



# Transcript of EnergyConnect Group Inc. (ECNG) Fourth Quarter 2008 Financial Results Call March 3, 2009

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## Participants

Rich Quattrini, Vice President of Marketing.  
Kevin Evans, President and Chief Executive Officer.  
Randy Reed, Chief Financial Officer.

## Presentation

### Operator

Greetings ladies and gentlemen, and welcome to the EnergyConnect Group Incorporated's fourth quarter 2008 financial results call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press \*0 on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Rich Quattrini, Vice President of Marketing with EnergyConnect Group Incorporated. Thank you Mr. Quattrini, you may begin.

### Rich Quattrini – EnergyConnect Group Inc. – VP Marketing

Good morning and welcome to the EnergyConnect Group 2008 financial results conference call. I'm Rich Quattrini, Vice President of Marketing for EnergyConnect. With me today are Kevin Evans, our President and Chief Executive Officer and Randy Reed, our Chief Financial Officer. After a brief introduction, Kev will discuss business highlights of 2008 and then Randy will take you through the 2008 financial results. During this call, management may make certain forward-looking statements. Forward-looking statements inherently involve risks and uncertainties that could cause or contribute to differences in actual results. Risks of forward-looking statements include but are not limited to competitive factors, success of new products in the market place, changes in the regulatory environment, dependence on third party vendors and the ability to obtain financing. By making these forward looking statements the company undertakes no obligation to update these statements for revisions or changes. I encourage you to review our 10k filings with the SCC for a more complete review of the risks in our industry. With that I will turn the call over to Kevin Evans, our Chief Executive Office to discuss the 2008 highlights. Kevin?

### Kevin Evans – EnergyConnect Group, Inc. – President & CEO

Thanks Rich. First let me welcome everyone to my first EnergyConnect earnings call. We have been hard at work over the last couple of months developing a new business model, securing financing and building a new management team, the details of which I will cover later in this call. For now lets turn our attention to our historical performance. Revenue for the full year was \$25.9 million up 105% from 2007. While



sequential revenue more than doubled in 2008, the second half of the year and in particular the fourth quarter of the year was difficult due to continued rules changes and PJM's economic demand response program and overall electricity prices. Revenues for the fourth quarter in 2008 was \$1.8 million down from 2.2 million for the same period in 2007. The net loss from continuing operations for 2008 was 34.1 million which includes a charge for goodwill impairment of 29.3 million. Excluding this charge produces an operating loss of 4.8 million. This compares with a net loss from continuing operations of 4.3 million and an operating loss of 4.6 million in 2007. I would like to take a minute to discuss the rules changes in a bit more detail.

As you may recall, in June, PJM changed how often customer baselines are calculated and introduced a daily baseline weather adjustment. In November PJM implemented another rule change to the PJM economic demand response program. In effect PJM assumed more responsibility for assuring customers are abiding by the spirit of the program while removing utilities from the pattern of frequent contested denials of activity through the settlement process.

With this rule change, any customer that had had any activity, that had been active during the summer period for curtailment were put on hold pending resolution. This change has had an immediate near term impact on EnergyConnect by requiring detailed documentation for frequent settlements to address the backlog of unsettled claims of various utilities. Well this will ultimately result in a standard system wide automated process for settlement, the lost revenue opportunity has been significant. EnergyConnect has responded by implementing comprehensive customer curtailment plans, rolling out new software functionality referred to as our price responsive scheduler which notifies customer of the opportunity to schedule load reductions in response to current market price conditions and lastly we have implemented settlement processes to verify curtailment actions are linked to curtailment plans. In short the rules change have had a negative near term impact on our business. However, I believe the economic business provides EnergyConnect with a clear differentiator in the market place. Our opportunity is to take these fundamentally sound requirements driven by the new rules and implement them to distinguish ourselves as the de facto standard for PJM's economic demand response program.

The second more fundamental component of the fourth quarter softness is attributed to lower overall electricity prices across PJM. As a point of comparison, the average wholesale price for a particular PJM zone declined from \$87 in the third quarter to \$56 in the fourth quarter, more than a \$30 decline. On a year over year basis, the fourth quarter average wholesale price for 2007 was \$64 declining \$8 in 2008. Another way to look at price driven response is to identify the number of opportunities a customer might have to participate in the economic demand response program in a given period. One measure to capture this might be the number of days and the number of one hour segments where the wholesale price was higher than \$150. For example in Q4 2007 there were 29 days or a total of 70 hours when the wholesale price was above \$150. This compares in Q4 in 2008 when there were only 11 days and a total of 14 hours. Given that our current economic business is transaction driven, the lower volume and price softness has a direct impact on revenues. In 2008 the business expectations were based on a certain view of the demand response market opportunity and interview connects market opportunity in PJM.

