

AMERICAN POWER GROUP Corp
Form 10-Q/A
June 29, 2015

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

(Mark One)

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

For the quarterly period ended December 31, 2013

or

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
(State or other jurisdiction of
incorporation or organization)

71-0724248
(I.R.S. Employer
Identification No.)

7 Kimball Lane, Lynnfield MA
(Address of principal executive offices)
(781) 224-2411
(Registrant's telephone number, including area code)

01940
(Zip 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 No

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.

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

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

As of February 13, 2014 there were 48,619,342 shares of the registrant's Common Stock outstanding.

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EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 as originally filed with the Securities and Exchange Commission on February 13, 2014 (the "Original Form 10-Q"): (i) Item 1 of Part I "Financial Information," (ii) Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations," (iii) Item 4 of Part I, "Controls and Procedures," and (iv) Item 6 of Part II, "Exhibits", and we have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the explanation and restatement described below. Concurrently with the filing of this Form 10-Q/A, we are also filing Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended September 30, 2014, as originally filed with the SEC on December 22, 2014 (the "Original Form 10-K"), to provide similar updates.

In conjunction with the private placement of our 10% Convertible Preferred Stock in April 2012, we issued warrants which contained anti-dilution adjustment provisions that protect the holders from the dilutive effects of subsequent issuances of our Common Stock at prices below the warrants' exercise prices. These provisions, however unlikely to be triggered, could result in downward adjustments of the exercise prices of the warrants and, therefore, increases in the number of shares of our Common Stock issuable upon their exercise. In October 2012, the Financial Accounting Standards Board issued ASU 2012-04, Technical Corrections and Improvements ("ASU 2012-04"), which contained technical corrections to guidance on which we had previously relied in forming our initial conclusions regarding the accounting for warrants containing these anti-dilution protections. Based upon our extensive review of ASU 2012-04, we have now concluded that these warrants did not meet the criteria for classification as equity, as previously recorded, and must be recorded as a liability, with the value of the warrants recorded at fair value on the transition/effective date, and subsequent changes in fair value recorded in earnings on a quarterly basis. Based on transition guidance provided, we determined our effective/transition date for implementation of ASU 2012-04 to be October 1, 2013.

As a result of the foregoing, we have determined that our previously reported results for the three months ended December 31, 2013 should no longer be relied upon and need to be updated to reflect the retroactive correction of this accounting error and correctly reflect the accounting for the value of the warrants containing anti-dilution protections pursuant to the guidance provided by ASU 2012-04. The condensed consolidated balance sheets, the condensed consolidated statements of operations, the condensed consolidated statement of changes in stockholders (deficit) equity and the condensed consolidated statements of cash flows for the three months ended December 31, 2013 included in this Form 10-Q/A, have been restated to include the effects of the correction of this accounting error. In addition, we have made necessary conforming changes in "Management's Discussion and Analysis of Financial Condition and Results of Operations" resulting from the correction of this error. Our condensed consolidated financial statements (including audit reports), other financial information and related disclosures included in the Original Form 10-K and the Original Form 10-Q, as well as press releases, investor presentations or other communications issued prior to the date hereof that relate to the periods covered by the Original Form 10-K and Original Form 10-Q should not be relied upon and are superseded in their entirety by this Form 10-Q/A and the Form 10-K/A being filed concurrently herewith.

American Power Group Corporation

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American Power Group Corporation
Condensed Consolidated Balance Sheets

	December 31, 2013 (Unaudited)	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,295,996	\$ 1,684,169
Certificates of deposit, restricted	300,000	300,000
Accounts receivable, trade, less allowance for doubtful accounts of \$59,750 and \$120,393 as of December 31, 2013 and September 30, 2013, respectively	1,443,129	1,612,280
Inventory	918,282	908,059
Prepaid expenses	139,972	150,816
Other current assets	52,113	48,472
Assets related to discontinued operations	—	66,922
Total current assets	4,149,492	4,770,718
Property, plant and equipment, net	952,446	929,821
Other assets:		
Seller's note, related party, non-current	797,387	797,387
Long term contracts, net	279,167	291,667
Purchased technology, net	279,167	291,667
Software development costs, net	3,221,870	3,180,804
Other	145,524	134,469
Total other assets	4,723,115	4,695,994
	\$9,825,053	\$ 10,396,533
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	\$ 770,718	\$ 1,086,347
Accrued expenses	873,750	914,023
Billings in excess of cost	7,533	7,533
Notes payable, current	65,700	106,972
Notes payable, related parties, current	473,500	473,500
Obligations due under lease settlement, current	68,518	68,518
Total current liabilities	2,259,719	2,656,893
Notes payable, non-current	1,594,978	1,490,160
Warrant liability	10,850,223	—
Obligations due under lease settlement, non-current	505,540	505,540
Total liabilities	15,210,460	4,652,593
Stockholders' (deficit) 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, 942 shares issued and outstanding at December 31, 2013 and September 30, 2013	942	942
Common stock, \$.01 par value, 150 million shares authorized, 48,619,342 shares and 48,375,316 issued and outstanding at December 31, 2013 and September 30, 2013	486,193	483,753
Additional paid-in capital	56,171,756	66,570,909

