



*Transcript of
EnergyConnect Group, Inc. (ECNG.OB)
First Quarter 2009 Financial Results Conference Call
May 12, 2009*

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Participants

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

Presentation

Operator

Greetings, ladies and gentlemen and welcome to the EnergyConnect Group, Inc. First Quarter 2009 Financial Results Conference Call. At this time, all participants will be on 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. Thank you. You may begin.

Rich Quattrini – EnergyConnect Group, Inc. – Vice President of Marketing and Business Development

Thank you, Jen. Good afternoon. Welcome to the EnergyConnect Group Q1 2009 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, Kevin will discuss the business highlights of our first quarter. Randy will then take you to the financial results.

During this call, management may make certain forward-looking statements. Forward-looking statements inherently involved risks and uncertainties that can cause or contribute to differences in actual results. Risks of forward-looking statements include but are not limited to competitive factors, the success of new products in the marketplace, change 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 encouraged you to review our 10-K filings with the SEC for more complete review of risks in our industry.

With that, I'll turn the call to Kevin Evans, our Chief Executive Officer to discuss our first quarter highlights.



Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Thanks, Rich. I'd like to welcome everyone to EnergyConnect's investor call. Today we'll be discussing our year-to-date business performance in the context of the current market conditions and our first quarter financial results.

The business continued to reflect the difficult business environment and soft energy crisis for the first quarter with revenues of \$1.2 million. Operating expenses were \$2.6 million which included approximately 250 non-recurring cost associated with our restructuring and financing activities in the quarter. The operating loss was \$2 million or \$1.8 million excluding non-cash items.

As I look at the business, I'm encouraged in spite of this difficult market. We have met the following objectives I set for the company in the first quarter. We increased our penetration of PJM's capacity market. We secured \$5 million in financing and we restructure the business with a new management team. And most importantly, we are on track to reach our financial objective of an operating profit excluding non-cash items and the timely introduction of new technologies that will enable the market development of price responsive load management. The one disappointment for the quarter was the continued weakness in our economic business.

As I mentioned in our last conference call, the 2009 PJM capacity program would likely be subject to new rules included in the filing at the FERC. The filing was approved on March 27, 2009. While it contained a number of changes, a particular note which applies to this year was the institution of mandatory testing and the extension of the registration period from April 1 to May1. These changes were supported by all of the PJM's stakeholders and fought to support the objective of the enhancing group reliability.

Although the 2009 capacity campaign was somewhat complicated by the uncertainty of this pending changes, our first quarter performance was reasonably strong. We increased our total callable of megawatts by 40% to 250 megawatts as of March 31. With the extended registration time frame for this year, we continue to register new business until May 1. In addition to booking even more capacity business in the second quarter, we will also be conducting a rigorous campaign... a rigorous performance testing to ensure our customer are fully prepared for the year ahead. I will update the investors on our callable megawatts at the end of the second quarter.

One additional important note on the FERC approved filing is that it includes a significant change which eliminates the interruptible load for reliability or ILR program in 2012 and shifts the emergency capacity to the PJM RPM market or the Reliability Pricing Model. The fundamental difference between ILR and RPM capacity programs is the ILR program allows for unlimited amount of capacity to be registered on an annual basis at a pre-determined price whereas the RPM market is a three-year forward auction where quantities and prices are established by market forces.

Taking a look at our economic demand response program, activity was relatively weak due to a soft electricity crisis in the first quarter. The average price in PJM for the first

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quarter was approximately \$64. This compares to a price of approximately \$78 in the same period for 2008. In spite of a great deal of focus and hard work, the majority of our economic customers were inactive during the quarter and their related backlog remain outstanding based on the rule changes implemented in 2008.

Our objective in this area is to enhance the technology platform and to fully implement the necessary changes to comply with the new price responsive notification, curtailment planning, and settlement requirements. I anticipate we'll make significant progress in the second quarter on this objective in preparation for the peak summer season.

The economic business was a price responsive load management is an essential component of demand-side resources as highlighted in last week's speech by the FERC chairman Wellinghoff, recognizing PJM for its leadership and demand response at their annual meeting. Accordingly, I view our strategic investment of time and resource in this area as essential to distinguish to EnergyConnect as a technology leader in price responsive load management. In support of that objective, I'd like to take a moment and describe our technology platform.

FlexConnect provides both push and pull access capability to a secure web portal giving each customer instant visibility of load management opportunities in the context of critical information about their electricity use. These opportunities are evaluated using day ahead energy prices, real time energy price forecast, their load profiles, and local temperature forecast. Armed with this information, customer could easily determine the value of employing various curtailment strategies and decide whether to respond to the current prices on their immediate business... given their immediate business constraints. At the click of the button and within seconds, a confirmation comes back from grid operation center confirming the load management schedule. FlexConnect then automatically tracks the performance and transaction status and provides the customer with the view of their settlements status, program results, and earnings reports.