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In 2008 more than 95% of our revenues were from PJM. Their demand response program was roughly \$175 million in 2008. The largest segment was the capacity program at approximately 140 million. EnergyConnect's market share of the capacity business was roughly 5%. The second largest segment was the economic market at approximately 25 million. EnergyConnect's market share in the economic business was more than 60%. The last material segment is largely the synchronous reserves at a roughly \$6 million market where EnergyConnect held a 10% share.

Most of our remaining revenue is attributed to California along with an initial foothold in New England. As we finished the year, business also faced a very tight liquidity position with just over \$700,000 in cash and a very challenging financing environment. As we look ahead EnergyConnect 2009 performance will be driven by a targeted business model to achieve an operating profit excluding non-cash items. Our primary focus will be to strengthen our market penetration in PJM. This year we have a clear opportunity to build our capacity business by upselling our current capacity and economic customers by cross-selling our economic only customers and by acquiring new capacity customers.

Our unique sweep of demand response services provides our customers with the ability to participate in the capacity, economic and ancillary markets. PJM capacity program has some very important new rules pending before FER for the 2009 season. Most notably for customers is the requirement for rigorous testing, measurement and performance verification. I believe our integrated technology platform and notification system will enable our customers portfolios to perform well which is essential since their performance will drive their ability to recognize the full benefit of the capacity commitments.

The economic program remains a critical component of PJM's demand response program. Building the business of price responsive load management is our sweet spot. It requires intimate knowledge of the wholesale electricity markets along with a scalable technology platform that enables measurement, self scheduling, verification and settlement. In order to deliver on this objective, we need to do two things. First demonstrate the value of price responsive load management to the grid operators and the utilities. The question here is, is it real, is it predictable and can they integrate it into their forecast. This requires accurate and timely measurement and verification of our customer driven voluntary actions to shape and curtail load taken this given pricing rules. The second is making it easy for our customers to participate by informing them of the opportunity to drive savings through price driven demand response supporting the development and implementation of load management and curtailment strategies and developing an intuitive user interface. I am confident that EnergyConnect has the ability to successfully address these challenges in the coming year.

Next I am pleased to announce that we have recently closed a \$5 million convertible debt facility which provides the necessary funds to support the business for the foreseeable future. Further we will begin to evaluate what the appropriate long term capital structure should be to ensure we can fully participate in the growing demand response market place. I am also proud to announce we have established a new

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management team. Continuing to provide leadership for our core business profits as Vice President and Chief Technology Officer is John Stremel. John has been with EnergyConnect since 2005 and has distinguished himself in the role by developing our leading edge technology platform. Randy Reed remains the leader of our finance and accounting team as the Vice President and Chief Financial Officer having most recently demonstrated his value by securing the funding necessary to support the business needs in extraordinarily difficult financing environment. Also continuing as an executive who is responsible for shaping the company culture and future direction is Bill Munger, Vice President of Human Resources and my new Chief of Staff. Stepping up to my executive staff as our Vice President of Marketing and Business Development is Rich Quattrini. In addition to traditional marketing responsibilities he will also lead our efforts to leverage strategic partners and the development of our emerging markets. Fifth on the team is a new buyer Joe Bugica, Vice President Product Management and Strategy who will be shaping our product and service offerings and charting the strategic direction for the business. Joe brings over 20 years of experience and enthusiasm earning his stripes, focused on the electricity sector with GE and Westinghouse. And finally I am pleased to announce that we have a new sales executive Jay Crookston as our Vice President of Sales. Jay is a seasoned sales veteran having started his career at Xerox only to join MCI which he spent over 20 years driving revenue growth and building a world class sales force.

Lastly as for providing guidance, I believe it is philosophically, a business should be measured on its performance rather than its intent to perform. This coupled with the inability to predict future magnitude and duration of the recessionary effects on electricity prices, not to mention an inability to estimate or predict such things as continued need for legislative or regulatory reform, leaves me to remain cautionary in the near to mid-term yet committed to adjusting our business model and cost structure as needed to sustain the business. I believe by driving the business to the targeted business model of an operating profit excluding non-cash items, we will be in a position to realize the opportunity to fully participate as a technological cornerstone of the demand response market place.

With that I'd like to turn to Randy to cover the financial results and details.

**Randy Reed – EnergyConnect Group Inc. – CFO**

Thanks Kevin and good afternoon everyone, I trust you've had a chance to see the financial results we released this afternoon. A copy of our press release announcing these results is available on the investor section of our website at [www.energyconnectinc.com](http://www.energyconnectinc.com). I will review these results in some detail and we will entertain questions after the company presentation is complete. As you know, earlier this year we sold our Christensen Electric subsidiary. I want to remind you that the financial data I will be talking about in the call contains operating results from EnergyConnect only. The operating results of Christensen are being reported as discontinued operations and therefore all comparisons of continuing operations between periods will only include EnergyConnect's operations for current and prior periods. Total revenue for 2008 was 25.9 million which is more than double the 12.6 million of revenue we reported in 2007. We reported over 16 million of economic revenue in 2008 compared to approximately 10 million of economic revenue in 2007. In 2008 we recognized capacity revenue in PJM of approximately 8 million compared

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to 2.5 million in 2007. We also entered the California market in 2008 under a capacity program with PG&E and recorded additional capacity revenue in New England during the year. Revenue for this year's fourth quarter was 1.8 million versus 2.2 million in last year's fourth quarter. As Kevin mentioned this quarter's revenue was affected by significantly lower electricity prices. Additionally economic transaction settlements were limited by the rule changes that occurred in PJM in November, these settlement delays totaled roughly 450,000 at the end of 2008. At the present time we are uncertain as to when and how much of these transactions if any will be settled by PJM and recognized by us as revenue.