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Accumulated deficit	(62,044,298) (61,311,664)
Total stockholders' (deficit) equity	(5,385,407) 5,743,940	
	\$9,825,053	\$10,396,533	

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Three Months Ended December 31,	
	2013	2012
Net sales	\$1,842,521	\$874,953
Cost of sales	940,909	574,404
Gross profit	901,612	300,549
Operating expenses:		
Selling, general and administrative	991,617	882,882
Operating loss from continuing operations	(90,005	) (582,333
Non operating income (expense)		
Interest and financing costs	(46,107	) (40,591
Interest income	11,285	12,061
Revaluation of warrants	(324,021) —
Other, net	(38,747	) (28,923
Non operating expense, net	(397,590	) (57,453
Net loss	(487,595	) (639,786
10% Convertible Preferred dividends	(245,039	) (212,704
Net loss available to Common stockholders	\$(732,634	) \$(852,490
Loss from continuing operations per share - basic and diluted	\$(0.01	) \$(0.01
Net loss per Common share - 10% Preferred dividend	(0.01	) (0.01
Net loss attributable to Common stockholders per share - basic and diluted	\$(0.02	) \$(0.02
Weighted average shares outstanding - basic and diluted	48,394,610	45,609,928

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid In Capital	Deficit	
Balance, October 1, 2013	942	\$942	48,375,316	\$483,753	\$66,570,909	\$(61,311,664)	\$5,743,940
Cumulative effect of a change in accounting principle - adoption of ASU 2012-04	—	—	—	—	(10,652,540)	—	(10,652,540)
Compensation expense associated with stock options	—	—	—	—	24,783	—	24,783
Common stock issued upon warrant exercise	—	—	107,041	1,070	4,130	—	5,200
Fair value of warrant liability reclassified as additional paid in capital	—	—	—	—	126,338	—	126,338
Common stock issued for 10% Convertible Preferred stock dividend	—	—	136,985	1,370	98,136	(99,506)	—
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(145,533)	(145,533)
Net loss for the three months ended December 31, 2013	—	—	—	—	—	(487,595)	(487,595)
Balance, December 31, 2013	942	\$942	48,619,342	\$486,193	\$56,171,756	\$(62,044,298)	\$(5,385,407)

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Three Months Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(487,595	) \$(639,786)
Adjustments to reconcile net loss to net cash used in operating activities:		
Revaluation of warrants	324,021	—
Warrants issued for services rendered	—	31,957
Depreciation expense	81,304	49,505
Amortization of deferred financing costs	8,321	—
Stock compensation expense	24,783	38,190
Amortization of software costs	109,488	50,538
Amortization of long term contracts	12,500	12,499
Amortization of purchased technology	12,500	12,499
Decrease (increase) in assets:		
Accounts receivable	169,151	(181,120)
Inventory	(10,223	) (294,348)
Costs in excess of billings	—	29,433
Prepaid and other current assets	8,882	(20,974)
Other assets	(11,055	) (899)
Assets related to discontinued operations	66,922	—
(Decrease) increase in liabilities:		
Accounts payable	(383,362	) 286,566
Accrued expenses	(50,273	) 34,725
Net cash used in operating activities	(124,636	) (591,215)
Cash flows from investing activities:		
Purchase of property and equipment	(83,939	) (415,472)
Software development costs	(102,811	) (467,486)
Net cash used in investing activities	(186,750	) (882,958)
Cash flows from financing activities:		
Proceeds from notes payable	115,000	22,050
Repayment of notes payable	(51,454	) (40,889)
Proceeds from sale of 10% convertible preferred stock, net of fees	—	49,000
Proceeds from exercise of stock options	5,200	7,500
Payment of cash dividend on 10% Convertible Preferred stock	(145,533	) (52,785)
Net cash used in financing activities	(76,787	) (15,124)
Net decrease in cash and cash equivalents	(388,173	) (1,489,297)
Cash and cash equivalents at beginning of year	1,684,169	4,423,485
Cash and cash equivalents at end of period	\$1,295,996	\$2,934,188