As evidence of the strength of our technology, we are pleased to announce that last month, the Peak Load Management Alliance recognized FlexConnect's price responsive technology platform as its winner of the 2008 Demand Response Outstanding Curtailment Service Provider Award. The other award winners included such companies as Baltimore Gas and Electric for their direct load control program and Target Corporation for their outstanding achievement as a commercial end user for their participation in a variety of demand response programs throughout the country. A further update on the economic program relates to FERC 2008 non-public inquiry concerning EnergyConnect's participation in PJM's Demand Response economic market.

On April 28, 2009, staff from FERC's Office and Enforcement informed EnergyConnect that FERC had found our technology and business processes to be in compliance with the tariff and had closed its inquiry without any proposed enforcement actions or remedies.

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As I look ahead, I remain cautionary in the near term, but I'm encouraged by the growth in our capacity markets, the industry's recognition of FlexConnect price responsive technology platform, and our progress in driving towards our financial objective of an operating profit excluding non-cash items.

And with that, I'd like to turn to Randy to cover our financial results in detail.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Thanks Kevin. Good afternoon, everyone.

I'm here to discuss EnergyConnect's first quarter 2009 financial results. The copy of our press release announcing these results is available on the investor section of our website at www.energyconnectinc.com. I'll go over these results in some detail and we'll entertain questions after the company presentation is complete.

The revenue for this year's first quarter was \$1.2 million versus \$7.4 million in the last year's first quarter. Going back to the revenue for the first quarter of 2008, I want to remind you that we revised our revenue recognition procedure at the beginning of that quarter. The result of that change was to add a fourth month of revenue or an extra \$1.7 million to the first quarter 2008 revenues.

On a pro forma basis, comparing the three months of 2009 versus the same three months of 2008, revenue was \$1.2 million versus \$5.7 million in the first three months of 2009 and 2008, respectively.

Revenue in the current year quarter was affected by sustained lower than normal electricity prices. Temperatures in the regions in which we operated has been very moderate; that factor combined with lack luster demand for electricity largely caused by lower production levels across many industries has contributed to an extended period of low electricity prices and limited the opportunities for our customers to participate in price responsive load management activity.

As we mentioned in our fourth quarter call, we're also subject to additional documentation by PJM in our economic markets. This involves providing curtailment plans for all of our customers whose economic activity exceeds certain thresholds. We've been working through these requirements with our customers and PJM and are hopeful to have all documentations complete and approved in the near future. These requirements have led to delays in our ability to recognize revenue from past months' transactions. As a result of these delays, we currently have a backlog of about 400,000 of transactions waiting for approval.

Total gross profit for the quarter was \$568,000 as compared to \$1,000,192 in the same quarter last year. This translates into gross margins for the current quarter of 47% compared to 16.2% in the same period last year. The decrease in gross profit is due to the lower level of revenue in the current quarter compared to that of the prior year. The increase in our gross margin in this quarter compared to last year was primarily due to a high margin transaction with an energy partner.

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Operating expenses which include stock based compensation were \$2,571,000 for the first quarter 2009 compared to \$3,102,000 for the same period in 2008. This decrease of over \$530,000 between year-over-year quarters is due to a planned reduction in expense to a more appropriately match the cost of the business to our revenues as we move toward our financial objective of an operating profit excluding non-cash items. Reductions in expense between year-over-year quarters are comprised of lower headcount costs and the elimination of several consulting engagements. Also included in the current quarter are charges for non-recurring financing and restructuring and consulting fees. These charges total approximately \$260,000 during this year's first quarter. Excluding stock based compensation of \$169,000 and \$197,000 for the first quarters of 2009 and 2008, respectively, operating expenses were \$2,402,000 and \$2,905,000 for the three month period of 2009 and 2008, respectively.

The total operating loss for the current quarter was \$2,003,000 compared to an operating loss of \$1,910,000 in last year's first quarter. This increase in operating losses between periods was due mainly to the lower revenue levels this quarter compared to last year's quarter.

The company recorded a net loss of \$2,082,000 or \$0.02 per share for the three months ended April 4, 2009 and \$2,079,000 for the three months ended March 29, 2008. Included in the net loss for the three months ended March of 2008 is an operating loss of \$175,000 from our discontinued subsidiary Christenson Electric.

Including with the income statement, our three month comparable basis between year-over-year quarters, revenue was down significantly this year as we we're hampered by several factors in the economic markets that limited our ability to initiate price based transactions. We respond to this difficult period are markets by managing our operating expenses accordingly. In spite of lower revenue levels, our actions and expenses limited our net loss to close to last year's first quarter level.

