

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
Amendment No. 1

(Mark One)

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

For the fiscal year ended September 30, 2014

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)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value per share
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form. 10-K.

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

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 No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity, as of March 31, 2014, the last business day of the registrant's most recent completed second quarter, was approximately \$54,471,000.

As of December 19, 2014, there were 50,745,920 shares of the registrant’s Common Stock outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-K/A to amend and restate in their entirety the following items of our Annual Report on Form 10-K for the year ended September 30, 2014 as originally filed with the Securities and Exchange Commission on December 22, 2014 (the “Original Form 10-K”): (i) Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,”(ii) Item 8 of Part II “Financial Statements and Supplementary Data,” (iii) Item 9A of Part II, “Controls and Procedures,” and (iv) Item 15 of Part IV, “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-K/A restates in its entirety, as amended, our Original Form 10-K. This report on Form 10-K/A is presented as of the filing date of the Original Form 10-K 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-K/A, we are also filing Amendment No. 1 on Form 10-Q/A to our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2013, March 31, 2014, June 30, 2014 and December 31, 2014 as originally filed with the SEC on February 13, 2014, May 14, 2014, August 14, 2014 and February 17, 2015, respectively (the “Original Form 10-Q's”), 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 twelve months ended September 30, 2014 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 consolidated balance sheets, the consolidated statements of operations, the consolidated statements of changes in stockholders (deficit) equity and the consolidated statements of cash flows for the twelve months ended September 30, 2014 included in this Form 10-K/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” and the notes to consolidated financial statements resulting from the correction of this error. Our consolidated financial statements (including audit reports), other financial information and related disclosures included in the Original Form

10-K and the Original Form 10-Qs, 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-Qs should not be relied upon and are superseded in their entirety by this Form 10-K/A and the Form 10-Q/As being filed concurrently herewith.

We have also made changes in "Item 9A - Controls and Procedures" in response to comments from the staff of the Securities and Exchange Commission.

American Power Group Corporation

TABLE OF CONTENTS

	Page
PART I.	
Item 1. Business	<u>5</u>
Item 1A. Risk Factors	<u>7</u>
Item 1B. Unresolved Staff Comments	<u>12</u>
Item 2. Properties	<u>12</u>
Item 3. Legal Proceedings	<u>13</u>
Item 4. Mine Safety Disclosures	<u>13</u>
PART II.	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>13</u>
Item 6. Selected Financial Data	<u>14</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>14</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>17</u>
Item 8. Financial Statements and Supplementary Data	<u>17</u>
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>17</u>
Item 9A. Controls and Procedures	<u>17</u>
Item 9B. Other Information	<u>18</u>
PART III.	
Item 10. Directors, Executive Officers and Corporate Governance	<u>19</u>
Item 11. Executive Compensation	<u>21</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>23</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>26</u>

Item 14.	Principal Accounting Fees and Services	<u>27</u>
PART IV.		
Item 15.	Exhibits, Financial Statement Schedules	<u>28</u>
Signatures		<u>58</u>
Exhibits		

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements regarding future events and the future results of American Power Group Corporation, within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “goal,” “project,” “intend,” “plan,” “believe,” “estimate,” “will,” “likely,” “may,” “designed,” “would,” “future,” “can,” “could” and other similar expressions that are predictive in nature and which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and involve a number of risks, uncertainties, and assumptions that are difficult to predict. Consequently, actual results may differ materially from those projected, anticipated, or implied.

Part I

Item 1. Business

General

The Company (together with its subsidiaries “we”, “us” or “our”) was originally founded in 1992 and has operated as a Delaware corporation since 1995.

Recent Developments

On October 27, 2014, we entered into loan agreement with Iowa State Bank in which we refinanced approximately \$2,567,000 due to the bank under an existing loan agreement, \$30,000 of transaction related fees and \$150,000 due to an officer of the Company. Under the terms of the new term loan, we will make P82M monthly payments of \$44,223, including principal and interest, commencing January 15, 2015, with the final payment of all principal and accrued interest not yet paid due on October 15, 2021. In addition, Iowa State Bank has provided a new \$500,000 working capital line of credit which has an initial expiration of January 15, 2016.

On November 28, 2014, we completed a private placement for \$2 million of 10% Series B Convertible Preferred Stock with an accredited investor.

On December 8, 2014, we were notified by the Environmental Protection Agency of our first 28 approvals under the Inside Useful Life designation (“IUL”), which is defined as vehicular engines older than two years but having less than 435,000 miles, which are principally engine family years 2010 and newer that utilize the OEM selective catalyst reduction technology. We believe that of the estimated 3.5 - 4 million Class 8 trucks operating in North America, an estimated 600,000 to 700,000 Class 8 trucks fall into the IUL designation.

Products and Services

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% of normal diesel fuel consumption with various forms of natural gas with the average displacement ranging from 40% to 65%. The energized fuel balance between the two fuels is maintained with a patented control system ensuring the engines operate to 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 fuel and operating costs by 10% to 30%;
- 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 heavy-duty vehicular diesel engines.

5

Manufacturing/Processing

Our dual fuel conversion enhancement system is configured by our internal engineering staff based on customer engine specifications and then modeled through Computational Fluid Dynamics Analysis to scientifically determine the optimum mixture of diesel and natural gas prior to final installation. All components, including several proprietary patented components, are purchased from external sources and currently assembled into installation kits at our Algona, Iowa location and then delivered on site for installation. All installations are managed by an American Power Group lead team or certified installers that complete final testing and commissioning of the diesel engines.

Raw Materials

Our dual fuel conversion components, including several proprietary components, are purchased from well known automotive parts suppliers as off-the-shelf components. We believe these suppliers are able to support the scalability of our business. While we believe our dual fuel conversion operations have access to sufficient components for the foreseeable future, management is currently identifying multiple potential sources for critical components to reduce the likelihood that supply issues could negatively impact our business.

Customers

Our dual fuel technology upgrade is ideally suited for the large domestic and international installed base of both stationary and vehicular diesel engines. The stationary market includes primary and backup diesel power generators for oil and gas drilling rigs, shale gas recovery pumps, hospitals, cold storage warehouses, data management centers, government and manufacturing facility applications. Vehicular applications include corporate and private route fleets, long haul logistics fleets, refuse haulers, public transit and government vehicles.

The United States Environmental Agency estimates there are 20 million diesel engines operating in the U.S., with an estimated 13 million used in vehicular applications and 7 million used in stationary generator applications. Today our primary vehicular market is the Class 8 Heavy Duty vehicles operating in North America which is estimated to be 3.5 to 4 million vehicles. We believe the number of available international stationary and vehicular diesel engines is significantly higher than the U.S. market.

Sales and Marketing

Our dual fuel conversion operations address the alternative fuel market in three distinct segments: (1) North American stationary, (2) North American vehicular and (3) international. To address these markets, we have put in place a sales organization consisting of direct sales, exclusive dealers/certified installers, non-exclusive dealer/installer agreements with the WheelTime members, sales representatives, and in-country international distributors, which in most instances are large, well-known companies. We currently have twenty-eight domestic dealers/certified installers, and exclusive distributors in five countries that market and distribute our products.

In October 2014 we announced the expansion of our existing in-house and WheelTime sales and marketing resources with new direct sales representatives, additional third party dealers and co-marketing relationships with numerous national and regional CNG and LNG fuel suppliers. We believe this group of fuel suppliers encompasses a cumulative group of over 90 additional sales team members who we intend to train on selling our dual fuel solution. These additional lead generation channels will continue to be supported by WheelTime's expansion of their certified natural gas installer locations across North America.

Competition

Under certain conditions it is not cost effective or technologically feasible to convert a diesel engine to operate either entirely or partially on an alternative fuel. Emission standards sometimes dictate the use of highly sophisticated technology that sometimes cannot be easily retrofitted onto an engine and/or is cost prohibitive. In those situations, American Power Group offers customers a cost effective solution which can be used in heavy duty trucks, generators and other stationary industrial engines. As described above, our patented dual fuel conversion system is an external fuel delivery enhancement system that requires no engine modifications and can run on a combination of diesel fuel and natural gas or only diesel fuel, depending on the circumstances.

The primary natural gas alternative fuel solutions available to existing heavy-duty diesel engine operators are:

• **Dedicated Natural Gas Engines** - 100% dedicated natural gas burning engines. This is usually a more expensive solution and available in new OEM and aftermarket completely rebuilt engines.

Invasive Retrofits - an existing diesel engine can be converted to operate on a combination of diesel and an acceptable form of natural gas. The invasive solution tends to be a higher priced solution than non-invasive solutions because of the need for additional custom designed natural gas fuel injectors.