Total gross profit for 2008 was 7.4 million, compared to 3.8 million in the same period in 2007. This translates into a gross margin of 28.8% for 2008 compared to 30.4% in 2007. Total gross profit for the quarter was 301,000 with a 17% gross margin compared to 342,000 and a 15.4% gross margin in the same quarter last year. Moving on to our operating expenses, at the end of the fourth quarter of 2008 we performed our annual testing on the carrying value of the goodwill we acquired in the acquisition of EnergyConnect in 2005. In this testing process management considered the market capitalization of the company's stock, the calculated value of the company using a discounted cash flow model and the book value of the companies assets. In examining these measures and in light of the current economic environment, we determined that the carrying value of our goodwill was impaired and took the remaining goodwill value of 29.4 million as a charge against operations in the fourth quarter of 2008. This expense is entirely non-cash.

Total operating expenses in 2008 were 41.6 million compared to 8.4 million for the same period in the prior year. Operating expenses included stock base compensation of \$870,000 and \$920,000 for the full years 2008 and 2007 respectively and the charge of 29.4 million for impairment of goodwill in 2008. Excluding these two non-cash items, non-GAAP operating expenses were 11.4 million and 7.5 million for the 12 month periods in 2007 and 2008 respectively. Again excluding these two non-cash items this increase to 3.9 million in expense between years was due mainly to increased sales and software development headcount and related expenses in 2008 compared to 2007.

Total operating expenses for the fourth quarter were 32.3 million compared to 2.7 million for the same period in 2007 again excluding stock-based compensation expense of 226,000 and 252,000 for the current and prior year fourth quarters respectively and the \$29.4 million charge for impairment of goodwill in the fourth quarter of 2008. Non-GAAP operating expense was 2.7 million and 2.4 million in the fourth quarters of 2008 and 2007 respectively. The 2008 fourth quarter operating expense, excluding these two non-cash charges was the lowest level of expense of any of the quarters in 2008 by nearly \$200,000 as we began to adjust our expense levels in response to current conditions in our market place. The total operating loss for 2008 was 34.1 million compared to last year's 12 month operating loss of 4.6 million. The operating loss for the fourth quarter of 2008 was 31.9 million compared to an operating loss of 2.3 million in last years fourth quarter. Excluding the charges for stock-based compensation and goodwill impairment, non-GAAP operating losses were 3.9 million and 3.6 million for the full year's 2008 and 2007 respectively and 2.4

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million and 2.3 million for the quarter's ended January 03, 2009 and December 29, 2007 respectively.

The company had a net loss from continuing operations of 34.1 million or \$0.37 per basic and diluted share for 2008 compared to 2007 loss from continuing operations of 4.3 million or \$0.05 per basic and diluted share. Excluding the stock-based compensation and goodwill impairment charges, the non-GAAP net loss from continuing operations was 3.8 million compared to 3.4 million in 2007. Net loss from continuing operations for the fourth quarter 2008 was 31.9 million or \$0.34 per basic and diluted share compared to net loss from continuing operations of 2.4 million or \$0.03 per basic and diluted share in the fourth quarter of last year. Excluding the stock-based compensation impairment and impairment charges, the non-GAAP net loss from continuing operations for the fourth quarter in 2008 was 2.4 million compared to 2.1 million in the fourth quarter of 2007.

Turning to the balance sheet the assets and liabilities consist of those represented in continuing operations of EnergyConnect. The asset and liability balances in Christensen for 2007 are reported on separate lines as net assets and net liabilities. Cash and cash equivalents total approximately 710,000 at the end of the fourth quarter 2008. This reduction of approximately 1.7 million from the cash balances at the end of the third quarter was where we anticipated our cash balances would be at that point. At the beginning of 2008 we stated that we had enough cash in the business to carry us through 2008 and into 2009 and in spite of the drop in our economic business in the second half of the year we were able to make our cash last through the end of the year and well into the first quarter of 2009. As Kevin mentioned we signed a \$5 million convertible debt facility last week. This availability of capital along with a disciplined advantage to our target business model will provide us with the working capital that we need to operate the business for the foreseeable future.

