanding into shares of common stock at a conversion price of \$0.84. In connection with this transaction,

AMERICAN DG ENERGY INC.

the company issued to the holders of the convertible debentures an aggregate of 6,402,962 shares of common stock and paid \$7,716 of accrued interest in cash. The closing price of the company's common stock on the NYSE Amex on February 8, 2010 was \$2.82.

In March 2010, certain investors including George N. Hatsopoulos and John N. Hatsopoulos, exercised 500,000 warrants with an expiration date of April 5, 2010, for gross proceeds to the company of \$350,000.

AMENDMENT NO. 4

THIS AMENDMENT TO FACILITIES AND SUPPORT SERVICES AGREEMENT is effective as of January 1, 2010 between Tecogen Inc., a Delaware corporation ("Tecogen"), and American DG Energy Inc., a Delaware corporation ("ADG Energy").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby reaffirm all of the provisions of the Facilities and Support Services Agreement, dated January 1, 2006 (the "Agreement"), except that the following paragraphs shall be substituted for the corresponding paragraphs in the Agreement.

1. Office and Infrastructure

Tecogen will provide to ADG Energy the following office and infrastructure support services for a period from the date of this Agreement through the Termination Date (as such term is defined in Section 2 below):

(a) **Office Space.** Approximately 3,339 allocated square feet of space in Tecogen's offices located at 45 First Avenue, Waltham, Massachusetts 02451 (the "Building"), which shall include six (6) offices, a shared conference room and manufacturing space. Tecogen will also provide ADG Energy with water, sewer, electrical, phones and other utility services, heating, ventilation and air-conditioning, and cleaning and janitorial services. Tecogen may change the space in the Building occupied by ADG Energy from time to time during the term of this Agreement. Tecogen will provide such space and services at a flat rate of \$5,526.00 per month. If additional space is provided, this flat fee will increase at an annual rate of \$15.84 per square foot for any additional office space and \$14.05 per square foot for any additional manufacturing space. Copy machine usage, office supplies, and shipping, secretarial & receptionist services, Internet service, telephone support and IT support are not included in the monthly rate and will be billed separately.

(c) **Insurance and Employee Benefit Plans.** To the extent it is able to do under its then current plans and policies, Tecogen will include ADG Energy as a covered entity under its liability, property and casualty, workers compensation and other applicable business insurance policies. Tecogen will allow ADG Energy employees to participate in Tecogen's medical and dental insurance plans, and other group insurance plans for its employees, including life, AD&D, and short and long-term disability plans. The costs of these insurance programs will be charged to ADG Energy on an actual cost basis when available, or in the case of general insurance be allocated to ADG Energy for its pro rata share of the premiums. Management of the plans will be carried out jointly by both companies and with no charge to each other.

(g) **Exclusivity:** ADG Energy shall be granted exclusive representation rights to the Tecogen Cogeneration Product in the New England States, and Tecogen shall be granted exclusive representation rights to the ADG Energy Cogeneration Product in California. The relevant portions of Tecogen's standard rep agreement shall apply except where in conflict with this agreement. ADG Energy will be eligible for split commissions for cogeneration and chiller products as presented in Tecogen's standard rep agreement.

2. Term

The term of the Agreement, as amended hereby, commenced as of the effective date for one year, renewable annually upon mutual written agreement.

IN WITNESS WHEREOF, the parties hereto have caused this amendment to be duly executed and delivered by their proper and duly authorized representatives as of the day and year first above written.

Dated: January 4, 2010 (but effective as set forth above).

TECOGEN INC.

AMERICAN DG ENERGY INC.

By: /s/ Robert A. Panora
Name: Robert A. Panora
Title: President

By: /s/ Barry J. Sanders
Name: Barry J. Sanders
Title: President

American DG Energy Inc.
45 First Avenue
Waltham, MA 02451

February 22, 2010

Mr. John N. Hatsopoulos
3 Woodcock Lane
Lincoln, MA 01773

Re: Permitted Uses of Funds Available Under Revolving Line of Credit

Dear John:

We appreciate the financial support that you have agreed to provide in connection with American DG Energy Inc.'s plans to develop additional energy systems for placement in commercial and industrial facilities.