6

• Non-Invasive Retrofits - are solutions, such as ours, where no major changes to the existing diesel engine are required and we do not use costly custom designed natural gas fuel injectors to operate the engine on dual fuel.

Our solution uses software to manage the introduction of natural gas under negative pressure to the engine's turbo charger air flow, thus eliminating the need for costly and maintenance-prone custom fuel injectors and therefore making our solution more cost effective than others. In addition, we believe that our solution has a more universal design than other conversion technologies and therefore is applicable to a wider range of engine models and sizes than our competitors' solutions currently are. Today, our primary focus is on addressing the installed base of existing diesel engines. We believe our dual fuel conversion technology upgrade is ideally suited for the large domestic and international installed base of both stationary and vehicular diesel engines, which is estimated to be in the millions of units.

Government Regulation

Our dual fuel conversion business and operations are affected by various federal, regional, state, local and foreign laws, rules, regulations and authorities. The primary domestic governing body is the EPA, which is responsible for monitoring and enforcing emissions standards and safety requirements. All domestic dual fuel conversion systems are subject to the regulations of the EPA, the primary requirement of which is that being that addition of a dual fuel conversion system to an existing diesel engine does not negatively impact the current emission profile of the engine or the engine's original emission profile.

In April 2011, the EPA announced it had amended its alternative fuel conversion regulations for light, medium and heavy-duty vehicles. The new regulations introduced new flexibilities for all clean alternative fuel converters and expanded compliance options for certain categories of conversions, building upon the concept that it is appropriate to treat conversions differently based on the age of the vehicle or engine being converted. EPA regulations had previously required vehicle and engine conversion systems to be installed after receiving a certificate of conformity which provided a regulatory exemption from potential tampering charges. Under the new heavy-duty vehicle regulations, testing and compliance procedures differ based on the age category of the vehicle or engine that is being converted: 1) full certification for new or relatively new, which is defined as engines less than two years old; 2) intermediate age ("IUL"), which is defined as engines older than two years but having fewer than 435,000 miles, and 3) outside useful life ("OUL") which is defined as engines with more than 435,000 miles or 10 years old. All conversion manufacturers seeking exemption must demonstrate compliance, but the requirements differ among age categories. Our initial focus was on obtaining approval for a large number of engine families within the OUL category, as we believe they represent over seventy five percent of the Class 8 trucks in operation and the testing requirements are less stringent than those for the IUL category.

As of September 30, 2014, we had an industry leading 456 OUL vehicular engine family approvals covering what we believe are six of the top seven OUL engine families on the road in the U.S. On December 8, 2014, we were notified by the EPA of 28 approvals for our first Volvo/Mac IUL engines, which included 25 approvals covering engine families for which we already have OUL approval. As a result, we have expanded our ability to convert engines within these families having fewer than 435,000 miles. In addition, we received approval on three SCR technology families covering model years 2010-2012, bringing our overall total to 459 engine families.

Failure to comply with applicable regulatory requirements can result in, among other things, fines, suspensions of approvals, seizure or recall of products, operating restrictions and criminal prosecutions. Furthermore, changes in existing regulations or adoption of new regulations could impose costly new procedures for compliance, or prevent us from obtaining, or affect the timing of, regulatory approvals. We use our best efforts to keep abreast of changing or new regulations for timely implementation.

Protection of Intellectual Property Rights and Proprietary Rights

Our American Power Group subsidiary has an exclusive, worldwide license under one U.S. patent for dual fuel conversion technology owned by M&R Development, Inc.

We use the name American Power Group in interstate commerce and assert a common law right in and to that name. Employees

As of September 30, 2014, we had 21 full time employees and no part-time employees. We are not a party to any collective bargaining agreements and consider the relationship with our employees to be satisfactory.

Item 1A. Risk Factors

An investment in our Common Stock involves a high degree of risk. Investors should carefully consider the following risk factors, in addition to the risks described elsewhere in this Annual Report, in evaluating our Company and our business. If any of these risks, or other risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition and results of operations could be adversely affected. If that happens, the market price of our Common Stock could decline.

7

Risks Related to our Business

Our dual fuel conversion business has lost money in the last six consecutive fiscal years and we may need additional working capital if we do not obtain sustained profitability. If additional capital is not received, it may force us to adjust operations accordingly.

Since the July 2009 acquisition of American Power Group's dual fuel conversion operations, we have invested over \$14 million to obtain regulatory approvals of our dual fuel products and support dual fuel sales and marketing initiatives intended to promote American Power Group's dual fuel conversion technology and establish a broader market presence worldwide. Despite these efforts and increasing quarterly revenue, American Power Group's business has incurred significant operating losses and experienced negative cash flow from operations.

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 American Power Group is unable to achieve sustained profitability, 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.

We may require additional funding to grow our business, such funding may not be available to us on favorable terms or at all. If we do not obtain funding when we need it, our business will be adversely affected. In addition, if we have to sell securities in order to obtain financing, the rights of our current holders may be adversely affected.

Substantial expenditures have been required and may be required in the future to enable us to obtain the necessary additional vehicular engine family approvals from the EPA to accelerate our ability to sell our vehicular dual fuel solution in the United States. In addition, we may need additional capital to continue operations. There can be no assurance that we will generate revenues from operations or obtain sufficient capital on acceptable terms, if at all. Failure to generate such operating revenues or obtain such capital, if needed, would have an adverse impact on our financial position, our results of operations and our ability to continue as a going concern. We may also seek funding for the manufacturing and marketing of our products through strategic partnerships and other arrangements with corporate partners. There can be no assurance that such collaborative arrangements or additional funds will be available when needed, or on terms acceptable to us if at all. Operating and capital requirements during the next fiscal year and thereafter will vary based on a number of factors, including the level of sales and marketing activities for services and products. There can be no assurance that additional private or public finances, including debt or equity financing, will be available as needed, or, if available, on terms favorable to us. Any additional equity financing may be dilutive to stockholders and such additional equity securities may have rights, preferences or privileges that are senior to those of our existing Common Stock and/or Preferred Stock.

Improvement in our business depends on our ability to increase demand for our products and services.

We must substantially increase revenues by increasing demand for our dual fuel products and services. Factors that could limit demand for our products and services include changes in the price spread between diesel fuel and natural gas and potential additional changes in the regulatory environment. Other possible adverse circumstances may include changes in economic conditions affecting markets for our products and services, potential delays in product development, product and service flaws which could result in material warranty claims, changes in technology and the availability of competitive products and services could also delay or limit demand for our products and services. There can be no assurance that our efforts will be successful, that all of our products will prove to meet the anticipated levels of approval or effectiveness, or that we will be able to obtain and sustain customers as well as distribution approval.

We rely on significant customers and relationships. The loss of one or more of which could adversely affect our operating results, financial condition and business prospects.

During the fiscal years ended September 30, 2014 and 2013, approximately 69% and 80% of our sales were derived from our dual fuel stationary solution for oil and gas applications, with the balance derived from our dual fuel vehicular applications. Three oil and gas stationary customers accounted for 39%, 16% and 9% of consolidated revenue for the fiscal year ended September 30, 2014 and 34%, 21% and 12% of consolidated net sales in the fiscal year ended September 30, 2013. The loss of any one of these customers could have a material adverse effect on our operating results, financial condition and business prospects. Revenue in fiscal 2013 from the other two customers related to specific one-time conversions of multiple oil and gas high pressure fracturing engines as the result of new

engine family approvals received during fiscal 2013. Approximately \$1.4 million of fiscal 2013 revenue associated with these two customers was derived from us providing a full turnkey solution in lieu of the more traditional sale of us providing the dual fuel conversion kit with a third party providing installation and additional equipment. We do not anticipate providing similar full turnkey dual fuel solutions in the future. Our operating plans assume significant growth in North American vehicular revenues, based in part on our new relationships with the leading national and regional natural gas fuel suppliers as well as our existing relationship with WheelTime. The loss of our relationship with the WheelTime member companies could have a material adverse effect on our operating results, financial condition and business prospects.

We are exposed to risks related to technological obsolescence and competition.

