AMERICAN POWER GROUP Corp
Form 424B3
June 05, 2013

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-181773

PROSPECTUS SUPPLEMENT NO. 3
(to Prospectus dated July 25, 2012)

AMERICAN POWER GROUP CORPORATION

11,553,282 SHARES OF COMMON STOCK

This Prospectus Supplement No. 3 supplements and amends the prospectus dated July 25, 2012, as previously supplemented (collectively, the "Prospectus"). The Prospectus forms a part of our Registration Statement on Form S-1 (Registration Statement No. 333-181773). The information contained herein supplements the information in the Prospectus related to the financial statements by including our financial statements and related notes for the three and six months ended March 31, 2013. This prospectus supplement also contains certain other information included in our report on Form 10-Q for the quarter ended March 31, 2013.

The Prospectus relates to the possible resale, from time to time, by the selling stockholders named in this Prospectus of up to: (1) 9,908,591 shares that have been, or may be, acquired upon the conversion of shares of our 10% Convertible Preferred Stock, which preferred stock was issued to 15 investors in a private placement completed on April 30, 2012; (2) 824,624 shares issued between June 30, 2012 and March 31, 2013 in lieu of the payment of cash dividends on the preferred stock in accordance with the terms of the Certificate of Designation governing the preferred stock; and (3) 820,067 additional shares issuable within six months after March 31, 2013 in lieu of the payment of cash dividends on the preferred stock.

We are not selling any shares of our Common Stock in this offering and, as a result, we will not receive any proceeds from the sale of the Common Stock covered by the Prospectus. All of the net proceeds from the sale of our Common Stock will go to the selling security holders.

The selling security holders may sell Common Stock from time to time at prices established on the OTC Markets Group's OTCQB, or as negotiated in private transactions, or as otherwise described under the heading "Plan of Distribution." The Common Stock may be sold directly or through agents or broker-dealers acting as agents on behalf of the selling security holders. The selling security holders may engage brokers, dealers or agents who may receive commissions or discounts from the selling security holders. We will pay all the expenses incident to the registration of the shares; however, we will not pay for sales commissions or other expenses applicable to the sale of our Common Stock registered hereunder.

Our Common Stock is presently quoted on the OTC Markets Group's OTCQB under the symbol "APGI." On June 3, 2013, the last reported sale price of our Common Stock on the OTCQB was $0.65 per share.

Investing in our Common Stock involves a high degree of risk. See “Risk Factors” beginning on page 8 of the Prospectus to read about factors you should consider before investing in shares of our Common Stock.

NEITHER THE SECURITIES & EXCHANGE COMMISSION (“SEC”) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS SUPPLEMENT NO. 3 IS JUNE 5, 2013.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________________ to ______________________

Commission File Number: 1-13776

American Power Group Corporation
(Exact name of registrant as specified in its charter)

Delaware	71-0724248
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7 Kimball Lane, Lynnfield MA	01940
(Address of principal executive offices)	(Zip Code)

(781) 224-2411
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No q

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

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

q Large Accelerated Filer	q Accelerated Filer
q Non-accelerated Filer (do not check if a smaller reporting company)	x Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes q No ý

As of May 14, 2013 there were 46,855,559 shares of the registrant's Common Stock outstanding.

American Power Group Corporation

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American Power Group Corporation
Condensed Consolidated Balance Sheets