Also on the balance sheet you will notice that with the elimination of the 29 million of the goodwill value our total assets are at a new level compared to the asset levels in previous quarter and year ends. At the end of 2008 our largest asset was our accounts receivable. The bulk of these receivables was generated from our capacity program within the PJM interconnection in 2008 and will continue to be received through June of this year. As of the end of the year we had no long term debt and our liabilities consisted mainly of payables generated in the ordinary course of business. In summary we transformed a business in 2008. At the start of the year we sold off a significant subsidiary to focus on our core demand response business. While we saw significant revenue growth in EnergyConnect from 12.6 million in 2007 to 25.9 million in 2008 which included more than a tripling in our capacity revenue. We also saw our revenue drop substantially at the end of the year due to regulatory intervention in the rules for economic demand response. We responded to those changes in our marketplace by adjusting our operating costs. We managed our cash to expectations in spite of the impact of revenue caused by these rules changes. At the end of the year we cleaned up our balance sheet with a write off of the remaining goodwill value. As we enter 2009 we've brought stability to our cash position by securing a debt facility that will provide us with the flexibility to address our capital needs for the foreseeable future. With that I'll turn the call over back over to Kevin.

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**Kevin Evans – EnergyConnect – President and CEO**

Thanks Randy. In closing EnergyConnect's primary focus in 2009 is to execute on the opportunity that is present in PJM. In order to deliver on this objective we need to do two things. First demonstrate the value of price responsive load management to grid operators and utilities. Second, make it easy for our customers to participate. Of a company that's made solid progress in re-tooling its software platform and internal processes I am both excited and committed to providing a leadership to foster innovation and the focus necessary for EnergyConnect to become the industry's gold standard for price responsive load management. We have secured adequate financing and we've established a new management team fully equipped to lead the business. As the year develops I look forward to keeping you informed on our progress to achieve our targeted business model of an operative profit excluding non-cash items. Thank you and with that I'd like to open this call up for questions.

**Operator**

Thank you. We will now be conducting a Question and Answer session. If you would like to ask a question please press \*1 now on your telephone keypad. A confirmation tone will indicate that your line has been placed into the question queue. You may press \*2 at any time to remove your question from the queue. For any participants using speaker equipment it may be necessary to pick up your handset before pressing the \* keys. One moment please while we poll for questions. Our first question comes from the line of Jim Stone with PSK Advisors. Your line is now open, you may proceed.

<Q>: Good afternoon gentleman. A couple of questions, you're talking about your objective for this year is to obtain profitability, can you give us some sort of a feed on that as do you think that's a high probability that you will reach it, medium, what flavor can you add to that?

**Kevin Evans – EnergyConnect – President and CEO**

Sure Jim, this is Kevin. I think what we try to do is outline that we have a targeted business model for the operating process, attaching a time line to it at this point I think I'm just too cautionary given all the uncertainty that exists within the business and I see in the economy. So and again philosophically what I'd rather us do is let us put some performance under our belt and then measure our progress towards that objective as the year goes on.

<Q>: Okay. The second is that you used to get occasional large payments from PJM, is that type of billing still in progress or is that something that's only history now?

**Randy Reed – EnergyConnect Group Inc. – CFO**

No we still deal with PJM, they're our main source or revenue and we get a monthly payment from PJM that's made up of a combination of whatever money is due to us under the capacity program, the economic program and any other synchronous reserve type operating programs that we have out there. So yeah PJM is still our main source of revenue and that's where we do



<Q>: No what I'm thinking of and I never did fully understand it is whether you go those occasional, was 5 million payments from them in a quarter?

**Kevin Evans – EnergyConnect – President and CEO**

Yeah let me touch on that one, Jim it's a little bit kind of the new guy coming in I see there's a disconnect if you will between the revenue recognition which is perhaps lumpier, it all shows up on our interruptible load program throughout the summer payment, but the payment or the cash flows attached to that are actually spread throughout the year. So revenue recognition primarily took place in the third quarter of last year and we're continuing to get paid on that as our receivables tick down from that period.

<Q>: Okay but what caused, what I never understood was what caused the rather large lumpiness and therefore how we can plan or model lumpiness in the future?

**Kevin Evans – EnergyConnect – President and CEO**

Yeah I think the way to look at it is the, the performance season if you will for our interruptible load program is from June 1<sup>st</sup> through to September 30<sup>th</sup>. So only last year the recognition of that all took place in the third quarter, so that the revenues attributed to IOR took place in the third quarter. We've sat down and spoken with our accounts in this area and we will be kind of continuing to look at that performance period because in effect one of those months is actually in the second quarter and I believe should probably be accounted for in the second quarter and then the remaining three months of performance recognized in the third quarter in 2009.

<Q>: Okay but you're saying that from a revenue standpoint we can still then look for lumpiness at least in the third quarter and maybe in the second quarter, is that where you're...?

**Kevin Evans – EnergyConnect – President and CEO**

That's correct. I think the nature of the business is also quite seasonal so that in addition to the IOR which is the interruptible load program, also the seasonality of electricity prices have an affect as well given our economic business is driven largely off of the electricity prices. So as we see peaks in the summer electricity price window you will also see a concentration of revenue attributed to that as well.

