

AMERICAN POWER GROUP Corp
Form 10-Q
February 13, 2014

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

(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

01940
(Zip Code)

(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 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

Edgar Filing: AMERICAN POWER GROUP Corp - Form 10-Q

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.

1

American Power Group Corporation

TABLE OF CONTENTS

	Page	
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	<u>Condensed Consolidated Balance Sheets</u> as of December 31, 2013 (Unaudited) and September 30, 2013	3
	<u>Condensed Consolidated Statements of Operations for the three months ended December 31, 2013 and 2012 (Unaudited)</u>	4
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity for the three months ended December 31, 2013 (Unaudited)</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2013 and 2012 (Unaudited)</u>	6
	<u>Notes to Condensed Interim Consolidated Financial Statements (Unaudited)</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	13
Item 4.	<u>Controls and Procedures</u>	13
PART II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	13
Item 1A.	<u>Risk Factors</u>	14
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
Item 3.	<u>Defaults Upon Senior Securities</u>	14
Item 4.	<u>Mine Safety Disclosures</u>	14
Item 5.	<u>Other Information</u>	14
Item 6.	<u>Exhibits</u>	14
	<u>Signatures</u>	15

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' 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
Obligations due under lease settlement, non-current	505,540	505,540
Total liabilities	4,360,237	4,652,593
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, 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	66,697,958	66,570,909
Accumulated deficit	(61,720,277)	(61,311,664)

Total stockholders' equity	5,464,816	5,743,940
	\$9,825,053	\$10,396,533

See accompanying notes to unaudited condensed interim consolidated financial statements.

3

Edgar Filing: AMERICAN POWER GROUP Corp - Form 10-Q

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
Other, net	(38,747	) (28,923
Non operating expense, net	(73,569	) (57,453
Net loss	(163,574	) (639,786
10% Convertible Preferred dividends	(245,039	) (212,704
Net loss available to Common stockholders	\$(408,613	) \$(852,490
Loss from continuing operations per share – basic and diluted	\$(0.00	) \$(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	\$(0.01	) \$(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.

4

American Power Group Corporation
Condensed Consolidated Statement of Changes in Stockholders' 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
Compensation expense associated with stock options	—	—	—	—	24,783	—	24,783
Common stock issued upon warrant exercise	—	—	107,041	1,070	4,130	—	5,200
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	—	—	—	—	—	(163,574)	(163,574)
Balance, December 31, 2013	942	\$942	48,619,342	\$486,193	\$66,697,958	\$(61,720,277)	\$5,464,816

See accompanying notes to unaudited condensed interim consolidated financial statements.

5

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	\$(163,574	) \$(639,786
Adjustments to reconcile net loss to net cash used in operating activities:		
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.

6

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 financing activities:		
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	—