Moving to the balance sheet, unrestricted cash totaled approximately \$724,000 on April 4th, an increase of approximately \$300,000 from the end of 2008.

On February 26th of this year, we signed a \$5 million loan agreement that gives us access to the resources we need to weather the current economy and to accomplished other objectives this year. With the successes we achieved in the upcoming summer capacity season, we're anticipating that cash generated from operating activities under our new financial model, our current cash balances, and cash available under this debt agreement will be sufficient for the foreseeable future.

Accounts receivable decreased during the first quarter to \$2,267,000 at April 4th from \$4,000,373 at the end of 2008. This was due mainly to the regular monthly receipts of payments from a prior year PJM capacity program. Accounts payable also decreased during the quarter to \$2,256,000 at April 4th from \$5,116,000 at the end of 2008. This reduction was also due to scheduled payments we made to our customers under that capacity program and to the reduction of some older accounts payable balances.

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As I mentioned earlier, our debt also increased by the advances under our new debt facility. The debt amount on the balance sheet is presented net of the debt discount that arose as a part of the terms of that agreement.

In summary, we've seen a significant decrease in price responsive load management activity due to economic factors and it responded by tailoring our expense levels to meet that challenge. We are determined to reach our financial objectives of operating profit excluding non-cash expenses and are on track to achieve that. We believe we have taken care of our short term capital needs through anticipated successes in this year's capacity programs, overall cost reductions, and the signing of a new debt facility. We are looking forward to implementing improved technology solutions in the price responsive load management space, which are factored into our financial models for the next several quarters.

While the top line results were soft this quarter, the achievement of several objectives that Kevin set for the company in the first quarter, the industry recognition of our technology and our attainable financial goals on horizon, I'm cautious but upbeat about the future of EnergyConnect. There is no doubt we have a lot work ahead of us, but we look forward to the challenge of meeting and overcoming our hurdles on our way to growth and success in the demand response space.

Thank you and with that I'd like to take this opportunity to open up the call for questions. Jen, could you remind our callers of the instructions for asking questions please.

Operator

Thank you. Ladies and gentlemen, if you'd like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the *keys. One moment please while we pool for questions.

Our first question comes from the line of Larry Brecken with Brecken Capital. Please proceed with your question.

Lenny Brecken – Brecken Capital

Excuse me, actually it's Lenny Brecken.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Hi, Lenny.

Lenny Brecken – Brecken Capital

Hi, guys. Could just describe what transaction was it that caused the margin to be so high on a percentage basis.

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Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Yes, Lenny. We don't want to really kind of go into that the details of any particular transaction, frankly as this is much a competitive advantage that we like to maintain as opposed to really showcasing that kind of single transaction.

Lenny Brecken – Brecken Capital

Alright. Is it a one off transaction, meaning it's a non-recurring transaction or...?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

No. I don't believe so. I think it's an opportunity we see given the current kind of market framework and where energy prices are today so it allows us to take advantage of that opportunity.

Lenny Brecken – Brecken Capital

I'm sorry. It was in the price based market?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

It's actually across both the energy and capacity market side of things.

Lenny Brecken – Brecken Capital

Okay. So it will contribute again to the results in this quarter that we're in now?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

I think we'll continue to see a focus in both the capacity and energy market for us in terms of kind of providing any guidance on Q2, you know, I'm kind of the opinion that we are to wait for the quarter to perform and demonstrate to you at that point what our activity levels are.

Lenny Brecken – Brecken Capital

Oh, alright. So alright. That was the first question. Could you just give us the size of that contribution?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Size of that contribution?

Lenny Brecken – Brecken Capital

Yes. Of the business with the utility that caused the margins to be so high.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Sure. Again, we're not going to provide any more detail in terms of the transaction activity other than what's in the reported external financials.

Lenny Brecken – Brecken Capital

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Alright. Well, to me it appears to be a pretty sizeable transaction in that it does beg me to question that it is clear that barring a rise in electricity rates, what makes you think on the price base side that revenues will pick up any time soon? And on that question, Randy, can you give us an idea what you're ongoing cash burn is, what it will be this quarter and a range or some sort of?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Yes. We've mentioned in both Kevin's and my discussion that we're targeting an operating profit excluding non-cash items that's about as far we can go at this point. So...

Lenny Brecken – Brecken Capital

Is that this quarter or this year?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Actually, we haven't attached a timeframe to it, Lenny. We're trying to just make sure that we're on track and continue to adjust our business as it relates to the economic markets. Frankly, it's very difficult for us to really be able to forecast energy prices and therefore, revenues. With that difficulty, it's really not appropriate for us to provide any sort of guess work on that.