<Q>: In terms of the current quarter could you give us some more flavor of what the environment is going into this, what I'm thinking about you said that the fourth quarter was disturbed by the fact that you have to account for anything so and provide documentation so I'm wondering is there a kind of a backlog that's going to occur, what can you tell us again about the climate of the current quarter?

**Kevin Evans – EnergyConnect – President and CEO**

Yeah I think what I would draw your attention to is kind of the where have electricity prices been through the first two months of the year because those are, you know, kind of they build historical benchmarks for us to look to. One of the things I talked about during the call was really just measurement capability, when do prices go over \$150. So let me give you that for the January/February period of 2008 versus the January/February period of 2009, so year over year. Last year during the first two

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months there were 23 days or 114 hours where the price was over \$150. The average wholesale price of electricity in the zone would have been about \$74 in 2008. In 2009 so far this year again in this case only 12 days or 28 total hourly segments have been over \$150 in the first two months and the overall average price would be roughly \$59, so down about \$14 and certainly from a day count down by half but even more so only about 28 hours versus 114 we saw last year. So I think the environment on the electricity prices historically looks to have continued to be soft but up a couple of dollars off the fourth quarter low that we saw roughly \$56.

**Operator**

Thank you. Ladies as an gentlemen as a reminder if you would like to place a question into the question queue you may do so by pressing \*1 on your telephone keypad. In the interest of time our management team has requested that you ask one question with a followup so that others may be allowed to ask their questions. Our next question comes from the line of Lenny Brecken with Brecken Capital. Your line is now open and you may proceed.

<Q>: Hey Kevin, hi everyone. Thanks for taking my call. Just one question, regarding sort of the, what's the electricity rate as you describe it that sort of is the break even point at which it makes it economically feasible for someone to actually curtail, curtail and make your product attractive?

**Kevin Evans – EnergyConnect – President and CEO**

Yeah it depends on the each of the zones, but I think roughly prices north of \$75 do that and there's a lot of variable to go into that equation Lenny but frankly it's one that when prices slight for a very short period of time it's difficult for customers to react quickly. But any time that we see day by day a build in electricity prices then it's very easy for our customers to get involved in understanding how to adjust their schedules and what have you. So I would use as a general benchmark \$75 as a good threshold and then above that it begins to make sense and certainly you know the exaggerated point I made at \$150 was that virtually everybody would have the opportunity when it's over \$150 to see something there.

<Q>: All right. I guess my next question is how is it so far, I assume this quarter is soft based on your commentary as well, but how is the PJM recruitment for the summer period so far? I think that's gotten underway.

**Kevin Evans – EnergyConnect – President and CEO**

What we'll do is at the next call we'll be updating everybody on any of the activity that we've had in the first quarter.

<Q>: But I meant to the capacity program for the coming summer period.

**Kevin Evans – EnergyConnect – President and CEO**

Yeah I think that program officially launched at the beginning of the year and will continue during the first quarter.

<Q>: Right so I guess so we're getting an update by the end of the next call?

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**Kevin Evans – EnergyConnect – President and CEO**

Yeah I believe it's May 12<sup>th</sup> is our, when we're going to announce the next call, so we'll certainly be in a position at that point to give everybody full color for where the IOR program [INAUDIBLE].

<Q>: Okay. I'll get back in the queue. Thank you.

**Operator**

Thank you. Ladies and gentlemen our next question comes from the line of Marshall Delano with Delano Investment Advisors. Your line is now open, you may proceed.

<Q>: Thanks. Good afternoon everybody. I wanted to ask you about the convertible debt that you're issuing. How much more dilution does that represent please?

**Kevin Evans – EnergyConnect – President and CEO**

There's a couple of factors that are taken into consideration there. At this point there is no additional dilution but there's the opportunity for them to convert and in terms with that well they would convert at a \$0.09 price and have the opportunity to convert up to two-thirds of their balance into shares at that time.

**Randy Reed – EnergyConnect – Vice President and CFO**

Yeah it's hard to say at this point based on the fact that we don't know the data conversion what the balance of that debt will be, so the maximum would be the \$5 million total line divided by 9 cents.

<Q>: Okay and you now have, looking at your statements here, 95 million shares outstanding and so if you convert that on top of it it's, you're going to have, I would think, you're going to have to do some kind of reverse split to get the stock price out the, out of the penny class here. Is there, have you given thought to that and what are you thinking?

**Kevin Evans – EnergyConnect – President and CEO**

Yeah I think, apparently we've done some work in the past and certainly I support that. Whether you know we address the stock price in terms of any sort of reverse split and what have you, it more fundamentally I think needs to be attached to a longer term strategy on what our capital structure is and needs to be. So I think that we are going to begin those efforts to look at what's the optimal capital structure and then ultimately what the right share cap would be and what have you. So I would say that is stuff was under consideration but that is certainly not imminent.

<Q>: Okay I'll jump back in the queue. Thanks.

**Operator**

Thank you. Our next question comes from the line of Richard **Pace**, a private investor. Your line is now open, you may proceed.