	March 31, 2013 (Unaudited)	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$4,479,499	$4,423,485
Certificates of deposit, restricted	300,000	300,000
Accounts receivable, trade, less allowance for doubtful accounts of $162,887 as of March 31, 2013 and September 30, 2012, respectively	550,604	432,078
Inventory	1,033,655	463,553
Costs in excess of billings	33,234	62,667
Seller’s note, related party, current portion	369,389	164,038
Prepaid expenses	144,542	120,405
Other current assets	102,638	87,702
Total current assets	7,013,561	6,053,928
Property, plant and equipment, net	963,136	338,922
Other assets:		
Seller’s note, related party, non-current	427,998	633,349
Long term contracts, net	316,667	341,666
Purchased technology, net	316,667	341,666
Software development costs, net	2,294,704	1,309,601
Other	71,467	70,567
Total other assets	3,427,503	2,696,849
	$11,404,200	$9,089,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,320,300	$763,515
Accrued expenses	585,953	604,406
Billings in excess of cost	1,808	1,808
Notes payable, current	1,617,471	90,484
Obligations due under lease settlement, current	68,518	68,518
Total current liabilities	3,594,050	1,528,731
Notes payable, non-current	83,366	1,605,037
Notes payable, related parties, non-current	473,500	473,500
Obligations due under lease settlement, non-current	505,540	505,540
Total liabilities	4,656,456	4,112,808
Stockholders' equity:		
Preferred stock, $1.00 par value, 998,854 shares authorized, 0 shares issued and outstanding	—	—
10% Convertible Preferred stock, $1.00 par value, 1,146 shares authorized, 978 shares and 759 shares issued and outstanding at March 31, 2013 and September 30, 2012	978	759
Common stock, $.01 par value, 150 million shares authorized, 46,838,117 shares and 44,920,180 issued and outstanding at March 31, 2013 and September 30, 2012	468,382	449,201

Additional paid-in capital	66,314,150	62,912,306
Accumulated deficit	(60,035,766)	(58,385,375)
Total stockholders' equity	6,747,744	4,976,891
	$11,404,200	$9,089,699

See accompanying notes to unaudited condensed interim consolidated financial statements.

American Power Group Corporation
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Net sales	$1,852,162	$572,884	$2,727,115	$968,901
Cost of sales	1,135,806	459,308	1,710,210	864,603
Gross profit	716,356	113,576	1,016,905	104,298
Operating expenses:				
Selling, general and administrative	1,265,744	711,421	2,148,626	1,471,505
Operating loss from continuing operations	(549,388)	(597,845)	(1,131,721)	(1,367,207)
Non operating income (expense)				
Interest and financing costs	(46,778)	(425,251)	(87,369)	(780,014)
Interest income	11,455	10,963	23,515	22,053
Other, net	(25,798)	(34,364)	(54,720)	(64,922)
Non operating expense, net	(61,121)	(448,652)	(118,574)	(822,883)
Loss from continuing operations	(610,509)	(1,046,497)	(1,250,295)	(2,190,090)
Discontinued operations				
Loss on disposal of discontinued operations	—	(63,000)	—	(63,000)
	—	(63,000)	—	(63,000)
Net loss	(610,509)	(1,109,497)	(1,250,295)	(2,253,090)
10% Convertible Preferred dividends	(187,391)	—	(400,096)	—
Net loss available to Common shareholders	$(797,900)	$(1,109,497)	$(1,650,391)	$(2,253,090)
Loss from continuing operations per share – basic and diluted	$(0.01)	$(0.03)	$(0.03)	$(0.06)
Loss from discontinued operations per share – basic and diluted	—	—	—	—
Net loss per Common share - 10% Preferred dividend	(0.01)	—	(0.01)	—
Net loss attributable to Common shareholders per share – basic and diluted	$(0.02)	$(0.03)	$(0.04)	$(0.06)
Weighted average shares outstanding - basic and diluted	46,353,829	35,700,008	45,972,012	36,150,109

See accompanying notes to unaudited condensed interim consolidated financial statements.

American Power Group Corporation
Condensed Consolidated Statement of Changes in Stockholders' Equity
For the Six Months Ended March 31, 2013
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, October 1, 2012	759	$759	44,920,180	$449,201	$62,912,306	$(58,385,375)	$4,976,891
Compensation expense associated with stock options	—	—	—	—	67,793	—	67,793
Common stock issued upon option exercise	—	—	113,706	1,138	13,643	—	14,781
Value of warrants issued for services rendered	—	—	—	—	392,633	—	392,633
Sale of 10% Convertible Preferred stock unit:							
Sale of 10% Convertible Preferred stock, net of fees	274	274	—	—	2,655,937	—	2,656,211
Common stock issued upon Preferred stock conversion	(55)	(55)	1,367,295	13,673	(13,618)	—	—
Common stock issued for 10% Convertible Preferred stock dividend	—	—	436,936	4,370	285,456	(289,826)	—
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(110,270)	(110,270)
Net loss for the six months ended March 31, 2013	—	—	—	—	—	(1,250,295)	(1,250,295)
Balance, March 31, 2013	978	$978	46,838,117	$468,382	$66,314,150	$(60,035,766)	$6,747,744

See accompanying notes to unaudited condensed interim consolidated financial statements.