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

-Continued-

	Three Months Ended December 31,	
	2013	2012
Supplemental disclosure of cash flow information:		
Interest paid	\$41,843	\$46,246
Taxes paid	—	6,032
Supplemental disclosure of non-cash investing and financing activities:		
Reclassification of the estimated fair value of warrants exercised during the period to additional paid in capital	\$126,338	\$—
Shares issued for preferred stock dividend	99,506	159,920
Software development costs included in accounts payable and accrued expenses	47,743	—
Property and equipment included in accounts payable	19,990	—

See accompanying notes to unaudited condensed interim consolidated financial statements.

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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. (the "Company") changed its name to American Power Group Corporation ("APG"). In connection with the corporate name change, the Company's stock trading symbol on the OTCQB has changed from "GMTI" to "APGI". APG (together with its subsidiaries "we", "us" or "our") was originally founded in 1992 and has operated as a Delaware corporation since 1995.

Recent Developments

In December 2013, Iowa State Bank agreed to extend the maturity of our \$2.25 million credit facility from December 31, 2013 to April 1, 2015, increase our borrowing limit to \$2.5 million and expand our collateral base to include certain fixed assets which will provide more working capital availability under the credit facility.

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 up to 75% (average displacement ranges from 40% to 65%) of the normal diesel fuel consumption with various forms of natural gas. 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 fuel and operating costs by 15% 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 December 31, 2013, we had \$1,595,996 cash, cash equivalents and restricted certificates of deposit and working capital of \$1,889,773. Based on our fiscal 2014 operating budget, cash on hand at December 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 end of calendar 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 APG and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim financial statements at December 31, 2013 are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2013 included in our Annual Report on Form 10-K. The balance sheet at September 30, 2013 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 December 31, 2013 and the operating results for the interim periods ended December 31, 2013 and 2012 have been included.

3. Correction of an Accounting Error

The warrants issued in connection with our 10% Convertible Preferred Stock contain anti-dilution protection provisions including certain reset features (down-round protection) which protects the holders from future issuances of our Common Stock at prices below such warrants' then-in-effect respective exercise prices (See Note 12). This provision, however unlikely to occur, could result in modification of the warrants then-in-effect. In October 2012, the Financial Accounting Standards Board (FASB), issued ASU 2012-04 Technical Corrections and Improvement ("ASU 2012-04") which contained technical corrections to guidance on which we had previously relied upon in forming our initial conclusions regarding the accounting for warrants containing these reset provisions relating to the April 2012 private placement of our 10% Convertible Preferred Stock. Based upon our extensive review of ASU 2012-04, we have concluded these warrants no longer meet the criteria for classification as equity as previously recorded and must be recorded as a liability with the value of the warrants recorded at fair value on the transition/effective date, with subsequent changes in fair value recorded in earnings on a quarterly basis. Based on transition guidance provided, we determined our effective/transition date for implementation of ASU 2012-04 to be October 1, 2013 and the consolidated condensed financial statements contained herein reflect the retroactive impact of this correction of this accounting error as of this date. The restated historical information is as follows:

Condensed Consolidated Statements of Operations

	Three Months Ended December 31, 2013		
	Originally Reported	Adjustments	Adjusted
Non operating expense:			
Revaluation of warrants	\$—	\$ (324,021)	(324,021)
Non operating expense, net	(73,569)	(324,021)	(397,590)
Net loss	(163,574)	(324,021)	(487,595)
Net loss available to Common Stockholders	(408,613)	(324,021)	(732,634)
Loss from continuing operations per share - basic and diluted	\$0.00	\$ (0.01)	\$ (0.01)
Net loss attributable to Common stockholders per share - basic and diluted	\$0.00	\$ (0.02)	\$ (0.02)