Lenny Brecken – Brecken Capital

Alright. Well, I guess I'm.... alright. I guess I'm trying to... obviously; we all have the model the company. I mean, you used about \$2.1 million in the debt facility and you've probably burned, Randy, this quarter what? About one... little over \$1 million in cash. Is that about right?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Lenny, if you're modeling this, you've got to look at where our cash comes from and cash doesn't come from just sales because of the capacity programs that we're in last year and that we'll be in again next year starting in June, you've got to reflect how the business uses cash from those as well. And so I think we talked about the 2009-2010 capacity program in PJM and what kinds of... Kevin mentioned in his that we're taking increases in that so... I'd model it from that and obviously, our expenses treaded down this quarter and we've got non-recurring costs that were included in this quarter so you could model a little bit lower on the expense side as well going forward.

Lenny Brecken – Brecken Capital

Alright. I guess I'll have to run to the numbers but can you just give us what was your cash usage from operations?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Well, that will come out in the 10-Q here in the next couple of days.

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Lenny Brecken – Brecken Capital

Alright. You can't give it. I guess... like I took a stab at it. It was like a million to a million and a half dollars. Is that about right?

Randy Reed - Vice President and Chief Financial Officer

Well, if you want to look at that, just take our net income, take out the stock based comp and a couple of hundred thousand or a hundred thousand per amortization depreciation then you'll come up with that number.

Lenny Brecken – Brecken Capital

Yes. And then you have about \$260,000 in non-recurring expense. Did that include amortization as well or stock based compensation?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

It's not in stock based compensation. It's actually in cost of sales. It's about \$60,000 a quarter in amortization and another 30 or 40 in depreciation. So about a \$100,000 in that.

Lenny Brecken – Brecken Capital

A \$100,000 in that, you got a 160,000 stock based compensation needs mentioned in numbers of about 260,000 in non-recurring severance type expenses, is that about right?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Those types of expenses we had some consulting engagements that tailed off in the first quarter of 2009 and we had some financing cost right with that we run through the expense in this quarter that were not part of our debt agreement. Those expenses you get to amortize that over the life of the loans so...

Lenny Brecken – Brecken Capital

Alright. So you're cash burn to me was about then \$1.5 million. I mean something in that range.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Yes. You'll get a look at it in the 10-Q. It's coming out in the next couple of days, a few days.

Lenny Brecken – Brecken Capital

Alright. Well, look, my question is in a nutshell then... I'm trying to get some idea of what your cash needs will be again this quarter, I know in the September quarter things could turn around dramatically but I'm just trying to understand...

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

A lot of what's going to help you with our cash flow for 2009 its going to be dependent on what we have done in the capacity program and PJM for this coming year and Kevin mentioned he'll talk about that in our next conference call, but we will say that it's more than we had in last year and so that's going to provide us significant payment to us each month throughout the 12 months starting in July of this year.

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Lenny Brecken – Brecken Capital

Well then did these specific sales up 40%?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

That's correct. The capacity overall, what we refer to as our callable megawatts.

Lenny Brecken – Brecken Capital

Alright.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

They're up 40% to 250 megawatts.

Lenny Brecken – Brecken Capital

Alright. One last question and then I'll get back in the queue. The debt discount, Randy, what specifically is that?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

There's a term called the beneficial conversion feature when you have a stock exercise price that's at a discount to market on the day you closed the deal. That has to be valued and that value is that it's amortized to get the value of the loan over the life of the loan. Unfortunately, it needs to be adjusted every month and it needs to be adjusted if there are advances or payments on that. So, that's where it sits right now. The balance of the loan is \$2.5 million. We don't anticipate taking that up or down by much over the near terms so you'll see. I think it was about \$16,000 of expense we took in the one month that that was outstanding through the end of the first quarter. And that goes through... the amortization of that goes through interest expense.

Lenny Brecken – Brecken Capital

Okay. So it's a non-cash item?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

That's correct.

Lenny Brecken – Brecken Capital

Okay. I'll get back into queue. Thanks, guys.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Okay, Lenny.

Operator

Thank you. Once again ladies and gentlemen, if you'd like to ask a question, please press *1 on your telephone keypad.

Our next question comes from the line of Marshall Delano from Delano Investment Advisors. Please proceed with your question.

Marshall Delano – Delano Investment Advisors

Thanks. Good afternoon, gentlemen.

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Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Hi, Marshall.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Hi, Marshall.

Marshall Delano – Delano Investment Advisors

Hi. Do you understand from what you've just said, you say that \$2.5 million is the balance of the loan, does that mean that you could grow an additional \$2.5 million? That's the limit you can draw now?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Yes. We're limited obviously by the upper limit of our loan base and then there're other measurements having to do with our receivables balance and such and so we have the ability to draw up the \$5 million today if we wished to do so.

Marshall Delano – Delano Investment Advisors

Okay. You can draw up \$5 million in total.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

That's correct.