We operate in competitive and evolving markets locally, nationally and globally. These markets are subject to technological changes and changes in demand. In seeking market acceptance, we encounter competition from many sources, including other well-established and larger dominant original equipment providers such as CAT, Cummings, Detroit Diesel, Volvo and Mercedes as well as several other companies that offer dual fuel conversion solutions on both an invasive as well as non-invasive basis. Many of these competitors have substantially greater financial resources as well as substantially greater experience in conducting testing, manufacturing and marketing of products than we do. As a result, they may be able to adapt more quickly to new or emerging technologies, changes in customer requirements, or devote greater resources to the promotion and sale of their products and services. In addition, our competitors might succeed in developing or purchasing technologies and products that are more effective than those that we are developing or that would render our technology and products obsolete or noncompetitive. Competition could increase if new companies enter the markets in which we operate or our existing competitors expand their service lines.

We may not be able to protect our intellectual property rights adequately.

Our ability to compete is affected by our ability to protect our intellectual property rights. We rely on a single licensed patent, as well as on trademarks, copyrights, trade secrets, confidentiality procedures and licensing arrangements to protect our intellectual property rights. Despite these efforts, we cannot be certain that the steps we take to protect our proprietary information will be adequate to prevent misappropriation of our technology or protect that proprietary information. Companies in our industry often own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we gain increasing market share, the possibility of intellectual property rights claims against our licensed dual fuel technology could grow. Although the owner of our licensed patent is responsible for defending all claims against the licensed dual fuel technology, it may not have the resources to defend such claims adequately. Such claims, whether having merit or otherwise, could be time consuming and expensive to litigate or settle and could divert management resources and attention. No assurance can be given that, if challenged, our licensed patent or any other patents we may obtain will be found to be valid or enforceable, or that the patents of others will not have an adverse effect on our ability to do business.

Although our dual fuel technology is licensed from a related party, M&R Development, Inc., if we should default on the payment of royalties or other material terms of that license, the license can be terminated. Such termination would have a material adverse effect on our business and on our results of operations.

Many of our distribution agreements require us to indemnify the distributor for third-party intellectual property infringement claims and may require that we pay the damages if there were an adverse ruling in any such claims and the licensor was unable to adequately indemnify us. If litigation is successfully brought by a third party against us and/or our licensor in respect to intellectual property, we may be required to cease distributing or marketing certain products or obtain licenses from the holders of the intellectual property at material cost, redesign affected products in such a way as to avoid infringing intellectual property rights, either of which could materially adversely affect our business, financial condition and results of operations. If those intellectual property rights are held by a competitor, we or the licensor may be unable to obtain the intellectual property at any price, which could also adversely affect our competitive position.

There is uncertainty relating to our ability to enforce our rights under international distribution agreements.

Several of our exclusive distribution agreements are with foreign entities and are governed by the laws of foreign jurisdictions. If a distributor breaches such agreement, then we may incur the additional costs of determining our rights and obligations under the agreement and under applicable foreign laws, and enforcing the agreement in a foreign jurisdiction. In addition, some of the exclusive distribution agreements contain arbitration provisions that govern disputes and there is uncertainty with respect to the enforceability of these arbitration provisions under the laws of certain foreign jurisdictions. If a dispute were to arise under an exclusive distribution agreement and the related arbitration provision was not effective, then we would be exposed to the additional costs of resolving the dispute through traditional legal avenues rather than through an arbitration process.

The creditworthiness of our distributors may be an ongoing concern.

We may not always be able to collect all funds owed to us by our distributors. Some distributors may experience financial difficulties that may adversely impact our collection of accounts receivable. We regularly review the collectability and creditworthiness of our distributors to determine an appropriate allowance for credit to such distributors. If our uncollectible accounts exceed our expectations, this would adversely impact our operating results. We attempt to minimize this concern with international customers by selling most of our products by way of advanced deposits and letters of credit or similar payment methods.

We depend on the manufacture and installation capabilities of third parties.

An important element of our strategy for the marketing and release of our products is to enter into arrangements with multiple distribution and installation entities, such as our relationships with WheelTime and its member companies.

The success and commercialization of our dual fuel products will be dependent, in part, upon our ability to enter into additional similar arrangements and upon the ability of these third parties to perform their responsibilities. Although we believe that parties to any such arrangements would have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities may not be within our control. There can be no assurance that any such arrangements will be available on terms acceptable to us, or at all, that the parties to any such agreements will perform their obligations as expected, or that any revenue will be derived from such arrangements. If we are not able to enter into such arrangements, we could encounter delays in introducing our products into the market.

We assemble our dual fuel installation kits in-house after receiving components from outside vendors. The assembled kits are then installed by independent certified installers. Therefore, we may be dependent on contract manufacturers for the production of certain critical components for products as well as their installation. In the event that we are unable to obtain or retain the necessary components and services on acceptable terms, we may not be able to continue to commercialize and market our products as planned. There can be no assurance that we will be able to obtain adequate supplies of our products in a timely fashion at acceptable quality and prices, enter into arrangements for the manufacturing of our products with manufacturers whose facilities and procedures comply with our requirements. There can be no assurance that such manufacturers will be able to adequately supply us with our product needs. Our dependence upon others for the manufacturing of certain critical components may adversely affect our ability to develop and deliver products on a timely and competitive basis.

We are subject to federal, regional, state, local and foreign regulations that may impair our ability to sell our products in

different jurisdictions, and more stringent regulations in the future may impair our ability to market our products.

Our dual fuel conversion business and operations are affected by various federal, regional, state, local and foreign laws, rules, regulations and authorities. The primary domestic governing body is the EPA, which is responsible for monitoring and enforcing emissions standards and safety requirements. All domestic dual fuel conversion systems are subject to the requirements of the EPA, the primary environmental requirement of which is that the addition of our dual fuel conversion system to an existing diesel engine does not negatively impact the current emission profile of the engine or the engine's original emission profile.

All vehicles and components on vehicles that operate on public highways must comply with the Federal Clean Air Act and meet specific EPA emission and safety guidelines or face anti-tampering infractions. Because our vehicular dual fuel system has not been previously EPA certified as a new system, due to our primary focus being aftermarket diesel engines, we must demonstrate to the EPA that our technology has sound engineering design and does not degrade the emissions level of the model year that would be requested for commercialization.

In addition to our operations in the United States, we currently have distributors in Australia, Canada and Latin America. We intend to market our products and technologies in other international markets, including both industrialized and developing countries. Prior to marketing our dual fuel solution in countries outside the United States, we must ensure our technology is compliant with the appropriate in-country rules and regulations and there is no assurance our technology will comply with such rules and regulations.

Any new or revised government regulation that affects our dual fuel conversion business, whether at the foreign, federal, state, or local level, may increase our costs and the price of our products. As a result, these regulations could have a significant negative impact on our business, financial condition and results of operations.

Our success depends on the retention of our senior management and other key personnel.

Our success depends largely on the skills, experience and performance of our senior management. Our senior management consists of two officers, our President/Chief Executive Officer, who has held that position for eight years, and our Chief Financial Officer, who has held that position for sixteen years. The loss of either member of our senior management could have a material adverse effect on our business. We maintain a key man insurance policy on our President/Chief Executive Officer. In addition, in the event that either our President or Chief Financial Officer is

terminated by us without cause, the officer will be entitled to receive severance payments equal to twelve months' salary and certain benefits. In the event we are required to make these severance payments to our officers, it could have a material adverse effect on our results of operations for the fiscal period in which such payments are made. In addition, to increase revenues, we will be required to hire additional sales and marketing officers and to develop a larger and more effective sales force. There can be no assurance that we will be able to hire, motivate and retain skilled marketing and sales personnel.

Seasonal factors may affect our quarterly operating results.

Seasonality may cause our total revenues to fluctuate. We may experience some seasonality in the winter months in the oil and gas industry and in the Hurricane Belt located in the Southeastern U.S., where critical care installations are usually not scheduled during the July-October time frame.

Inflation and changing prices may hurt our business.

We are generally exposed to the effects of inflation and changing prices. Because 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 (such as a decrease in diesel fuel prices and an increase in natural gas prices).

If we acquire other companies or businesses we will be subject to risks that could hurt our business.

A part of our business strategy may be based on future acquisitions or significant investments in businesses that offer complementary products and services. Promising acquisitions are difficult to identify and complete for a number of reasons. Any acquisitions we may complete may be made at a premium over the fair value of the net assets of the acquired companies and competition may cause us to pay more for an acquired business than its long-term fair market value. There can be no assurance that we will be able to complete future acquisitions on terms favorable to us or at all. In addition, we may not be able to integrate any future acquired businesses at all or without significant distraction of management into our ongoing business. In order to finance acquisitions, it may be necessary for us to issue shares of our capital stock to the sellers of the acquired businesses and/or to seek additional funds through public or private financings. Any equity or debt financing, if available at all, may be on terms which are not favorable to us and, in the case of an equity financing or the use of our stock to pay for an acquisition, may result in dilution to our existing stockholders.