This letter confirms our agreement that the funds you have agreed to make available to American DG Energy under the Revolving Line of Credit Agreement dated December 17, 2009, consisting of funds in the amount of up to \$5 million, will be used solely in connection with the development of new energy systems, and will not be used for general corporate purposes or for any other purpose.

Sincerely,

AMERICAN DG ENERGY INC.

By: /s/ Barry J. Sanders
Barry J. Sanders
President

Cc: Anthony Loumidis
John Estabrook

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As independent registered public accountants, we hereby consent to the incorporation of our report dated March 31, 2010 relating to the consolidated financial statements of American DG Energy Inc. and its subsidiaries as of and for the years ended December 31, 2009 and December 31, 2008 included in this Annual report on Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (File No 333-146628 and File No. 333-151287).

/s/ CATURANO AND COMPANY, P.C.
Caturano and Company, P.C.

March 31, 2010
Boston, Massachusetts

CERTIFICATION

I, John N. Hatsopoulos, certify that:

1. I have reviewed this Annual Report on Form 10-K of American DG Energy Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2010

/s/ John N. Hatsopoulos
John N. Hatsopoulos
Chief Executive Officer

CERTIFICATION

I, Anthony S. Loumidis, certify that:

1. I have reviewed this Annual Report on Form 10-K of American DG Energy Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2010

/s/ Anthony S. Loumidis
Anthony S. Loumidis
Chief Financial Officer

CERTIFICATION

We, John N. Hatsopoulos, Chief Executive Officer, and Anthony S. Loumidis, Chief Financial Officer, of American DG Energy Inc., or the company, certify, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K of the company for the year ended December 31, 2009, or the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78 m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: March 31, 2010

/s/ John N. Hatsopoulos
John N. Hatsopoulos
Chief Executive Officer

/s/ Anthony S. Loumidis
Anthony S. Loumidis
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by 18 U.S.C. § 1350 has been provided to the company and will be retained by the company and furnished to the Securities and Exchange Commission or its staff upon request.

CORPORATE INFORMATION

Officers

George N. Hatsopoulos
Chairman of the Board

John N. Hatsopoulos
Chief Executive Officer

Barry J. Sanders
President and Chief Operating Officer

Anthony S. Loumidis
Chief Financial Officer and Treasurer

Directors

George N. Hatsopoulos
Founder and Chairman of American DG Energy Inc.

John N. Hatsopoulos
Founder and Chief Executive Officer of American DG Energy Inc.

Earl R. Lewis
Chairman, Chief Executive Officer and President of FLIR Systems Inc.

Charles T. Maxwell
Senior Energy Analyst of Weeden & Co.

Alan D. Weinstein
Former President of Premier Inc.

Corporate Address

American DG Energy Inc.
45 First Avenue
Waltham, Massachusetts 02451

Independent Auditors

Caturano and Company, P.C.
80 City Square
Boston, Massachusetts 02129

Counsel

Sullivan & Worcester LLP
One Post Office Square
Boston, Massachusetts 02109

Transfer Agent

Continental Stock Transfer & Trust Company
17 Battery Pl. - 8th Floor
New York, NY 10004

Stock Market Information

American DG Energy Inc.'s common stock trades on the NYSE Amex under the symbol "ADGE".

Annual Meeting

The Annual Meeting of Stockholders will be held at 1:00 p.m., local time, on Thursday, May 27, 2010, at our offices in Waltham, Massachusetts.

Annual Report/Form 10-K

The Company's Annual Report and Form 10-K (without exhibits) is available free of charge by writing to the Company at either address set forth above. You can also obtain a copy of the filing by going to the following website: <http://www.sec.gov>.

Website

www.americandg.com

American DG Energy Inc.
45 First Avenue
Waltham, Massachusetts 02451
(781) 522-6000

www.americandg.com
(NYSE Amex: ADGE)