Marshall Delano – Delano Investment Advisors

Okay. One thing that puzzles me is... I know your business is not entirely comparable but in looking at EnerNOC's conference call and converge; their revenues were up slightly before where they had been the previous year. They obviously weren't enjoying the growth they had in the past and I'm surprise to see your revenues down as much as they are. What... why would it drop as dramatically as it did?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Sure. Let me take a look at that. I think their focus without having a great deal of insight into their business is on the capacity market side. And I see, I think, I've seen some growth in their overall capacity business year-over-year and recognize that revenue outside of the PJM model on a monthly basis. So they're seeing revenue increases, I would suspect, in capacity business outside of PJM. Our heavy dependency on the economic business in general and the lack of electricity price in the first quarter is what really has accounted for the difference. So, we in effect have all of our capacity revenues last year were recognized in the third quarter and they'll have much in the way of capacity revenues that continue to operate outside of the PJM window.

Marshall Delano – Delano Investment Advisors

Okay. I don't understand your business entirely which would be obvious in my questions I guess but you're saying that your megawatts are up 40%, what exactly does that translate into as far as the revenues of the business are concerned say for the rest of this year?

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Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Yes. We don't try and provide any sort of revenue guidance but let me just kind of give you a general sense of the measurement of that is based upon an annual program. We sign up customers through this time frame that we've talked about which actually goes all the way until May 1st for signups, but as of March 31st, we were at 250 megawatts. That 250 megawatts in the PJM world, depending on which zone it's booked, is anywhere from \$37,000 to about \$67,000 a megawatt year and so that's the revenue potential based upon where those megawatts are across the PJM footprint.

Marshall Delano – Delano Investment Advisors

Okay. Let's see what else I had here. You mentioned in the last conference call that in view of the company's situation, you were focusing on PJM as opposed to some of the other sales initiatives that you had and yet it seems to me each quarter, your being buffeted about by some change made by the PJM grid and it almost seems as though you're totally at their mercy in a way even though I realize you have a big market share there. I mean what is that hold as far as the future is concerned? Will you always have this, you think, erratic revenues and so forth depending on what their latest ruling is or do you foresee that smoothing out to some degree?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

I don't think that we'll find a great deal of surprises. I say that without kind of ever knowing when the next one is coming I would say. But I think being engaged with PJM's, spending time and understanding where they are and helping them shape the demand response market. So to be a partner with them and understanding how to develop the demand cycle resources, I think we'll avoid any of these unexpected surprises that perhaps we saw in the past. As an example, this latest FERC ruling that we saw coming in March 27th, we were prepared for that well in advance of it, really pretty much understood exactly what the outcome was likely to be and simply needed to wait for the official ruling of FERC to really certify (ph) the language there. So I think staying engaged in PJM actively as a part of their overall demand cycle resources is an important way to do that.

The second piece that I'll followup with you is I think we continue to have a modest kind of entry level in both New England and California. We think that's important. We're engaged in the conversations in those regions as well, but certainly, from a resource allocation standpoint and the real near term revenue opportunity, it's primarily focused on PJM.

Marshall Delano – Delano Investment Advisors

Okay. Thanks. I'll get back in the queue. Thank you.

Operator

Thank you. Our next question comes from line of Sam Healy (ph) with Le Matthew (ph) Holdings. Please proceed with your question.

Sam Healy (ph) – Le Matthew (ph) Holdings

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Yes. I just have two quick questions. One is of the megawatts you spoke about in the PJM capacity market. I'm suspecting those are for the next calendar year 2010 and into 2011... I mean... excuse me, 2009 and into 2010. My question is did you participate in the 400 megawatts that the utility level, utility based contract of the 400 megawatts that narrow in utilities you allocated out sometime in March.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

No, we did not participate in their auction. You are correct though in terms of the megawatts that we have. It does relate to the 2009-2010 performance period which really starts June 1st of this year.

Sam Healy (ph) – Le Matthew (ph) Holdings

Okay. Why did you not participate? It has do with basically balance sheet issues and upfront money required to make those commitments or is that... are the utility contracted DR megawatts not part of the general biz? Help me understand why you did not participate, I guess.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Yes. I think there are really two issues. One, just in terms of fundamental resources, we didn't have a focus to be able to cover that. We saw the RP come forward and weren't able to kind of respond to it. One of the resource standpoint from... it's just a human factor standpoint, but more importantly I think you bring up a good point, which is the credit requirement. It's a problem for us or was a problem certainly in the first quarter as we were very tight on cash.