As we grow, we are subject to growth related risks.

We are subject to growth-related risks, including capacity constraints and pressure on our internal systems and personnel. In order to manage current operations and any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain employees. We may be unable to manage such growth effectively. Our management, personnel or systems may be inadequate to support our operations, and we may be unable to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. Any such failure could have a material adverse impact on our business, operations and prospects. In addition, the cost of opening new facilities and the hiring of new personnel for those facilities could significantly decrease our profitability, if the new facilities do not generate sufficient additional revenue.

We incur substantial costs to operate as a public reporting company.

We incur substantial legal, financial, accounting and other costs and expenses to operate as a public reporting company. We believe that these costs are a disproportionately larger percentage of our revenues than they are for many larger companies, and they contribute significantly to our operating losses. In addition, the rules and regulations of the Securities and Exchange Commission impose significant requirements on public companies, including ongoing disclosure obligations and mandatory corporate governance practices. Our limited senior management and other personnel need to devote a substantial amount of time to ensure ongoing compliance with these requirements. Our Common Stock is currently quoted on the OTC Markets Group's OTCQB tier. OTC Markets Group imposes no specific quotation requirements for its OTCQB tier other than that issuers must be current in their reporting to the Securities and Exchange Commission. If we are successful in listing our stock for trading on a national securities exchange or having our stock quoted on the Nasdaq Stock Market, we will be subject to additional disclosure and governance obligations. There can be no assurance that we will continue to meet all of the public company requirements to which we are subject on a timely basis, or at all, or that our compliance costs will not continue to be material.

We are required to pay substantial cash dividends on our 10% Convertible Preferred Stock.

During the fiscal years ended September 30, 2014 and 2013, we paid cash dividends on our 10% Convertible Preferred Stock of \$569,368 and \$434,211, respectively. We expect to continue to pay a significant portion of the dividends on our 10% Convertible Preferred Stock and on our newly issued Series B 10% Convertible Preferred Stock in cash rather than in shares of Common Stock. Although these dividends do not directly affect our net income, they

significantly reduce the amount of cash we have available to fund operations and invest in our business. There can be no assurance that the requirement to pay dividends in cash, rather than in shares of Common Stock, will not increase in the future, further reducing the cash available to us.

Risks Related to the Securities Market and our Common Stock

Our stock price may be volatile, which could result in substantial losses for our shareholders.

Our Common Stock is thinly traded and an active public market for our stock may not develop. Consequently, the market price of our Common Stock may be highly volatile. Additionally, the market price of our Common Stock could fluctuate significantly in response to the following factors, some of which are beyond our control:

- we are traded on the OTC Market's Group's OTCQB tier;
- changes in market valuations of similar companies;
- announcements by us or by our competitors of new or enhanced products, technologies or services or significant contracts, acquisitions, strategic relationships, joint ventures or capital commitments;
- regulatory developments;
- additions or departures of senior management and other key personnel;
- deviations in our results of operations from the estimates of securities analysts; and
- future issuances of our Common Stock or other securities.

We have options, warrants and convertible preferred stock currently outstanding. Their exercise and/or conversion will cause dilution to existing and new shareholders.

As of September 30, 2014, we had options and warrants outstanding to purchase 30,199,294 additional shares of Common Stock. These reserved shares include the following: 3,806,000 shares for issuance upon exercise of awards granted under our 1996 Non-Employee Director Stock Option Plan and 2005 Stock Option Plan, and 26,393,294 shares for issuance upon exercise of other stock options and stock purchase warrants. In addition, at that date, we had convertible preferred stock which is convertible into 23,536,120 shares of our Common Stock. On November 28, 2014, we issued 200 shares of our Series B 10% Convertible Preferred Stock and an additional warrant which are convertible into, or exercisable for, a total of 10,000,000 additional shares of Common Stock.

The exercise of these options and warrants and the conversion of the convertible preferred stock will cause additional shares of Common Stock to be issued, resulting in dilution to investors and our existing stockholders. As of September 30, 2014, approximately 50 million shares of our common stock were eligible for sale in the public market exclusive of the options, warrants and convertible preferred stock noted above.

Our directors, executive officers and principal stockholders own a significant percentage of our shares, which will limit the ability of other shareholders to influence corporate matters.

Our directors, executive officers and other principal stockholders owned approximately 31 percent of our outstanding Common Stock on an as-converted basis as of September 30, 2014. Accordingly, these stockholders could have a significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets and also could prevent or cause a change in control. The interests of these stockholders may differ from the interests of our other stockholders. Third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership.

We have never paid dividends on our Common Stock and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on our Common Stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, capital appreciation, if any, of our Common Stock will be the shareholders' sole source of gain for the foreseeable future. The terms of our convertible preferred stock restrict our ability to pay dividends on our Common Stock if the dividends due on the convertible preferred stock are unpaid.

Anti-takeover provisions in our charter documents and Delaware law could discourage potential acquisition proposals and could prevent, deter or delay a change in control of our company.

Certain provisions of our Restated Certificate of Incorporation and By-Laws could have the effect, either alone or in combination with each other, of preventing, deterring or delaying a change in control of our company, even if a change in control would be beneficial to our stockholders. Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

Item 1B. Unresolved Staff Comments
Not Applicable.

12

Item 2. Properties

We rent approximately 1,100 square feet of office space in Lynnfield, Massachusetts, on a rolling six-month basis at \$1,250 per month.

Our dual fuel conversion subsidiary leases office and warehousing space in Iowa from M&R Development (“M&R”), a company co-owned by an American Power Group employee. On May 1, 2012, we executed a three year lease with M&R. Under the terms of the lease, monthly rental payments of \$10,000 on a triple net basis are required for the first year and then increasing in years two and three by the percentage growth in the Greater Des Moines Consumer Price Index (or equivalent index) for the latest available twelve months prior to the date of the increase. Our rental payments are currently set at \$10,260 per month on a triple net basis. In April 2014, we notified M&R of our intent to exercise our option to renew an existing lease for an additional two year term through May 2017.

We believe that these facilities are suitable for our current and anticipated requirements.

Item 3. Legal Proceedings

From time to time we are subject to ordinary routine litigation and claims incidental to our business. We are not currently involved in any legal proceeds that we believe are material.

Item 4. Mine Safety Disclosures

Not Applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer's Purchases of Equity Securities

Our Common Stock is traded on the OTC Market Group's OTCQB tier under the symbol APGI. The following table sets forth the high and low bid quotations for our Common Stock for the periods indicated. Quotations from the OTC Markets and the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Common Stock	
	High	Low
Fiscal Year 2013		
Quarter Ended December 31, 2012	\$0.66	\$0.49
Quarter Ended March 31, 2013	0.78	0.64
Quarter Ended June 30, 2013	0.70	0.53
Quarter Ended September 30, 2013	0.85	0.56
Fiscal Year 2014		
Quarter Ended December 31, 2013	\$0.78	\$0.58
Quarter Ended March 31, 2014	1.25	0.58
Quarter Ended June 30, 2014	1.16	0.64
Quarter Ended September 30, 2014	0.77	0.57

On December 18, 2014 the closing price of our Common Stock was \$0.26 per share.

As of September 30, 2014, we estimate the approximate number of stockholders of record of our Common Stock to be 1,600. This number excludes individual stockholders holding stock under nominee security position listings.

We have not paid any cash dividends on our Common Stock since inception and do not anticipate paying any cash dividends on Common Stock in the foreseeable future. Our convertible preferred stock has a 10% annual dividend, payable quarterly in cash or in shares of Common Stock. The terms of the convertible preferred stock restrict our ability to pay dividends on our Common Stock if the dividends due on the convertible preferred stock are unpaid.

Securities Authorized for Issuance under Equity Compensation Plans as of the End of Fiscal Year 2014 Equity Compensation Plan Information

The table below sets forth certain information as of September 30, 2014 with respect to equity compensation plans under which our common stock is authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by stockholders (1)	3,802,000	\$.37	1,395,000
Equity compensation plans not approved by stockholders (2)	4,000	\$.81	-
	3,806,000		1,395,000

(1) This total includes shares to be issued upon exercise of outstanding options under the equity compensation plans that have been approved by shareholders (i.e., our 2005 Stock Option Plan).

(2) This total includes shares to be issued upon exercise of outstanding options under the equity compensation plan that has not been approved by shareholders (our 1996 Non-Employee Director Plan).