<Q>: Yes how are you doing gentlemen?

**Kevin Evans – EnergyConnect – President and CEO**

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Good how are you?

**Randy Reed – EnergyConnect – Vice President and CFO**

Hi Richard.

<Q>: I'm fine thank you. I just had one question, it was in regard to a press release back in November of 2008 basically stated that I guess you entered into an agreement with the Defense Energy Support Center and into a master demand response agreement with EnergyConnect it stated, the question I had was it basically said the selection was made by the Energy Defense Support Center which tasks the Federal Government to provide comprehensive energy management and procurement solutions to the defense and government agencies. Could you just comment because I've heard nothing really since that press release?

**Kevin Evans – EnergyConnect – President and CEO**

Randy I'm not familiar enough with any of the details behind that so.

**Randy Reed – EnergyConnect – Vice President and CFO**

Yeah that allows us to be one of the contractors that we can sell demand response into the Defense Department. It's not an exclusive arrangement but it gives us the power to sell to the Defense Department which is a wide ranging organisation.

<Q>: Right yeah because it I guess describes that and other government agencies. So I was just curious if there was any ongoing you know talks with the government in regard to providing to them and/or through I guess the contractor who you may be working for on that?

**Randy Reed – EnergyConnect – Vice President and CFO**

Yeah I don't have anything specific that I can discuss on this call but certainly we are taking every opportunity to look for opportunities within the Defense Department.

<Q>: Okay thank you very much.

**Operator**

Thank you. Ladies and gentlemen as a reminder if you would like to place a question into the question queue you may do so by pressing \*1 on your telephone keypad. Our next question comes again from the line of Jim Stone with PSK Advisors. Your line is now open, you may proceed.

<Q>: I wonder if you could comment, are you looking for any help out of either the stimulus or the carbon cap and trade programs that might help the business?

**Kevin Evans – EnergyConnect – President and CEO**

Sure let me take a shot at that. I mean I think certainly there appears to be a great deal of focus and a cross fitting number of programs I think where we may find that there's an opportunity that begins to percolate. I would tell you that my experience is that you know we certainly need to scrub that for whether or not there's an idea that will link us into the smart grid and whether those funds will actually begin to flow. What I do think we will see is perhaps some additional kind of RFP type volumes as

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that money starts to trickle into the various sectors that, I think any sort of near term or mid term expectation there would be, that we won't really see any real trickle down to us at that level.

<Q>: And what about the carbon cap and grade and what it'll do to electricity prices and possibly help us?

**Kevin Evans – EnergyConnect – President and CEO**

Yeah you know to be honest I don't know that I can speak effectively to the real impact of whether there be a carbon cap and trade and the amount of which that might drive electricity prices. There's been certainly a lot work on that but I don't think we're in a position to be able to speak to that.

<Q>: Okay thank you.

**Operator**

Thank you. Our next question comes from the line of Lenny Brecken with Brecken Capital. Your line is open.

<Q>: Well I'll make a statement Kevin at least we're getting some straight answers unlike in the past, I will give you that. More of a question on the 450,000 of unsettled PJM activity, why is there some uncertainty regarding whether that will get settled and you get payment for that?

**Kevin Evans – EnergyConnect – President and CEO**

Sure. I'll give you a little bit of color to it and it really speaks to these new requirements around both screening, but what's important for PJM and the ultimately the utility to support payment on is whether or not these curtailments actually can be linked to both price responsiveness and a curtailment plan and then there is some continuing let's call it discussion with PJM about whether or not load management is actually the same as demand response and so we are certainly, we certainly believe that the ability to shift work into the morning hours perhaps when prices are low is an important tool for our customers to be able to have and for the grid to be able to utilize. And so I think frankly part of it is to work through with PJM the various, let's call it vertical scenarios for curtailment so that they will in fact recognize that it isn't, that it's price responsive demand reduction.

<Q>: All right. Well it doesn't really, I still don't understand what then is the, as an investor, how I understand why and how you're going to get payment for that?

**Kevin Evans – EnergyConnect – President and CEO**

Sure. Let me try and make sure because I think I missed one, we're trying to provide as much transparency as possible. At this point we have a couple of different situations where our customers did things such as move their production shift to an earlier day or rotated their work load activities and therefore their electricity consumption and in a kind in a view from PJM's perspective we need to give them good insight into how customers actually respond to prices and we believe that a customer shifting their work activity to off peak prices is an important thing for them to do. At this point PJM doesn't view that load management as a demand response

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reimbursable event if you will. So that's what we're really trying to do is work with them, provide documentation and support, as well as curtailment plans that really demonstrate to them the actual load drop that occurred and then why does load drop did occur and why they should be paid for having in effect made those changes in their business in response to price.