Condensed Consolidated Balance Sheets

	As of December 31, 2013		
	Originally Reported	Adjustments	Adjusted
Liabilities:			
Warrant liability	\$—	\$ 10,850,223	\$ 10,850,223
Total liabilities	4,360,237	10,850,223	15,210,460
Stockholders' (deficit) equity:			
Additional paid-in capital	66,697,958	(10,526,202)	56,171,756
Accumulated deficit	(61,720,277)	(324,021)	(62,044,298)
Total stockholders' (deficit) equity	5,464,816	(10,850,223)	(5,385,407)
	\$9,825,053	\$—	\$9,825,053

Condensed Consolidated Statement of Stockholders' (Deficit) Equity

	Preferred Stock		Common Stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Paid In Capital	Deficit	Total
Originally Reported:							
Balance, December 31, 2013	942	\$942	48,619,342	\$486,193	\$66,697,958	\$(61,720,277)	\$5,464,816
Adjustments	—	—	—	—	(10,526,202)	(324,021)	(10,850,223)
Adjusted:							
Balance, December 31, 2013	942	\$942	48,619,342	\$486,193	\$56,171,756	\$(62,044,298)	\$(5,385,407)

Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31, 2013		
	Originally Reported	Adjustments	Adjusted
Cash flows from operating activities:			
Net loss	\$(163,574)	\$(324,021)	\$(487,595)
Revaluation of warrants	—	324,021	324,021
Net cash used in operating activities	(124,636)	—	(124,636)

4. 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 December 31, 2013 and September 30, 2013, we have pledged a \$300,000 certificate of deposit as collateral for outstanding loans with Iowa State Bank.

5. 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 \$797,387. 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.

In conjunction with the 10% Convertible Preferred Stock financing in April 2012, we amended the note to increase the amount of royalties payable under a technology license (see Note 7) that can be applied to the outstanding principal and interest payments to 50% and defer all interest and principal payments due under the note during calendar 2012 and 2013. Thereafter, the aggregate principal amount due under the note was to be paid in eight equal quarterly payments plus interest. In addition, M&R will not be required to make any payments under the note until such time as we begin to make royalty payments and then, those payments will be limited to a maximum of 50% of any royalty payment due M&R on a quarterly basis. No payments have been made under the amended note as of December 31, 2013. We have classified 100% of the balance as long term. We consider this a related party note as one of the former owners of American Power Group is now an employee of ours.

6. 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. As of December 31, 2013 and September 30, 2013, we recorded an inventory valuation allowance of \$44,073, respectively.

All inventory is valued at the lower of cost or market on the first-in first-out (FIFO) method. Inventory consists of the following:

	December 31, 2013	September 30, 2013
Raw materials	\$897,817	\$895,905
Work in progress	19,465	11,423
Finished goods	1,000	731
Total inventory	\$918,282	\$908,059

7. 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 license agreement, we recorded intangible assets of \$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 \$25,000 for the three months ended December 31, 2013 and 2012, respectively. Accumulated amortization was \$441,667 at December 31, 2013 and \$416,666 at September 30, 2013.

In conjunction with the 10% Convertible Preferred Stock financing in April 2012, we amended the M&R technology license agreement to modify the calculation and the timing of the royalty payments. Under the provisions of this amendment, effective April 27, 2012, the monthly royalty due is the lesser of 10% of net sales or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be earned and due until such time as our cumulative EBITDA commencing April 1, 2012 is positive on a cumulative basis. During the three months ended December 31, 2013 and 2012, we incurred \$0 royalties to M&R.

A critical component of our dual fuel aftermarket conversion solution is the internally developed software component of our electronic control unit. 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 EPA'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.

As of December 31, 2013, we have capitalized \$3,648,242 of software development costs associated with our OUL (\$1,801,506) and IUL (\$1,846,736) 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 months ended December 31, 2013 and 2012 were \$109,488 and \$50,538, respectively.

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

Twelve months ending December 31:	Contracts	Technology	Software Development	Total
2014	\$50,000	\$50,000	\$577,579	\$677,579
2015	50,000	50,000	624,121	724,121
2016	50,000	50,000	624,121	724,121
2017	50,000	50,000	573,644	673,644
2018	50,000	50,000	364,962	464,962
2019 and thereafter	29,167	29,167	457,443	515,777
	\$279,167	\$279,167	\$3,221,870	\$3,780,204

8. Contracts in Progress

Contracts in progress consist of the following:

	December 31, 2013	September 30, 2013
Costs incurred on uncompleted contracts	\$14,572	\$14,572
Estimated earnings on contracts in progress	25,387	25,387
	39,959	39,959
Less billings on contracts in progress	47,492	47,492
	\$(7,533)	\$(7,533)
Costs and estimated earnings in excess of billings	\$—	\$—
Billings in excess of costs and estimated earnings	7,533	7,533
	\$(7,533)	\$(7,533)

9. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2013	September 30, 2012	Estimated Useful Lives
Leasehold improvements	\$127,087	\$127,087	5 years
Machinery and equipment	1,535,800	1,431,871	3 - 7 years
Less accumulated depreciation	(710,441)	(629,137)	
	\$952,446	\$929,821	

10. Product Warranty Costs

We provide for the estimated cost of product warranties for our dual fuel products at the time product revenue is recognized. Factors that affect our warranty reserves include the number of units sold, historical and anticipated rates of warranty repairs, and the cost per repair. We assess the adequacy of the warranty provision and we may adjust this provision if necessary. The increase in warranty reserve at December 31, 2013 is attributable to the increase in revenue for the quarter ended December 31, 2013.

The following table provides the detail of the change in our product warranty accrual relating to dual fuel products as of:

	Quarter Ended December 31, 2013	Year Ended September 30, 2013
Warranty accrual at the beginning of the period	\$118,591	\$18,306
Charged to costs and expenses relating to new sales	34,467	146,594
Costs of product warranty claims	(2,226)	(46,309)
Warranty accrual at the end of period	\$150,832	\$118,591

11. Notes Payable/Credit Facilities

Credit Facilities

We have a \$2,500,000 credit facility with Iowa State Bank under which we may borrow up to 50% of the value of eligible inventory, 75% of eligible accounts receivable, 100% of our certificate of deposit and 50% of eligible machinery and equipment. This note is due April 1, 2015 and bears interest of 7%. We have collateralized the obligation by: (i) granting to the lender a security interest in our \$300,000 certificate of deposit and certain additional collateral and (ii) pledging to the lender, as additional collateral, 2,000,000 shares of our Common Stock. In addition, two directors and two members of management have each pledged 125,000 shares of our Common Stock owned by them as additional collateral.

As of December 31, 2013, we have \$1,560,110 outstanding under the credit facility and had sufficient collateral to borrow an additional \$545,419 under the terms of our working capital line.

Notes Payable, Related Party

In September and October 2010, an officer and former director loaned us a total of \$323,500 in connection with a private placement of 12% six-month promissory notes. In October 2011, an officer loaned us \$150,000 pursuant to the

terms of a 10% promissory note due November 27, 2011. In conjunction with the 10% Convertible Preferred Stock financing in April 2012, these

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officers and former director agreed to extend the maturity of their notes until April 30, 2014 and reduce their interest rate to 8%. These notes have been classified as short term as of December 31, 2013.

12. Warrants to Purchase Common Stock

In conjunction with the private placement of our 10% Convertible Preferred stock in April 2012, we issued warrants which contained a "down-round" provision that provides for a reduction in the warrant exercise price if there are subsequent issuances of additional shares of common stock for consideration per share less than the per share warrant exercise prices. In October 2012, the Financial Accounting Standards Board (FASB), issued ASU 2012-04 Technical Corrections and Improvement ("ASU 2012-04") which contained technical corrections to guidance on which we had previously relied upon in forming our initial conclusions regarding the accounting for warrants containing these reset provisions. Pursuant to this guidance and effective commencing October 1, 2013, we have recognized the fair value of these warrants as a liability and will re-measured the fair value of these warrants on a quarterly basis with any increase or decrease in the estimated fair value being recorded in other income or expense for the respective quarterly reporting period.

We have historically used the Black-Scholes option pricing model to determine the fair value of options and warrants. We have considered the facts and circumstances in choosing the Black-Scholes model to calculate the fair value of the warrants with a down-round price protection feature as well as the likelihood of triggering the down-round price protection feature, which, as described below, we have concluded is remote.

We determined the initial fair value of the warrants as of October 1, 2013 to be \$10,652,540 based on a valuation simulation using the Black Scholes option pricing model. We also prepared additional models using a modified Black Scholes option pricing model and a Binomial Tree option pricing model. Both additional simulations included various reset scenarios, different exercise prices, and other assumptions, such as price volatility and interest rates, that were kept consistent with our original Black-Scholes model. The resulting warrant values as determined under the modified Black-Scholes model and the Binomial Tree option model were not materially different from the values generated using the Black-Scholes model. We have therefore determined to use the Black-Scholes model as we believe it provides a reasonable basis for valuation and takes into consideration the relevant factors of the warrants, including the down round provision.