Item 6. Selected Financial Data

Not Applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Annual Report on Form 10-K contains certain statements that are “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Litigation Reform Act”). 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, as 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 Litigation Reform Act, 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 Annual Report on Form 10-K. Important factors that could cause actual results to differ from our predictions include those discussed under “Risk Factors,” this “Management's Discussion and Analysis” and “Business.” 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.

Fiscal Year ended September 30, 2014 Compared to Fiscal Year ended September 30, 2013

Net sales for the fiscal year ended September 30, 2014 decreased \$729,489 or 10% to \$6,287,633 as compared to net sales of \$7,017,122 for the fiscal year ended September 30, 2013. Stationary revenues for the fiscal year ended September 30, 2014 were \$4,356,430 which was approximately \$1,227,561 or 22% lower when compared to stationary revenues for the prior fiscal last year of \$5,613,991. Approximately \$1.4 million or 24% of stationary revenue last fiscal year was associated with additional installation/equipment revenue associated with the full turnkey conversion of multiple engines in the high pressure fracturing

market. These conversions were at a higher per unit revenue due to the full turnkey nature of the orders as compared to the more typical sale of just our dual fuel systems. Vehicular revenues for the fiscal year ended September 30, 2014 increased \$528,071 or 38% to \$1,931,204 as compared to \$1,403,133 for the fiscal year ended September 30, 2013. The increase was attributable to increased market exposure and sales through our direct sales efforts and WheelTime member distributor/installer network which was supported by the increased number of EPA approvals we have received to date.

During the fiscal year ended September 30, 2014, our gross profit was \$2,206,576 or 35% of net sales as compared to \$2,726,127 or 39% of net sales for the fiscal year ended September 30, 2013. The decrease in gross profit was primarily due to increased overhead costs and lower revenues. During the fiscal year ended September 30, 2014, we incurred approximately \$450,000 of additional overhead costs associated with our efforts to expand our stationary engine families in response to market demand, upgrades to our stationary solution and vehicular software to increase functionality and field performance. In addition, amortization of capitalized software costs increased approximately \$65,000 during the fiscal year ended September 30, 2014 as the result of increased EPA approvals over the past two years.

Selling, general and administrative expenses for the fiscal year ended September 30, 2014 decreased \$401,783 or 9% to \$4,195,528 as compared to \$4,597,311 for the fiscal year ended September 30, 2013. The decrease was primarily attributable to approximately \$425,000 of one-time, non-cash amortization expense associated with the WheelTime member incentive warrants which vested during the fiscal year ended September 30, 2013.

During the fiscal year ended September 30, 2014, interest and financing expense increased \$31,395 or 20% to \$190,234 as compared to \$158,839 for the fiscal year ended September 30, 2013.

During the fiscal year ended September 30, 2014, the revaluation of our warrant liability to fair value resulted in non-cash revaluation income of to \$2,330,048.

Our net income for the fiscal year ended September 30, 2014 increased \$2,081,031 to \$38,112 or \$0.00 per basic share as compared to a net loss of (\$2,042,919) or (\$0.04) per basic share for the fiscal year ended September 30, 2013. The calculation of net loss per share available to Common stockholders for the twelve months ended September 30, 2014 and 2013, reflects the inclusion of convertible preferred stock dividends paid of \$958,178 and \$883,370, respectively.

Liquidity and Capital Resources

As of September 30, 2014, we had \$426,420 in cash, cash equivalents and restricted certificates of deposit and working capital of \$681,335. Based on our fiscal 2015 operating budget, cash on hand at September 30, 2014, our new extended and expanded Iowa State Bank credit facility, our recently completed \$2,000,000 private placement of Series B 10% Convertible Preferred 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 2015 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.

Our Consolidated Statements of Cash Flows reflect events for the fiscal years ended September 30, 2014 and 2013 as they affect our liquidity. During the fiscal year ended September 30, 2014, net cash used in operating activities was \$1,272,211. Our net income for the fiscal year ended September 30, 2014 was \$38,112 inclusive of \$2,330,048 of non-cash warrant revaluation income. Our cash flow was positively impacted by non-cash expenses of \$966,219 of depreciation, amortization, stock compensation expense and deferred financing costs. During the fiscal year ended September 30, 2013, net cash used by operations was \$1,797,928. Our net loss for the fiscal year ended September 30, 2013 was \$2,042,919 with our cash flow being positively impacted by non-cash expenses and changes to our working capital of \$794,801 of depreciation, stock compensation expense and amortization.

Net cash used in investing activities was and \$584,601 and \$2,948,900 for fiscal years ending September 30, 2014 and September 30, 2013, respectively, reflecting the capitalized costs associated with our dual fuel electronic control unit engine family software applications and the purchase of equipment.

Net cash provided by financing activities was \$299,063 for the fiscal year ended September 30, 2014, reflecting the net advances from our line of credit, which was offset by note repayments and the payment of \$569,369 in cash dividends associated with our 10% Convertible Preferred Stock. Net cash provided by financing activities was \$2,007,512 during the fiscal year ended September 30, 2013, reflecting the proceeds of approximately \$2,646,279 from the sale of our convertible preferred stock, which was offset by the payment of \$434,211 in cash dividends associated with our convertible preferred stock.

Effects of Inflation and Changing Prices

We are generally 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 (such as a decrease in diesel fuel prices and an increase in natural gas prices). We have generally been unaffected by interest rate changes because we do not maintain any floating-rate debt.

Off-Balance Sheet Arrangements

We lease our Iowa facilities under a non-cancelable short term operating lease which is described in Note 7 to our Consolidated Financial Statements.

Environmental Liability

There are no known material environmental violations or assessments.

Critical Accounting Policies

Revenue Recognition

Our dual fuel conversion operations derive revenue from (1) product revenue which is earned from the sale and installation of dual fuel conversion equipment and (2) maintenance and service agreements. All components are purchased from external sources including several proprietary patented components which are configured by our internal engineering staff to a customer's specific diesel engine family. The components are assembled into installation kits by us and then delivered on site for installation. All installations are managed by American Power Group led team or certified third party installer.

Overall, our services and dual fuel conversion equipment for both vehicular and stationary are generally sold based upon purchase orders or contracts with our customers that include fixed or determinable prices but do not include right of return provisions or other significant post-delivery obligations. We recognize revenue from product sales when title passes to the customer, the customer assumes risks and rewards of ownership, collectability is reasonably assured, and delivery occurs as directed by our customer. Service revenue, including engineering services, is recognized when the services are rendered and collectability is reasonably assured.

Percentage of Completion. Revenue from certain long-term, integrated project management contracts to provide and install our dual fuel conversion equipment for stationary power generation is reported on the percentage-of-completion method of accounting. Progress is generally based upon costs incurred to date in relation to the total estimated costs for each contract. Revisions in costs and earnings during the course of the contract are reflected in the accounting period in which facts requiring revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued.

Multiple-Element Arrangements. We also enter into Multiple-Element Arrangements to sell our dual fuel conversion equipment with engineering and/or installation services in both the stationary and vehicular applications. Due to a lack of significant customer demand, we do not offer maintenance services as part of these agreements but will provide customer support services on an as requested basis and charge a per hour/diem fee plus any direct costs. Each of the requested deliverables is clearly denoted within the agreement as a separate and distinct item of value and accounted for as such from a revenue recognition perspective. We recognize the revenue associated with the sale of dual fuel conversion equipment when title and risk passes to our customer and recognize the engineering and/or installation service revenue when each service is complete using parameters specified in our Revenue Recognition Policy. Fees charged for engineering and/or installation services are based on our estimate of the time and materials required to complete the task. Generally, the timing of when engineering and installation services take place are typically driven by a customer-established timeline but are usually completed shortly after the customer takes delivery of the dual fuel conversion equipment.

Bill and Hold Arrangements. On occasion, we recognize revenue on a "bill-and-hold" basis in accordance with the authoritative guidance. Under "bill-and-hold" arrangements, revenue is recognized once the product is complete and ready for shipment, title and risk of loss has passed to the customer, management receives a written request from the customer for "bill-and-hold" treatment, the product is segregated from other inventory, and no further performance obligations exist.