<Q>: Well I agree with you, that seems like a silly thing not to take into account on PJM's side. Kevin, I know you're not giving a revenue forecast but can you at least give us some idea where your break even is and what you did to your head count to get to that point? Just keep in mind the convertible potential it does represent; about 50% of your shares outstanding if fully utilized so we as investors got to get an idea of how much will you have to draw down on that convertible at some point?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Yeah that's fair. I think it is important for everybody to get a sense of, again these are actions that we have taken and we will certainly see the effect of those in the first quarter and certainly continuing thereafter. What we have done is we have basically taken the head count down about a third, a little over a third and it has been a pretty painful event. That said, I think it is the right thing to do. We have basically taken our resources and focused them directly on PJM so that we have in effect beefed up the PJM related resources but cut back virtually across the rest of the organisation. Then from a cost stand point I would say as well the full back out of our year-end number is a third or so; it is what we're thriving to from a quarterly cost structure.

<Q>: Okay so then your cash per earn, you earned about £3.4 million in the fourth quarter; so you think that is going to get reduced by a third?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

The quarterly ones are lumpy again because we have got this big blast that comes in Q3, so we're really trying to look at cash on a rolling four quarter basis.

<Q>: No, I understand that but assuming your revenues are the same, your head count reductions on roughly \$1.7/1.8 million in revenues would equate to a \$1 million reduction in cash per earn assuming the same amount of revenues; is that basically what you're saying?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Yeah. No. Just to be honest what I would rather do is let's get through the first quarter and show you guys exactly where our cost structure is and the cash that we sit on at that point. I think I am comfortable to provide the sense that we're more than comfortable with the \$5 million and our ability for that to fund us for the foreseeable future.

<Q>: Does that mean through '09?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

It certainly does.

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<Q>: Okay. I don't know what the foreseeable future means, so. All right, understood. That's very encouraging.

**Randy Reed – EnergyConnect Group Inc. – CFO**

Sure I mean just to add a little color to that, you know our expectation is a line was developed and it has a maturity of January of 2011.

<Q>: Okay, very good. Kevin are you then, do you not see any opportunity outside of PJM or are you just focusing your resources in PJM to get to the company's break even point and then focusing outside of PJM? I mean at the minute you have some activity in New England and you had some limited success but I am just wondering are you re-trenching because of the economic environment and to reduce your break even point, or you just don't see other markets maturing to a point where you think the return is going to be adequate in the next twelve months?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Yeah. I think we will continue to have some resources and we have some contracts here in California as well as to a more modest extent in New England, so we will stay in those markets and I believe that those markets can effectively cover the cost that support us being there but frankly given our market share opportunity in PJM and the size of the PJM market, our critical mass there I think I would say that largely the focus of the team is to continue to drive and ensure the success inside of PJM. But we will keep our, I would say that the emerging market focus that Rich has focused on is making sure that we're at the table, we're helping to shape those outcomes but that we're not able to beef up the team and really drive any real growth in those areas.

<Q>: Okay. Thank you.

**Operator**

Our next question comes again from the line of Marshall Delano with Delano Investment Advisers. Your line is now open.

<Q>: Kevin I have a question for you if I may please. What were the key factors in your taking this job? You had a good job as it was and from where I sit having been through the drop in the stock prices and so forth, this looks like a fairly risky thing to do so I would be interested in the key things that caused you to choose this job over the one you have.

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Sure. I appreciate that. I actually liked my job before but I love this one. So I would tell you that there is a couple of things that I see that are really fundamental, and that is that the electricity markets really need to have companies such as Energy Connect to focus on automation of the various parts of it. If I look at the kind of the big picture for a second, electricity the supply side largely dominated by the big industrials GE and the big Capital Equipment guys and I didn't find that to be, it's a very interesting area to understand and learn about but didn't find that there was much that looked very interesting from my perspective for me to participate in. I think if we begin to look at the utilization of electricity, smart grid technologies and certainly demand and response, there is an enormous opportunity for us over the next couple of years.

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We're going to have to frankly have the sustainability to make that happen. The market obviously, a difficult recessionary environment only makes it even more difficult but my sense is that it is critical that these markets begin to automate, that they begin to put in place technologies both software and hardware that will enable them to become more efficient. I actually think that the smart grid and the role for demand and response is actually quite bright as we look out over the next number of years. Most recently, the place I came from put together a report. It is on their website and I would urge you to take a look at it. Their view is that over the next twenty years demand and response and energy efficiency have an equal share of the pie and it is an enormous opportunity. I would say that the macro perspective is very exciting. To take on the challenges specifically at Energy Connect I think we have an extraordinary technology. We need to continue to develop that technology to innovate if you will for the market place. I am familiar with how to do that and I am comfortable that we've got a very good team here to build on to make that happen.

<Q>: Yeah that was going to be my next question, as to whether the reduced resources that you have had, whether you could keep up or compete technologically with some of these other companies that have more money?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Yeah I think that there is a, the image that you have when you're small and certainly I would like to be a little bigger, and you know we need to earn that. But I think the particular focus that we have on technology is an important one, and it is one that really says we understand electricity markets and we understand the ability to provide the market place with information about, (1) a customer profile and, (2) the electricity markets and those customers' profiles can be leveraged to reduce their energy costs. So I think that there is a real opportunity there for us and I don't think that it requires an enormous amount of software development but it does require laser focus on what we're going to be able to target.