Sam Healy (ph) – Le Matthew (ph) Holdings

Okay. And then secondly, just help me out. You guys spoke about the 2012 shift from the high LR to the RPM model. Would you just touch on it quickly? How does that influence the... your... I guess what you call your energy market versus your capacity? How does that... what's your sort view from afar on that right now in terms of EnergyConnect?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Sure. We were... the RPM auction actually for the 2012 period was held last week. We have not heard the results of that auction yet, but we were effectively price takers in that auction in that we're a small part of the bigger auction. So we were active in the auction. We would expect to gain some capacity in that auction and be able to then use that capacity in registering megawatts in the 2012 timeframe. So the open question for us that we'll find out later this week is to what extent for the megawatts that we bid accepted in the auction and clear and at what price. So we'll know that and certainly be able to provide that to everybody as a part of our second quarter activities.

Sam Healy (ph) – Le Matthew (ph) Holdings

Okay. And I guess that's it for me. Thanks, guys.

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Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Okay. You bet.

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Thank you.

Operator

Thank you. Once again, ladies and gentlemen, if you'd like to ask a question, please press *1 on your telephone keypad.

Our next question comes from the line Dale Miller with Morgan Stanley. Please proceed with your question.

Dale Miller – Morgan Stanley

Hi, guys.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Good afternoon, Dale.

Dale Miller – Morgan Stanley

Hi. Just looking at over kind of industry such as this, I keep being surprised by companies that I wasn't aware of popping up and in the case of CPower, who we were aware of, getting venture capital funding. Could you kind of comment on the competitive landscape and you guys obviously have to keep the capital and customers and everything else? Do you see a consolidation coming from the deals that are in the workup there right now? Why have you chosen not to engage in conversations or have you? Any comments on that?

Rich Quattrini – EnergyConnect Group, Inc. – Vice President of Marketing and Business Development

Yes, I can touch on it. We haven't had any conversations, but if we had, we would be in a position where we wouldn't want to be commenting about them in any event. I think the part of what we see in the business today is really an opportunity for a number of players to continue to develop various aspects of the market. I was recently at this Peak Load Management Alliance. At that meeting, all of the subject players you could imagine are there. We're actively looking at how is it that we develop the marketplace. So I think it's very early days. I think consolidation doesn't make a lot of sense in the near term. We need to continue to look at expanding and really defining what the demand response and what I refer to as the load management opportunity is. And so I think we'll continue to see opportunity to grow without any... having to use consolidation to make that happen.

Dale Miller – Morgan Stanley

Okay. As a quick followup, from everything I can tell, it looks like into the megawatts under management and most other metrics like that the industry seems to be kind of grabbing on to as the valuation metric. EnerNOC looks to be about 10 times the size, you know, under management, maybe I'm missing the subtlety of what you guys think

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to make our management what they are. And get the market caps approaching half a billion now. Do you have a strategy... I mean nobody knows who you are and we are all shareholders. So how do we make the market discover this and do you guys have a strategy for shareholder relations that we haven't seen so far?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Sure. I think there're really two things. In terms of how do we begin to distinguish ourselves, I think what we try to do although somewhat subtly is continue to focus on really the fundamentals of the business. I think building our portfolio of callable megawatts or what perhaps they refer to as megawatts under management, I think is an important opportunity, understanding how those grow relatively to the overall PJM market is important, but also I think as a distinguishing factor, I think you really need to begin to understand if in fact there is a traction and that we begin to demonstrate traction in the economic market. Our job is to focus on driving the business to an operating profit given a very difficult economic environment and prove that the model is in fact viable and then leverage the opportunity to grow in the economic market as that comes around. So I think when we gain some traction, when energy prices are perhaps in a bit firmer, those are going to be opportunities for us to continue to make note of our business. I think in the near term, we don't have quite a lot to crow<37:30> about. We have to focus on our technology and we have to focus on developing the demand response marketplace.

Dale Miller – Morgan Stanley

So at this point, you have no plans to take any action vis-à-vis the stock to decrease your share count or anything like that.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

No, we don't.

Dale Miller – Morgan Stanley

Okay. Thanks.

Operator

Thank you. We'll now take a followup question from the line Lenny Brecken. Please proceed.

Lenny Brecken – Brecken Capital

Yes, guys. I'm just trying to search for some evidence that the price base side of the business is going to see any pickup in the June and September quarters. I know it should pick up seasonally but what gives you any confidence on achieving operational breakeven all better? I mean how could we gain any confidence by you saying that if you provide no evidence that that business is actually going to improve where we we've seen, you know, for three or four quarters of decline.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

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Right. I think you have to measure us when we've achieve that milestone. It would be an important milestone for us to recognize. We are... I think our cross structure is such that we are not heavily dependent on the economic market to come back to achieve that outcome. So I think we've positioned ourselves carefully given the amount of resources that we can afford focused in the... what I would consider to be the prime categories of the capacity market. The capacity markets are reasonably robust at very high prices today so we're obviously participating in those, but I think the longer term view is that the capacity markets are only one of the parts of the overall demand cycle resources and that I think continuing to focus in the area of price response in DR is important.