American Power Group Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net loss	$(1,250,295)	$(2,253,090)
Adjustments to reconcile net loss to net cash used in operating activities:		
Shares issued for services rendered	392,633	125,399
Loss on disposal of discontinued operations	—	63,000
Loss on disposal of property and equipment	680	22,733
Depreciation expense	111,776	55,568
Amortization of stock issued	—	210,875
Amortization of beneficial conversion feature and warrants	—	254,575
Amortization of deferred financing costs	—	29,944
Stock compensation expense	67,793	99,400
Amortization of long term contracts	24,999	25,002
Amortization of purchased technology	24,999	25,002
Amortization of software costs	98,995	3,632
(Increase) decrease in assets:		
Accounts receivable	(118,526)	(16,438)
Inventory	(565,292)	(132,022)
Costs in excess of billings	29,433	52,836
Prepaid and other current assets	(39,073)	51,401
Other assets	(900)	(15,836)
Increase (decrease) in liabilities:		
Accounts payable	258,050	253,091
Billings in excess of costs	—	(17,842)
Accrued expenses	(18,453)	305,387
Net cash used in operating activities	(983,181)	(857,383)
Cash flows from investing activities:		
Purchase of property and equipment	(740,742)	—
Software development costs	(786,101)	(527,954)
Net cash used in investing activities	(1,526,843)	(527,954)
Cash flows from financing activities:		
Proceeds from notes payable	78,050	—
Proceeds from convertible notes payable	—	1,185,000
Proceeds from notes payable, related party	—	155,000
Repayment of notes payable	(72,734)	(84,186)
Repayment of notes payable, related party	—	(19,336)
Proceeds from sale of 10% convertible preferred stock, net of fees	2,656,211	—
Proceeds from exercise of stock options	14,781	—
Payment of cash dividend on 10% Convertible Preferred stock	(110,270)	—
Net cash provided by financing activities	2,566,038	1,236,478
Net increase (decrease) in cash and cash equivalents	56,014	(148,859)
Cash and cash equivalents at beginning of year	4,423,485	153,657
Cash and cash equivalents at end of period	$4,479,499	$4,798

See accompanying notes to unaudited condensed interim consolidated financial statements.

American Power Group Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

-Continued-

	Six Months Ended March 31, 2013	2012
Supplemental disclosure of cash flow information:		
Interest paid	$91,101	$136,595
Taxes paid	7,952	—
Supplemental disclosure of non-cash investing and financing activities:		
Shares issued with debt extensions	—	210,876
Shares issued in converted debt	—	523,649
Beneficial conversion feature	—	325,948
Intangibles included in accounts payable	298,735	—
Inventory transfered to equipment and capitalized software	4,810	—
Warrants issued	392,633	122,834
Shares issued for preferred stock dividend	289,826	—

See accompanying notes to unaudited condensed interim consolidated financial statements.

American Power Group Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

1. Nature of Operations, Risks, and Uncertainties

Effective August 1, 2012, GreenMan Technologies, Inc. changed its name to American Power Group Corporation ("APGC"). In connection with the corporate name change, the company's stock trading symbol on the OTCQB has changed from "GMTI" to "APGI".

APGC (together with its subsidiaries "we", "us" or "our") was originally founded in 1992 and has operated as a Delaware corporation since 1995. Prior to August 1, 2011, APGC was comprised of two business segments, the dual fuel conversion operations (American Power Group) and the molded recycled rubber products operations (Green Tech Products). As described below, our business changed substantially in August 2011, when we sold substantially all of the assets of our molded recycled rubber products operations.