<Q>: Thanks very much.

**Operator**

Thank you. Our next question comes from the line of Jim Stone with PSK Advisors. The line is open.

<Q>: I wonder if you could give us some insight into what is happening in the customer base? What sort of churn you may have had in the base? What has been the reaction of the customers to the delay in their cheques so to speak caused by the changes in the regulatory etc.?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Sure. I think it is important for us to continue to educate the customers that we're in an evolving market and that these disruptions really are quite frustrating. I have spent a reasonable amount of time in the last month or so in talking with customers. Frankly, our own liquidity position made it difficult for us but our customers really stuck with us and we feel fortunate about that. So I am very encouraged about today, the liquidity position that we have and now the challenge to us is really to reengage the customer base and to actively focus on load management and kind of take that

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forward. I think that Energy Connect has developed a good relationship with its customers. I think the constant moving of the rules has made it difficult, but honestly I envision that we will continue to see rule changes not only in the economic program but certainly there is a good deal of changes that our customers and other customers will face on the capacity markets as well.

<Q>: Over the last six months have you lost any significant customers?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Not that I'm aware of.

<Q>: And any changes in the competitive climate?

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

You know I think through year-end I would say that our view is that the economic market which was very, very soft saw an exit of competitors from that market. I think as we monitor the overall economic program what we get is information, and what I provided earlier was information on the total program and then our part of the program so we can draw some reference from that. I would say that our market share in the economic side would indicate that we're kind of the key player on the economic side. On the capacity side I think there is a great deal of competition there both from the utilities themselves as well as the other CSP's.

<Q>: Okay. Lot's of luck to you.

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Thank you very much

**Randy Reed – EnergyConnect Group Inc. – CFO**

Thanks Jim.

**Operator**

Thank you. Ladies and gentlemen our final question of the afternoon comes from Lenny Brecken with Brecken Capital. Your line is now open, you may proceed.

<Q>: Okay. Some [INAUDIBLE] analysts have speculated that companies like Google would kicked around the tyres and it just begs the question, I mean you guys have a significant uphill battle not having the marketing muscle like companies like that have and **Interknock**, I'm just wondering you guys have a pretty solid set of technologies as you outlined, what is the strategy of potentially leveraging that through white labelling our OEM activity? Is it something you guys have thought through? On that same note, can you just name three changes to the sales and marketing approach that you will be able to implement in the very near term to make a difference in sales and marketing; I'm sorry the sales line of the whole, the revenue line of the whole? Thank you.

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

So let me make sure I capture all the questions. I guess you'd indicated Google and their activities; I know they have done quite a lot recently in focusing on their

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residential market and perhaps have some areas through Google that are to provide some what is called visibility to a customer on their electricity usage. I think they do tremendous things and I think helping building awareness about people's load is very helpful. So I think kind of in general education that they can continue to provide at an interest level frankly is very helpful for us. As we look to really focus on expanding the business I will tell you that the only answer to driving the top line is to add our own direct sales force. In fact, I think that is actually a very expensive way for us to look at growth. I think there are a number of different ways that we'll begin to look at understanding channels that already have customers that need to have the kind of technology that we provide and our ability to offer that as a service. So we will begin to look at those areas, and certainly as soon as we have meaningful announcements to be made there, not that we're going to do them but that in fact that we have secured a position I think, of importance. The same can be said as well for the utilities themselves. So I think a go-it-alone strategy that is focused on direct sales is certainly not my current view of how to drive success but it is the way that we will drive focus on building the business to an operating profit.

On the three changes I would say that we will make, the first is certainly the hiring of J. Kirkston. I am very confident that Jay will pull together our team and be able to really optimize the resources we have in the sales focus. So I am very confident that we have done that step. The other ones are more prospective and you know I mean I try and avoid those to the extent we can't demonstrate; we've done them, but I will tell you that certainly it is difficult for a customer to understand this market and to understand how to participate in this market. I think we have to make the software easy for them to use and they have to understand how much value they'll derive from and affect reducing load. Those are things that we are very focused on to ensure that it is easier for customers to participate and allow them to really educate themselves in some regard as they begin to develop curtailment strategies.

<Q>: Okay. Thanks.

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

Thanks buddy.

**Operator**

Thank you. Ladies and gentlemen there are no questions at this time. I would like to turn the floor back over to management for closing comments.

**Kevin Evans – EnergyConnect Group, Inc. – President & CEO**

I would like to thank everyone for their interest and participation in this year's 2008 financial results conference call and would like to announce the date for our first quarter 2009 conference call as May 12<sup>th</sup>, 2009. Have a great evening.

**Operator**

Ladies and gentlemen this concludes today's telephone conference. You may disconnect your lines at this time. Thank you very much for your participation and have a wonderful afternoon.

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