Recent Accounting Pronouncements

<p>ASU 2014-09, Revenue from Contracts with Customers (Topic 606)</p>	<p>ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U. S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. For public business entities, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the prospective effects, of adopting this guidance.</p>
<p>ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)</p>	<p>ASU 2014-12 requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company is currently evaluating the prospective effects, if any, of adopting this guidance.</p>
<p>ASU 2014-16, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern</p>	<p>This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for interim periods within annual periods beginning after December 15, 2016. The Company is currently evaluating the prospective effects of adopting this guidance.</p>
<p>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</p>	<p>Not applicable.</p>
<p>Item 8. Financial Statements and Supplementary Data</p>	<p>For information required with respect to this Item, see "Consolidated Financial Statements" on pages 31 through 52 of this report.</p>
<p>Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</p>	<p>None.</p>
<p>Item 9A. Controls and Procedures</p>	<p>Our chief executive officer and chief financial officer evaluated our company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our chief executive officer and chief financial officer, have concluded that our financial disclosure controls and procedures were not effective during the period covered by this report due to the material weakness in our internal control over financial</p>

reporting as described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management's Report on Internal Control Over Financial Reporting

Our Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) for our company. Our Company's internal control over financial reporting is designed to provide reasonable assurance, not absolute assurance, regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that our company's receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

As required by Rule 13a-15(c) promulgated under the Exchange Act, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our internal control over financial reporting as of September 30, 2014. Management's assessment was based on criteria established in the report entitled "Internal Control - Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) which was adopted by COSO in 1992. Management, under the supervision and with the participation of the Company's chief executive officer and chief financial officer, assessed the effectiveness of the company's internal control over financial reporting and identified a material weakness in internal controls over financial reporting.

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 September 30, 2014. As a result of a correction of an accounting error described in Note 2 to our Consolidated Financial Statements contained herein, restatements of our consolidated financial statements for the year ended September 30, 2014 and for the periods ended December 31, 2013, March 31, 2014 and June 30, 2014 have been 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.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that permit the Company to provide only management's report in this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended September 30, 2014 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Our directors and executive officers are as follows:

Maurice E. Needham	74	Chairman of the Board of Directors
Lyle Jensen	63	Chief Executive Officer; President; Director
Charles E. Coppa	51	Chief Financial Officer; Treasurer; Secretary
Lew F. Boyd	69	Director
Neil Braverman	75	Director
Jamie Weston	49	Director
Raymond L.M. Wong	61	Director

Each director is elected for a period of one year at the annual meeting of stockholders and serves until his or her successor is duly elected by the stockholders. The holders of the 10% Convertible Preferred Stock have the right to elect three members of our Board of Directors; the holders of the Common Stock have the right to elect three members of the Board of Directors; and the holders of the Common Stock and the 10% Convertible Preferred Stock, voting together as a single class, have the right to elect the balance of the total number of directors. The officers are appointed by and serve at the discretion of the Board of Directors. All outside directors receive \$5,000 per quarter as board compensation. Messrs. Weston and Wong have agreed to forgo their quarterly retainers.

We have established an Audit Committee consisting of Mr. Weston (Chair) and Mr. Wong, and a Compensation Committee consisting of Messrs. Boyd (Chair), Needham, Weston and Braverman. Our Board of Directors has determined that Mr. Weston is an “audit committee financial expert” within the meaning given that term by Item 407(d)(5) of Regulation S-K.

MAURICE E. NEEDHAM has been Chairman since June 1993. From June 1993 to July 21, 1997, Mr. Needham also served as Chief Executive Officer. He previously served as a Director of Comtel Holdings, an electronics contract manufacturer. He previously served as Chairman of Dynaco Corporation, a manufacturer of electronic components which he founded in 1987. Prior to 1987, Mr. Needham spent 17 years at Hadco Corporation, a manufacturer of electronic components, where he served as President, Chief Operating Officer and Director. We believe that Mr. Needham's extensive business, operational and management experience, including his over nineteen years with our company give him the qualifications and skills to serve as a director and member of the Compensation Committee. LYLE JENSEN has been a Director since May 2002. On April 12, 2006, Mr. Jensen became our Chief Executive Officer. Mr. Jensen previously was Executive Vice President/Chief Operations Officer of Auto Life Acquisition Corporation, an automotive aftermarket dealer of fluid maintenance equipment. Prior to that, he was a Business Development and Operations consultant after holding executive roles as Chief Executive Officer and minority owner of Comtel and Corlund Electronics, Inc. He served as President of Dynaco Corporation from 1988 to 1997; General Manager of Interconics from 1984 to 1988; and various financial and general management roles within Rockwell International from 1973 to 1984. The Board of Directors believes Mr. Jensen has the necessary qualifications and skills to serve as Chief Executive Officer and as a director based on his financial and operational background and the management expertise he has cultivated during his nearly ten year tenure with our company.

CHARLES E. COPPA has served as Chief Financial Officer, Treasurer and Secretary since March 1998. From October 1995 to March 1998, he served as Corporate Controller. Mr. Coppa was Chief Financial Officer and Treasurer of Food Integrated Technologies, a publicly-traded development stage company from July 1994 to October 1995. Prior to joining Food Integrated Technologies, Inc., Mr. Coppa served as Corporate Controller for Boston Pacific Medical, Inc., a manufacturer and distributor of disposable medical products, and Corporate Controller for Avatar Technologies, Inc., a computer networking company. From 1985 to 1990 Mr. Coppa was as an auditor with Grant Thornton where he obtained his CPA designation. The Board of Directors believes Mr. Coppa has the necessary qualifications and skills to serve as Chief Financial Officer based on his financial and management expertise he has cultivated during his nearly eighteen year tenure with the company.

LEW F. BOYD has been a Director since August 1994. Mr. Boyd is the founder and since 1985 has been the Chief Executive Officer of Coastal International, Inc., an international business development and executive search firm, specializing in the energy and environmental sectors. Previously, Mr. Boyd had been Vice President/General Manager of the Renewable Energy Division of Butler Manufacturing Corporation and had served in academic administration at Harvard and Massachusetts Institute of Technology. The Board of Directors believes that Mr. Boyd's extensive business and executive recruitment experience, including his over eighteen years with our company, give him the qualifications and skills to serve as a director and Chairman of the Compensation Committee.

NEIL BRAVERMAN has been a Director since April 30, 2012. Mr. Braverman is the founder of Associated Private Equity. He previously founded and was co-Chairman of Safeskin Corporation, the leading manufacturer of latex/synthetic gloves to the healthcare and electronic markets, which was sold to Kimberly Clark Corporation in 1999. Prior to Safeskin Corporation, Mr. Braverman founded Paramount Oil Corporation, a manufacturer of motor and industrial oils. During his career, Mr. Braverman founded and managed numerous real estate investments and manufacturing firms. He began his entrepreneur career founding and building the largest wig company in the U.S., which was sold to U.S. Industries. The Board of Directors believes Mr. Braverman's extensive business and management experience give him the qualifications and skills to serve as a director.

JAMIE WESTON has been a Director since April 30, 2012. Since April 2011, Mr. Weston has served as a Managing Director of Spring Mountain Capital. From July 1995 to October 2010, he was a Partner at The Wicks Group of Companies, a private equity firm with close to \$1 billion under management, focused on selected segments of the information, education, and media industries. During his 15 years at Wicks, Mr. Weston was an integral part of its investment and management activities and served on the board of directors of many of its portfolio companies. While at Wicks, he directly structured and negotiated more than 20 acquisitions and divestitures and worked on more than 40 additional closed transactions. Prior to Wicks, Mr. Weston worked at IBJ Whitehall Bank & Trust Company and National Westminster Bancorp, where he completed leveraged financings. He received an M.B.A. from Fordham University and a B.A. in Economics from Drew University. The Board of Directors believes that Mr. Weston's extensive business and financial experience give him the qualifications and skills to serve as a director.

RAYMOND L.M. WONG has been a Director since October 2013. Since 2007, Mr. Wong has been a Managing Director of Spring Mountain Capital's private equity group. Mr. Wong was previously a senior Managing Director in the Investment Banking Division of Merrill Lynch & Co., Inc. While at Merrill Lynch, Mr. Wong served on the Investment Banking Operating Committee and as Chairman of the Corporate Finance Committee. During his 25 years at Merrill Lynch, he had responsibility for the corporate finance relationships for many of the firm's largest corporate clients. Before joining Spring Mountain Capital, Mr. Wong was the Managing Member of DeFee Lee Pond Capital LLC, a financial advisory and investment firm. Mr. Wong serves on the board of directors of several companies, including Alleghany Corporation and Merrill Lynch Ventures, LLC. Mr. Wong received his M.B.A. with honors from Harvard Business School and graduated summa cum laude from Yale College with a B.A. in Political Science. The Board of Directors believes that Mr. Wong's extensive business and financial experience give him the qualifications and skills to serve as a director.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of our Common Stock, to file with the Securities and Exchange Commission initial reports of ownership of our common stock and other equity securities on Form 3 and reports of changes in such ownership on Form 4 and Form 5. Officers, directors and 10% stockholders are required by the Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms they file.