Recent Developments

In November 2012, we signed a National Distributor and Master Marketing Agreement with WheelTime Network LLC, a truck service network with 18 member companies providing installation and warranty support through nearly 200 service centers, 2,800 service bays, 3,000 factory-trained technicians and 30 training facilities located across the United States and Canada. Under the agreement, WheelTime will endorse APG's technology to its 18 member companies and encourage each member to become an exclusive certified installer and authorized dealer of APG's Vehicular Turbocharged Natural Gas Systems. We believe that this relationship provides us the opportunity to accelerate the national rollout of our vehicular dual fuel through access to a large national network of qualified diesel engine personnel as well as testing/installation equipment.

In addition, we issued WheelTime a warrant to purchase 1,540,000 shares of our Common Stock at an exercise price of $.55 per share. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer agreement and a dealer agreement by each of the 18 members during the first year after the original issue date of the Warrant. An additional 30,000 warrants become exercisable for each member that agrees to become an exclusive dealer by December 31, 2013. As of April 30, 2013, all of WheelTime's 18 member companies have agreed to become non-exclusive dealers and installers of our dual fuel technology. The warrant will expire on December 31, 2017.

In December 2012, Iowa State Bank agreed to extend the maturity of our $2,250,000 credit facility from April 23, 2013 to December 31, 2013.

Nature of Operations, Risks, and Uncertainties

Our patented dual fuel conversion system is a unique external fuel delivery enhancement system that converts existing diesel engines into more efficient and environmentally friendly engines that have the flexibility, depending on the circumstances, to run on:

- Diesel fuel and compressed natural gas (CNG) or liquefied natural gas (LNG);
- Diesel fuel and pipeline gas, well-head gas or approved bio-methane; or
- 100% diesel fuel.

Our proprietary technology seamlessly displaces 40% to 70% of the normal diesel fuel consumption with various forms of natural gas and the energized fuel balance between the two fuels is maintained with a patented control system ensuring the engines operate at Original Equipment Manufacturers' (OEM) specified temperatures and pressures with no loss of horsepower. Installation requires no engine modification, unlike the more expensive fuel injected alternative fuel systems in the market.

By displacing highly polluting and expensive diesel fuel with inexpensive, abundant and cleaner burning natural gas, a user can:

- Reduce annual fuel and operating costs by 20% to 35%;
- Reduce toxic emissions such as nitrogen oxide (NOX), carbon monoxide (CO) and fine particulate emissions; and

- Enhance the engine's operating life, since natural gas is a cleaner burning fuel source.

Primary end market applications include both primary and back-up diesel generators as well as mid- to heavy-duty vehicular diesel engines.

As of March 31, 2013, we had $4,779,499 in cash, cash equivalents and restricted certificates of deposit, and working capital of $3,419,511. As of March 31, 2013, under the terms of our working capital line, we had sufficient collateral to borrow

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an additional $261,045 above the then outstanding balance. Based on our fiscal 2013 operating budget, cash on hand at March 31, 2013 and anticipated availability under our bank working capital line, we believe we will be able to satisfy our cash requirements through at least the first calendar quarter of 2014 without the need to materially modify our operating plan.We understand our continued existence is dependent on our ability to generate positive operating cash flow, achieve profitability on a sustained basis and generate improved performance. If we are unable to achieve and sustain profitability and we are unable to obtain additional financing to supplement our cash position, our ability to maintain our current level of operations could be materially and adversely affected. There is no guarantee we will be able to achieve profitability.

2. Basis of Presentation

The consolidated financial statements include the accounts of APGC and our wholly-owned subsidiaries, American Power Group, Inc. and Green Tech Products, Inc. (inactive).

The accompanying interim financial statements at March 31, 2013 are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2012 included in our Annual Report on Form 10-K. The balance sheet at September 30, 2012 has been derived from the audited financial statements as of that date; certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations, although we believe the disclosures which have been made herein are adequate to ensure that the information presented is not misleading. The results of operations for the interim periods reported are not necessarily indicative of those that may be reported for a full year. In our opinion, all adjustments which are necessary for a fair statement of our financial position as of March 31, 2013 and the operating results for the interim periods ended March 31, 2013 and 2012 have been included.

3. Certificates of Deposit

All certificate of deposit investments have an original maturity of more than three months but less than three years and are stated at original purchase price which approximates fair value. As of March 31, 2013 and September 30, 2012, we have pledged a $300,000 certificate of deposit as collateral for two loans currently outstanding with Iowa State Bank.