During the three months ended December 31, 2013, we recorded warrant valuation expense of \$324,021 associated with an increase in the fair value of all warrants containing the down round provision outstanding as of December 31, 2013 and exercised during the three months ended December 31, 2013. During the three months ended December 31, 2013, warrants to purchase 301,024 shares of Common Stock containing the down round provision were exercised on a cashless basis. We reduced our warrant liability on the date of exercise by the fair value of these warrants which was \$126,338 and reclassified this amount to Additional paid-in capital. Our warrant liability was \$10,850,223 as of December 31, 2013.

The warrant liabilities were valued at December 31, 2013 using the Black-Scholes option-pricing model with the following assumptions.

Warrants	10% Convertible Preferred Stock Financing	
	Private Placement 1 December 31, 2013	Private Placement 2 December 31, 2013
Closing price per share of common stock	\$0.73	\$0.73
Exercise price per share	0.50	0.50
Expected volatility	60.0	% 60.0
Risk-free interest rate	1.3	% 1.8
Dividend yield	—	—
Remaining expected term of underlying securities (years)	3.8	4.8
Warrants outstanding	19,315,000	6,795,633

Private Placement 1 - April 30, 2012, sale of 821.6 units of 10% Convertible Preferred Stock

Private Placement 2 - March 31, 2013, additional investment right from Private Placement 1, sale of approximately 274 units of 10% Convertible Preferred Stock

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13. Fair Value Measurements

The carrying amount of our receivables and payables approximate their fair value due to their short maturities. Accounting principles provide guidance for using fair value to measure assets and liabilities. The guidance includes a three level hierarchy of valuation techniques used to measure fair value, defined as follows:

• Level 1 - Unadjusted Quoted Prices. The fair value of an asset or liability is based on unadjusted quoted prices in active markets for identical assets or liabilities.

• Level 2 - Pricing Models with Significant Observable Inputs. The fair value of an asset or liability is based on information derived from either an active market quoted price, which may require further adjustment based on the attributes of the financial asset or liability being measured, or an inactive market transaction.

• Level 3 - Pricing Models with Significant Unobservable Inputs. The fair value of an asset or liability is primarily based on internally derived assumptions surrounding the timing and amount of expected cash flows for the financial instrument. Therefore, these assumptions are unobservable in either an active or inactive market.

We consider an active market as one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Conversely, we view an inactive market as one in which there are few transactions of the asset or liability, the prices are not current, or price quotations vary substantially either over time or amount market makers. When appropriate, non-performance risk, or that of a counterparty, is considered in determining the fair values of liabilities and assets, respectively.

We have classified certain warrants related to the 10% Convertible Preferred Stock private placements described in Note 12 as a Level 3 Liability. Assumptions used in the calculation require significant judgment. The unobservable inputs in our valuation model includes the probability of additional equity financing and whether the additional equity financing would trigger a reset on the down-round protection.

The following table summarizes the financial liabilities measured a fair value on a recurring basis as of September 30, 2013 and December 31, 2013.

	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
Warrant liability	\$—	\$—	\$—	\$—
December 31, 2013				
Warrant liability	\$10,850,223	\$—	\$—	\$10,850,223

Level 3 Valuation

The following table provides a summary of the changes in fair value of our financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three month period ended December 31, 2013.

	Warrant Liability
Level 3	
Balance at September 30, 2013	\$—
Cumulative effect of a change in accounting principle - adoption of ASU 2012-04	10,652,540
Revaluation of warrants recognized in earnings	324,021
Reclassification of the estimated fair value of warrants exercised during the period to additional paid in capital	(126,338)
Balance at December 31, 2013	\$10,850,223

14. Stockholders' Equity

Common Stock

During the three months ended December 31, 2013, holders exercised warrants to purchase an aggregate of 301,024 shares of Common Stock at an exercise price of \$0.50 utilizing a cashless exercise feature resulting in the net issuance of 99,041 shares of Common Stock. In addition, another holder exercised warrants to purchase 8,000 shares of Common Stock at an exercise price of \$0.65.