To the best of management's knowledge, based solely on review of the copies of such reports furnished to us during and with respect to our most recent fiscal year, and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our officers and directors have been complied with.

Code of Ethics

We adopted a code of ethics which applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted our code of ethics on our corporate website, www.americanpowergroupinc.com.

Item 11. Executive Compensation

Summary Compensation Table

The following table summarizes the compensation paid or accrued for services rendered during the fiscal years ended September 30, 2014 and 2013, to our Chief Executive Officer and our Chief Financial Officer. We did not grant any stock appreciation rights or make any long-term plan payouts during the fiscal years ended September 30, 2014 and 2013.

Name and Principal Position	Fiscal Year	Annual Compensation		Option	All Other	Total
		Salary	Bonus	Awards	Compensation (1)	
Lyle Jensen, Chief Executive Officer	2014	\$262,500	\$—	\$—	\$43,530	\$306,030
	2013	\$262,500	\$—	\$—	\$25,882	\$288,382
Charles Coppa, Chief Financial Officer	2014	\$170,000	\$—	\$—	\$36,622	\$206,622
	2013	\$170,000	\$—	\$—	\$22,095	\$192,095

(1) Represents payments made to or on behalf of Messrs. Jensen and Coppa for health and life insurance and auto allowances. In addition, during fiscal 2014, Messrs. Jensen and Coppa agreed to take \$20,192 and \$13,371, respectively of accrued vacation pay and purchase an aggregate of 44,500 shares of our Common Stock with the net proceeds.

Employment Agreements

Mr. Jensen has a five-year employment agreement pursuant to which he receives a base salary to \$262,500 per year. The agreement automatically renews for one additional year upon each anniversary, unless notice of non-renewal is given by either party. We may terminate the agreement without cause on 30 days' prior notice. The agreement provides for payment of twelve months' salary and certain benefits as a severance payment for termination without cause. Any increases in Mr. Jensen's base salary will be made in the discretion of the Board of Directors upon the recommendation of the Compensation Committee. Mr. Jensen's employment agreement provides for cash incentive compensation in respect of any fiscal year of up to the lesser of (x) 20% of our audited annual profit after tax, as reported in the financial statements included in our Annual Report on Form 10-K for such fiscal year or (y) \$150,000 and stock options based on (i) non-financial criteria which may be established by the Board of Directors and (ii) upon a calculation of our annual audited earnings before interest, taxes, depreciation and amortization ("EBITDA") as a percentage of our revenue, as follows:

	EBITDA as a % of Revenue	Stock Option Performance Incentive Earned
Base:	<11.0%	None
Level I:	11.1% - 11.99%	Options to purchase 20,000 shares of the Company's common stock.
Level II:	12.0% - 12.99%	Options to purchase 40,000 shares of the Company's common stock.
Level III:	13.0% - 13.99%	Options to purchase 60,000 shares of the Company's common stock.
Level IV:	14.0% - 14.99%	Options to purchase 80,000 shares of the Company's common stock.
Level V:	> 15.0%	Options to purchase 100,000 shares of the Company's common stock.

Mr. Jensen did not receive any incentive compensation during fiscal years 2014 or 2013.

Mr. Coppa has a two-year employment agreement pursuant to which he receives a base salary to \$170,000 per year. The agreement automatically renews for two additional years upon each anniversary, unless notice of non-renewal is given by either party. We may terminate the agreement without cause on 30 days' prior notice. The agreement provides for payment of twelve months' salary and certain benefits as a severance payment for termination without cause. Any increases in Mr. Coppa's base salary will be made in the discretion of the Board of Directors upon the recommendation of the Compensation Committee. Mr. Coppa's employment agreement also provides for incentive

compensation in respect of any fiscal year based on mutually agreed performance measures as determined our Compensation Committee. Any increases or bonuses will be made at the discretion of our Board of Directors upon the recommendation of the Compensation Committee. Mr. Coppa did not receive any incentive compensation during fiscal years 2014 or 2013.

21

Outstanding Equity Awards

The following table sets forth information concerning outstanding stock options for each named executive officer as of September 30, 2014:

Name	Date of Grant	Number of Securities Underlying Unexercised Options		Exercise Price Per Share	Option Expiration Date
		Exercisable	Unexercisable		
Lyle Jensen	June 15, 2005 (1)	2,000	—	\$0.51	June 15, 2015
	April 12, 2006 (2)	500,000	—	\$0.28	April 12, 2016
	December 18, 2006 (2)	100,000	—	\$0.35	December 18, 2016
	December 29, 2006 (3)	25,000	—	\$0.36	December 29, 2016
	February 8, 2008 (3)	100,000	—	\$0.34	February 8, 2018
	September 30, 2008 (3)	100,000	—	\$0.33	September 30, 2018
	November 17, 2008 (2)	100,000	—	\$0.33	November 17, 2018
	June 8, 2009 (3)	100,000	—	\$0.22	June 8, 2019
	June 27, 2011 (3)	15,000	—	\$0.80	June 27, 2021
	January 18, 2012 (3)	50,000	—	\$0.48	January 18, 2022
Charles Coppa	June 6, 2006 (2)	137,000	—	\$0.36	June 6, 2016
	September 28, 2007 (2)	45,000	—	\$0.35	September 28, 2017
	November 18, 2008 (2)	100,000	—	\$0.35	November 18, 2018
	June 8, 2009 (2)	200,000	—	\$0.22	June 8, 2019
	March 4, 2010 (2)	80,000	20,000	\$0.36	March 4, 2020
	December 16, 2010 (3)	25,000	—	\$0.45	December 16, 2020
	June 27, 2011 (3)	50,000	—	\$0.80	June 27, 2021
	January 18, 2012 (3)	50,000	—	\$0.48	January 18, 2022

(1) These options were granted under the 1996 Non Employee Stock Option Plan, have a ten-year term and vested immediately on the date of grant.

(2) These options were granted under the 2005 Stock Option Plan, have a ten-year term and vest at an annual rate of 20% over a five-year period from the date of grant.

(3) These options were granted under the 2005 Stock Option Plan, have a ten-year term and vested immediately on the date of grant.

Director Compensation

The following table sets forth information concerning the compensation of our Directors who are not named executive officers for the fiscal year ended September 30, 2014:

Name	Fees Earned or Paid in Cash or Common Stock (1)	Option Awards	All Other Compensation(2)	Total
Maurice Needham	\$—	\$—	\$112,174	\$112,174
Lew Boyd	20,000	—	—	20,000
Neil Braverman	20,000	—	—	20,000
Raymond L.M. Wong	—	—	—	—
Jamie Weston	—	—	—	—

(1) All non-employee directors receive a quarterly board fee of \$5,000 per quarter with the exception of Messrs. Wong and Weston who have agreed to forgo their quarterly retainers.

(2) During fiscal year 2014, we paid Mr. Needham \$112,174 relating to salary (\$92,000), health and life insurance (\$11,174) and auto allowance (\$9,000).

As of September 30, 2014, each Director who is not a named executive officer for the fiscal year ended September 30, 2014 holds the following aggregate number of shares under outstanding stock options:

Name	Number of Shares Underlying Outstanding Stock Options
Maurice Needham	850,000
Lew Boyd	340,000
Neil Braverman	50,000
Raymond L.M. Wong	—
Jamie Weston	—

Stock Option Plans

Our shareholders have approved the 2005 Stock Option Plan (the “2005 Plan”) under which we are authorized to grant options to purchase up to 6,000,000 shares. Options granted under the 2005 Plan may be either options intended to qualify as “incentive stock options” under Section 422 of the Internal Revenue Code of 1986, as amended; or non-qualified stock options.

Incentive stock options may be granted under the 2005 Plan to employees, including officers and directors who are employees. Non-qualified options may be granted to our employees, directors and consultants. The 2005 Plan is administered by our Board of Directors, which has the authority to determine:

- the persons to whom options will be granted;
- the number of shares to be covered by each option;
- whether the options granted are intended to be incentive stock options;
- the manner of exercise; and
- the time, manner and form of payment upon exercise of an option.

Incentive stock options granted under the 2005 Plan may not be granted at a price less than the fair market value of our common stock on the date of grant (or less than 110% of fair market value in the case of persons holding 10% or more of our voting stock). Non-qualified stock options may be granted at an exercise price established by our Board which may not be less than 85% of fair market value of our shares on the date of grant. Current tax laws adversely impact recipients of non-qualified stock options granted at less than fair market value; however, we do not expect to make such grants. Incentive stock options granted under the 2005 Plan must expire no more than ten years from the date of grant, and no more than five years from the date of grant in the case of incentive stock options granted to an employee holding 10% or more of our voting stock.