4. Receivables

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating past due individual customer receivables and considering a customer’s financial condition, credit history, and the current economic conditions. Individual accounts receivable are written off when deemed uncollectible, with any future recoveries recorded as income when received.

Seller’s Note Receivable, Related Party

In conjunction with the July 2009 acquisition of substantially all the American Power Group operating assets, including the name American Power Group (excluding its dual fuel patent), we acquired a promissory note from the previous owners of American Power Group (renamed M&R Development, Inc.), payable to us, in the principal amount of $800,000. The note bears interest at the rate of 5.5% per annum and was based on the difference between the assets acquired and the consideration given. Per our agreement, 25% of any royalties due periodically to M&R under a technology license agreement will be applied against outstanding interest and principal due under the terms of the note rather than be paid to M&R. In conjunction with the 10% Convertible Preferred Stock financing, on April 27, 2012, we amended the note to extend its maturity from July 2013 to February 2015 and defer all interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest. Based on the fiscal year 2013 plan, we have classified $369,389 of the balance as the current portion. We consider this a related party note as one of the former owners of American Power Group is now an employee of ours.

5. Inventory

Raw material inventory primarily consists of dual fuel conversion components. Work in progress includes materials, labor and direct overhead associated with incomplete dual fuel conversion projects. All inventory is valued at the lower of cost or market on the first-in first-out (FIFO) method. Inventory consists of the following:

	March 31, 2013	September 30, 2012
Raw materials	$762,495	$448,212
Work in progress	270,266	—
Finished goods	894	15,341
Total inventory	$1,033,655	$463,553

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6. Intangible Assets
We review intangibles for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of our intangible assets below their carrying value.
In conjunction with the American Power Group acquisition and related party license agreement, we recognized $500,000 associated with the execution of a long term technology license agreement and $500,000 associated with the purchase of the dual fuel conversion technology. Both values are being amortized on a straight line basis over an estimated useful life of 120 months. Amortization expenses associated with the long term technology license agreement and the purchased dual fuel conversion technology amounted to $25,000 and $50,000 for the three and six months March 31, 2013 and 2012, respectively. Accumulated amortization was $366,667 at March 31, 2013 and $316,667 at September 30, 2012.
Our internally developed software is a critical embedded component in the operation of our dual fuel conversion equipment and principally controls the operation of our Electronic Control Unit (“ECU”). The ECU monitors all engine performance parameters and operates the natural gas fuel control valve and variable fuel metering valve towards the goal of maximizing the amount of natural gas utilized while remaining within all original engine manufacturer specifications. The software allows us to seamlessly and constantly monitor and control the various gaseous fuels to maximize performance and emission reduction while remaining within all original OEM diesel engine performance parameters. We have developed a base software application and Environmental Protection Agency's testing protocol for both our Outside Useful Life ("OUL") and Intermediate Useful Life ("IUL") engine applications, which will be customized for each engine family approved in order to maximize the performance of the respective engine family. Prior to shipment, each ECU's embedded software component is configured by our internal engineering staff to a customer's
specific diesel engine family and shipped as part of a complete system. We do not market or sell our software separately.
During fiscal 2011, we incurred costs to develop these software applications that were recorded as research and development costs and expensed as incurred until we were able to establish technological feasibility, which we did in September 2011 with our first EPA engine family approval. As a result, we began capitalizing costs associated with our software application development. We will cease capitalization of additional costs when the product or enhancement is available for general release to customers. As of March 31, 2013, we have capitalized $2,436,881 of development costs associated with our OUL ($1,816,741) and IUL ($620,140) applications, which will be amortized on a straight line basis over an estimated useful life of 60 months for OUL applications and 84 months for IUL applications. Amortization costs for the three and six months ended March 31, 2013 and 2012 were $48,457 and $98,995 and $0 and $0, respectively.

Amortization expense associated with acquisition related intangibles during the next five years is anticipated to be:

Twelve months ending March 31:	Contracts	Technology	Software Development	Total
2014	$50,000	$50,000	$412,336	$512,336