10% Convertible Preferred Stock

During the three months ended December 31, 2013, we recorded a dividend on our 10% Convertible Preferred Stock of \$245,039, of which \$145,533 was paid in cash. Certain stockholders agreed to accept 136,985 shares of Common Stock (valued at \$99,506) in lieu of cash dividend payments. During the three months ended December 31, 2012, we recorded a dividend on our 10% Convertible Preferred Stock of \$212,704, of which \$52,785 was paid in cash. Certain stockholders agreed to accept 245,575 shares of Common Stock (valued at \$159,920) in lieu of cash dividend payments.

Stock Options

Amortization of stock compensation expense was \$24,783 and \$38,190 for the three months ended December 31, 2013 and 2012, respectively. The unamortized compensation expense at December 31, 2013 was \$113,045 and will be amortized over a weighted average remaining life of approximately 2.38 years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains certain statements that are "forward-looking." These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events, are subject to certain risks, uncertainties and assumptions, and are not guaranties of future performance. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended or using other similar expressions.

In accordance with the provisions of the Private Securities Litigation Reform Act of 2005, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q. Important factors that could cause actual results to differ from our predictions include those discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that we have identified all possible issues which we might face. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditure or other budgets, which may in turn affect our financial position and results of operations. For all of these reasons, the reader is cautioned not to place undue reliance on forward-looking statements contained herein, which speak only as of the date hereof. We assume no responsibility to update any forward-looking statements as a result of new information, future events, or otherwise except as required by law.

The following information should be read in conjunction with the unaudited consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed for the fiscal year ended September 30, 2013.

Results of Operations

Three Months ended December 31, 2013 Compared to the Three Months ended December 31, 2012

Net sales from continuing operations for the three months ended December 31, 2013 increased \$967,568 or 111% to \$1,842,521 as compared to net sales of \$874,953 for the three months ended December 31, 2012. The increase is attributable to stronger domestic stationary revenues especially in the area of oil and gas which increased approximately \$945,000 or almost four-fold. Domestic vehicular revenues for the three months ended December 31, 2013 increased approximately \$45,000 or 10% to a record \$520,000. The increase was attributable to the ability to actively solicit customer orders due to the increased number of EPA approvals received to date.

During the three months ended December 31, 2013, our gross profit was \$901,612 or 49% of net sales as compared to a gross profit of \$300,549 or 34% of net sales for the three months ended December 31, 2012. The increase was attributable to higher oil and gas stationary revenue and relative lower overhead costs.

Selling, general and administrative expenses for the three months ended December 31, 2013 increased \$108,735 or 12% to \$991,617 as compared to \$882,882 for the three months ended December 31, 2012. The increase was primarily attributable to increased sales and marketing costs as well as an increased number of employees.

During the three months ended December 31, 2013, interest and financing expense increased \$5,516 or 14% to \$46,107 as compared to \$40,591 for the three months ended December 31, 2012.

During the three months ended December 31, 2013 the revaluation of our warrant liability to estimated fair value resulted in a non-cash revaluation expense of \$324,021.

Our net loss for the three months ended December 31, 2013 decreased \$152,191 or 24% to \$487,595 or (\$0.01) per basic share as compared to a net loss of \$639,786 or (\$0.01) per basic share for the three months ended December 31, 2012. The calculation of net loss per share available for Common shareholders for the three months ended December 31, 2013 reflects the inclusion of 10% Convertible Preferred Stock quarterly dividends of \$245,039 and \$212,704 associated with the issuance of the 10% Convertible Preferred as of December 31, 2013 and December 31, 2012, respectively.

Liquidity and Capital Resources

As of December 31, 2013, we had \$1,595,996 in cash, cash equivalents and restricted certificates of deposit and working capital of \$1,889,773. As of December 31, 2013, under the terms of our working capital line, we had sufficient collateral to borrow an additional \$545,419 above the then outstanding balance.

Based on our fiscal 2014 operating budget, cash on hand at December 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 end of calendar 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.

The Consolidated Statement of Cash Flows reflect events for the three months ended December 31, 2013 and 2012 as they affect our liquidity. During the three months ended December 31, 2013, net cash used in operating activities was \$124,636. Our net loss for the three months ended December 31, 2013 was \$487,595. Our cash flow was positively impacted by the following non-cash expenses and changes to our working capital: \$572,917 of depreciation, amortization, stock option expense and warrant revaluation expense. However, a decrease of \$454,913 related to accounts payable, accrued expenses, inventory and other assets was offset by decreases in accounts receivable, prepaids, other current assets and assets related to discontinued operations.