Lenny Brecken – Brecken Capital

Alright. Well, my followup question is then the capacity product could obviously take you to your goals of operational breakeven or profit, but in order for the model to truly work, you need, to me, you need both to work and so my question here is what're your plans on repaying after you have probably draw down on the credit line or the debt again in this quarter or refinancing it at more favorable times? I mean without... without the price based model, without you giving any evidence of that improving, I guess and I'm wondering what the company's plans are to repay or is the company in the position to repay that somewhere down the line or restructure it?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Again Lenny, the model for how we receive cash specifically from the capacity programs is going to allow us... let me back up... how receive cash and how we pay cash out is going to allow us not to have to draw according to my model anymore cash on this line. That's why I made the comment that...

Lenny Brecken – Brecken Capital

Okay, great. That wasn't clear to me. Alright. Is the plan as a result of that commentary to restructure the amount that you... whatever the amount you end up drawing down or repay it back or what's... can you give us some hints on how it's going to be approached?

Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

We don't have a plan right now and obviously, we would either pay it off with generated cash internally or pay it off with cash generated externally or they could convert it to equity. So, in looking it out obviously, we are going to be in a financial model where we are cash low breakeven essentially, operating profit less cash items. We've got some... we've got some ramp in what we have not borrowed yet. So we're a couple of years away to the beginning of 2011 before we have to make a plan to do anything with that as long as we can sustain that model.

Lenny Brecken – Brecken Capital

Okay. Well, the interest rate is quite high and so I'd rather you pay it off than not but... or restructure it if you can.

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Randy Reed – EnergyConnect Group, Inc. – Chief Financial Officer

Believe me, we're aware of that.

Lenny Brecken – Brecken Capital

Alright. I was just wondering if there was any plan in the near term. But Kevin, going back to the price based model, assuming prices stay where they at because there's so much slack in the economy and energy prices still have a way to go even to recover from a year ago level even if they may be close to that. There's not going to be that much pressure on electricity prices going up. So can you just outline that in a scenario where utility prices go up marginally, not much from here, if flat to up, how do you think you can achieve not only growth in the price-based side but also better gross margins than your predecessor?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Right. I don't think to show growth in the price-based model this year it's certainly not a part of what my expectations are. We have a very robust 2008 price model. It was very high energy prices as well as some very different rules that were in placed at that time. So I believe where we are today to be kind of the beginning of a new view of the economic market in our ability to drive volume into that market and participation. One of the important parts of that market is really focusing on how do you get customers to voluntarily be involved in the marketplace and I think that that's where our technology clearly distinguishes itself. Our technology really is one... I try to spend a little bit of time explaining that because I don't think that frankly the marketplace or investors really realize what it takes to participate and I believe we're the only business that has the tools necessary to participate particularly in the PJM Market on the economic side. (inaudible) prices are coming back though.

Lenny Brecken – Brecken Capital

Right, I know. That's my point. I don't think you're adequately laying out to me how you think... I realize it's not going to grow on a year-over-year basis because the comps are so difficult but what I meant from the base that you're at, a little over a million dollars, how it can grow from there over the next 12 to 24 months. I think I need to understand what your strategy is to grow that business sequentially and on that point, Kevin, I've always understood that you have a unique technology. The question is now, I'm very encouraged you got a high gross margin piece of business and I don't know whether that had to do with a distribution relationship or white labeled relationship. I don't know the nature of what went on in terms of that transaction but I want to see more of it. I don't want to see the company transact with companies that have 15% gross margin. I think we spoke about that strategy before. So I'm just trying to get out of you and I know you're very conservative in what you say but I'm just trying to... going to what... what's the strategy in growing that business sequentially from here and also given a marginally up utility price environment and how can you leverage your unique technology position at this point going forward and I'm not asking for a specific time table, specifics on who, but lay out your strategy for us, if you can.

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Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Sure, I think it's fair. There's a couple of things I think we need to look at and today, our technology is in fact the one enabling technology across the PJM footprint to really conduct business in the economic model. Whether we conduct it directly with customers or we leverage relationships with partners or perhaps even leveraging relationships with the utility through some sort of a pilot. Those are all vehicles under which I believe we can continue to push for adoption of what I refer to as price response of load management. Clearly under Act 129 in Pennsylvania, there's a significant need for the utilities to be able to find a way to reduce their overall peak load by 4.5% and their overall load by 3% by 2013. I think one of the ways for them to do that is to, in fact, engage in load management as opposed to simply just peak shaving which you get from the capacity markets.