Our net loss for the three months ended December 31, 2012 was \$639,786, while our cash flow was positively impacted by the following non-cash expenses and changes to our working capital: \$195,188 of depreciation, amortization, stock option expense. We also realized an increase of \$321,291 in accounts payable and accrued expenses offset by an increased investments in inventory and accounts receivables. The result of which was net cash used in operating activities of \$591,215 for the three months ended December 31, 2012.

Net cash used in investing activities was \$186,750 for the three months ended December 31, 2013, reflecting the capitalization of \$102,811 of costs associated with our dual fuel electronic control unit engine family software applications and the purchase of \$83,939 of property, plant and equipment. Net cash used in investing activities was \$882,958 for the three months ended December 31, 2012, reflecting the capitalization of \$467,486 of costs associated with our dual fuel electronic control unit engine family software applications and the purchase of \$415,472 of property, plant and equipment.

Net cash used in financing activities was \$76,787 during the three months ended December 31, 2013, reflecting the proceeds of \$115,000 from the credit facility plus \$5,200 of proceeds from exercised warrants. Payments made on notes payable totaled \$51,454 and we paid our 10% Preferred Stockholders \$145,533 of 10% preferred dividends. Net cash used in financing activities was \$15,124 during the three months ended December 31, 2012, reflecting the

payment of cash dividends on the 10% Convertible Preferred Stock and normal debt payments.

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Effects of Inflation and Changing Prices

Generally, we are exposed to the effects of inflation and changing prices. Given that our dual fuel conversion technology replaces a certain percentage of diesel fuel with natural gas, we would be impacted by any material change in the net fuel savings between the two fuels (for example, if diesel fuel prices decrease and natural gas prices increase). We have generally been unaffected by interest rate changes in the three months ended December 31, 2013 and 2012, because we no longer maintain any floating-rate debt.

Environmental Liability

There are no known material environmental violations or assessments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required pursuant to Item 305(e) of Regulation S-K.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2013. In designing and evaluating our disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management applies judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer identified a material weakness in internal controls over financial reporting as of December 31, 2013 as described below.

Based upon management's evaluation, we concluded that we did not maintain adequate and effective internal control in the area of complex and non-routine transactions as of December 31, 2013. As a result, of a correction of an accounting error described in Note 3 to our Condensed Interim Consolidated Financial Statements contained herein, restatements of our consolidated financial statements for the period ended December 31, 2013 was necessary.

In connection with the material weakness described above management plans to enhance its review and approval procedures and to provide education and implement accounting reviews as they pertain to complex and non-routine transactions.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have not been any material changes from the risk factors previously disclosed under Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended December 31, 2013, we issued 107,041 shares of our unregistered Common Stock to certain third parties as a result of warrants that were exercised. The issuance of these shares is exempt from registration under the Securities Act pursuant to Section 4(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed with this document:

Exhibit No.	Description
10.1 (1)	- Business Loan Agreement, dated December 19, 2013 between American Power Group, Inc. and Iowa State Bank with regard to a \$2,500,000 line of credit
10.2 (1)	- Promissory Note dated as of December 19, 2013, issued by American Power Group, Inc. in favor of Iowa State Bank
31.1 (2)	- Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2 (2)	- Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32.1 (3)	- Certification of Chief Executive Officer under 18 U.S.C. Section 1350
32.2 (3)	- Certification of Chief Financial Officer under 18 U.S.C. Section 1350
101.SCH (4)	XBRL Taxonomy Extension Schema Document
101.CAL (4)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (4)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (4)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE (4)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed as an Exhibit to American Power Group Corporation's Annual Report on Form 10-K for the fiscal year ended September 30, 2013, and incorporated herein by reference.

(2) Filed herewith.

In accordance with Item 601(b)(32)(ii) of Regulation S-K, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed to be "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

(3) In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed "filed" or part of a registration statement for purposes of Sections 11 and 12 of the Securities Act, shall not be deemed (4) "filed" for purposes of Section 18 of the Exchange Act and is not otherwise subject to liability under these sections, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act except as expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

American Power Group Corporation

By: /s/ Lyle Jensen

Lyle Jensen

President & Chief Executive Officer

(Principal Executive Officer)

By: /s/ Charles E. Coppa

Charles E. Coppa

Chief Financial Officer

(Principal Accounting and Financial Officer)

Dated: June 29, 2015