Lenny Brecken – Brecken Capital

Exactly, why have utility guess on what the capacity will be when you can possibly do it in real time that your product almost virtually does?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Right. I think that the challenge that you really have in looking at the capacity market is that today, it's a very good market and it provides for, let's call it, emergency backup. But we have found even in California that customers grow tired of continuous calls for load drop. In effect, its customer fatigue that we refer to. I think you have to focus on a different approach with a customer that actually encourage them or incents them and pays them to shift load as opposed to simply allowing them to respond to the utility signal to drop load.

Lenny Brecken – Brecken Capital

Alright. So that was a very encouraging statement you made in that you're actually going to, I guess, take advantage of your technology by leveraging it through maybe distribution of partnerships.

Rich Quattrini – EnergyConnect Group, Inc. – Vice President of Marketing and Business Development

I think we have to. I mean that certainly given our resource restrictions, we just don't have enough people and frankly to go find those customers who are already customers of utilities or other entities just doesn't make a lot a sense to me. We are effectively a technology company that enables participation in the market. We will in fact, I think, identify and leverage what's called marquee customers that demonstrate that the economic model is effective. We've done that in a number of verticals, the university verticals, cements, heavy manufacturing, and steel industry. There's a number of those verticals that really show that they can really leverage the economic model and shed load or shift production activities in a way that allow them to participate in the economic market. I think that the models will come back. I mean, the economic prices will certainly come up this summer, although they won't certainly perhaps be as high as last year. We will see the typical summer peak and I think we need to be in a position with our new technology to make sure that that's happening with our customers.

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Lenny Brecken – Brecken Capital

Okay. Kevin, are you doing anything on the technology side to address the low utilization of the company's product?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Yes, we are. One of the things that we have done and, as I mentioned, there are some development milestones that we've reached with the product during the first quarter. We are currently in beta with an updated version of a new user interface and expect to have complete customer rollout by the end of the quarter. That will allow our customers to graphically depict what their position is relative to energy prices and schedule load for reduction.

Lenny Brecken – Brecken Capital

Do you think that will act as a catalyst for usage or is there any early indication that it's sure it would?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Yes, early input from our beta customers. They're very encouraged about the intuitive nature of the interface and about the ability for them to easily schedule their curtailment. The other important point is that our technology has what's called a price responsiveness to it. So we push, if you will, opportunities where customers typical curtailment strategies can take advantage of a higher price time frames and go ahead and drop load. So that was price responsive scheduler and the easy ability to schedule load reduction is what we believe is important to make it easy for our customers to actively participate in the market.

Lenny Brecken – Brecken Capital

Okay. Thank you, Kevin, for that layout.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

You bet. Thanks.

Operator

Thank you. We have another follow-up question from the line of Dale Miller. Please proceed with your question.

Dale Miller – Morgan Stanley

Okay. Just a quick metric. How many full time employees do you have and how many full time sales people do you have engaged right now?

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

We actually don't go into the sale side equation but we're roughly 36 people on the full time employee down from roughly 50ish at the end of the last year.



Dale Miller – Morgan Stanley

Okay. Thanks a lot.

Operator

Thank you. At this time, I would like to turn the conference over back to Mr. Kevin Evans for any closing remarks.

Kevin R. Evans – EnergyConnect Group, Inc. – President and Chief Executive Officer

Thank you. Lenny, I think I've talked a little about this but let me go ahead and share with you some prepared marks as well with the rest of the investors. I mean, clearly, EnergyConnect's primary focus in 2009 is executed on the opportunity in PJM, but I believe it's equally important that we help shape the demand response resource market. In order to do that, we really have two objectives that we need to focus on. The first is to demonstrate the price response of load management to the grid operators and the utilities. Today, demand response is simply viewed as a capacity resource on call to drop load in the event of an emergency. While this approach is an essential ingredient to grid reliability, it represents the low-hanging fruit of today's legacy supply side model. Its potential will only address some 3% to 5% of demand through peak shaving and where frequent calls to curtail will ultimately lead to customer fatigue. This narrow characterization greatly underestimates the true potential of demand side resources, to lower the overall cost of energy while improving the reliability and efficiency of the grid.

Second, and most importantly for us, is to make sure that it's easy for customers to dynamically manage their load in response to price. This approach engages the customers in understanding the choices they have and how much and when to use energy and perhaps even to produce their own energy given the market price.

Our FlexConnect Technology platform provides the essential tool to enable price responsive load management. While we'll certainly leverage the near to midterm opportunities available in the capacity markets, EnergyConnect is committed to the development of the broader market opportunity by positioning FlexConnect to become the industry's gold standard as the price responsive load management technology platform.

With that, let me turn it back over to Rich.

Rich Quattrini – EnergyConnect Group, Inc. – Vice President of Marketing and Business Development

I'd like to thank everyone for their interest and participation in our Q1 financial results call. We would like to announce the date of our second quarter call; it will be August 11, 2009. Thank you and have a good evening.

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