During the fiscal year ended September 30, 2014, 100,000 options were granted under the 2005 Plan at exercise prices ranging from \$.58 to \$.69 per share. As of September 30, 2014, there were 3,802,000 options granted and outstanding under the 2005 Plan which are exercisable at prices ranging from \$0.23 to \$0.80.

Non-Employee Director Stock Option Plan

Our 1996 Non-Employee Director Stock Option Plan was intended to promote our interests by providing an inducement to obtain and retain the services of qualified persons who are not officers or employees to serve as members of our Board of Directors. During fiscal year 2006, the Compensation Committee agreed to discontinue future option grants made under the Non-Employee Director Stock Option Plan.

As of September 30, 2014, options to purchase 4,000 are outstanding and exercisable at \$0.51 per share. During the fiscal year, options to purchase 4,000 shares of our Common Stock at \$1.10 per share expired unexercised.

Employee Benefit Plan

We have implemented a Section 401(k) plan for all eligible employees. Employees are permitted to make elective deferrals of up to 75% of employee compensation up to the maximum contribution allowed by law and employee contributions to the 401(k) plan are fully vested at all times. We may make discretionary contributions to the 401(k) plan which become vested over a period of five years. We did not make any discretionary contributions to the 401(k) plan during the fiscal years ended September 30, 2014 and 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following tables set forth certain information regarding beneficial ownership of our common stock as of September 30, 2014:

• by each of our directors and executive officers;

• by all of our directors and executive officers as a group; and

23

by each person (including any “group” as used in Section 13(d) of the Securities Exchange Act of 1934) who is known by us to own beneficially 5% or more of the outstanding shares of common stock.

Unless otherwise indicated below, to the best of our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. As of September 30, 2014, 50,735,050 shares of our common stock were issued and outstanding.

Security Ownership of Management and Directors

Name (1)	Number of Shares Beneficially Owned (2)	Percentage of Class (2)	
Maurice Needham (3)	2,218,339	4.30	%
Lyle Jensen (4)	1,852,747	3.57	%
Charles E. Coppa (5)	1,280,557	2.49	%
Lew F. Boyd (6)	708,178	1.39	%
Neil Braverman (7)	6,735,352	11.72	%
Jamie Weston (8) (10)	3,478,285	6.42	%
Raymond L.M. Wong (9) (10)	3,478,285	6.42	%

Security Ownership of Certain Beneficial Owners

Name (1)	Number of Shares Beneficially Owned (2)	Percentage of Class (2)	
SMC Reserve Fund II (11)	10,913,536	17.77	%
SMC Select Co-Investment Fund I (12)	7,149,325	12.45	%
Associated Private Equity (13)	6,690,352	11.66	%
Ronald H. Muhlenkamp (14)	5,004,146	9.03	%
SMC Employee Partnership (15)	3,478,285	6.44	%
Next View Capital (16)	2,753,333	5.15	%
SMC Reserve Fund II Offshore (17)	2,728,383	5.11	%

(1) Except as noted, each person's address is care of American Power Group Corporation, 7 Kimball Lane, Building A, Lynnfield, MA 01940.

Pursuant to the rules of the Securities and Exchange Commission, shares of common stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be (2) outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(3) Includes 830,000 shares of common stock issuable pursuant to immediately exercisable stock options. Also includes 59,556 shares of common stock owned by Mr. Needham's wife.

(4) Includes 1,092,000 shares of common stock issuable pursuant to immediately exercisable stock options.

(5) Includes 687,000 shares of common stock issuable pursuant to immediately exercisable stock options.

(6) Includes 342,000 shares of common stock issuable pursuant to immediately exercisable stock options.

(7) Mr. Braverman is a member of Associated Private Equity, LLC, a Delaware limited liability company (“Associated”), an entity that beneficially owns 6,690,352 shares of Common Stock which includes 3,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock beneficially owned by Associated, 3,333,333 shares of Common Stock issuable upon exercise of warrants beneficially owned by Associated and 23,686 shares of Common Stock issued for Preferred Stock dividends. Pursuant to Rule 16a-1 of the Securities Exchange Act of 1934, as amended, Mr. Braverman may be deemed to be the beneficial owner of

any securities that may be deemed to be beneficially owned by Associated. Mr. Braverman disclaims beneficial ownership with respect to any shares of Common Stock except to the extent of his pecuniary interest therein. Excludes an indeterminate number of shares of Common Stock which the Company may issue to Associated

in lieu of cash dividends on the 10% Convertible Preferred Stock. Mr. Braverman's address is c/o Pathstone Family Office, 1 Bridge Plaza, Suite 550, Fort Lee, NJ 07024.

Mr. Weston is a partner of SMC EP, an entity that beneficially owns 3,478,285 shares of Common Stock which includes 1,633,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock beneficially owned by SMC EP, 1,633,333 shares of Common Stock issuable upon exercise of warrants beneficially owned by SMC EP and 211,619 shares of Common Stock issued for Preferred Stock dividends.

(8) Pursuant to Rule 16a-1 of the Securities Exchange Act of 1934, as amended, Mr. Weston may be deemed to be the beneficial owner of any securities that may be deemed to be beneficially owned by SMC EP. Mr. Weston disclaims beneficial ownership with respect to any shares of Common Stock except to the extent of his pecuniary interest therein. Excludes an indeterminate number of shares of Common Stock which the Company may issue to SMC EP in lieu of cash dividends on the 10% Convertible Preferred Stock. Mr. Weston's address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

Mr. Wong is a partner of SMC EP, a New York limited partnership ("SMC EP"), an entity that beneficially owns 3,478,285 shares of Common Stock which includes 1,633,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock beneficially owned by SMC EP, 1,633,333 shares of Common Stock issuable upon exercise of warrants beneficially owned by SMC EP and 211,619 shares of Common Stock issued for Preferred Stock dividends. Pursuant to Rule 16a-1 of the Securities Exchange Act of 1934, as amended, Mr.

(9) Wong may be deemed to be the beneficial owner of any securities that may be deemed to be beneficially owned by SMC EP. Dr. Faliks disclaims beneficial ownership with respect to any shares of Common Stock except to the extent of his pecuniary interest therein. Excludes an indeterminate number of shares of Common Stock which the Company may issue to SMC EP in lieu of cash dividends on the 10% Convertible Preferred Stock. Mr. Wong's address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

The shares held by SMC EP and considered to be beneficially owned by both Mr. Wong and Mr. Weston are (10) included once for purposes of calculating the total shares beneficially owned by all officers and directors as a group.

Includes 5,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 5,333,333 shares of Common Stock issuable upon exercise of warrants and 246,870 shares of Common (11) Stock issued for Preferred Stock dividends. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

Includes 3,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 3,333,333 shares of Common Stock issuable upon exercise of warrants and 482,659 shares of Common (12) Stock issued for Preferred Stock dividends. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

Includes 3,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 3,333,333 shares of Common Stock issuable upon exercise of warrants and 23,686 shares of Common (13) Stock issued for Preferred Stock dividends. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address c/o Pathstone Family Office, 1 Bridge Plaza, Suite 550, Fort Lee, NJ 07024.

(14) Includes 2,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 2,333,333 shares of Common Stock issuable upon exercise of warrants and 337,480 shares of Common Stock issued for Preferred Stock dividends. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address is 725 Three Degree Road, Butler, Pennsylvania 16002.

(15)

Edgar Filing: AMERICAN POWER GROUP Corp - Form 10-K/A

Includes 1,633,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 1,633,333 shares of Common Stock issuable upon exercise of warrants and 211,619 shares of Common Stock issued for Preferred Stock dividends. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

(16) Includes 2,753,333 shares of Common Stock issuable upon exercise of warrants. Excludes an indeterminate number of shares of Common Stock which the Company may issue to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address is c/o JAN Management 600 N. Central Ave, Suite 365, Highland Park, IL 60035.

(17) Includes 1,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 1,333,333 shares of Common Stock issuable upon exercise of warrants and 61,717 shares of Common Stock issued for Preferred Stock dividends. Excludes an indeterminate number of shares of Common Stock which the Company may issue

to the stockholder in lieu of cash dividends on the 10% Convertible Preferred Stock. The stockholder's address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

Common Stock Authorized for Issuance Under Equity Compensation Plans

For descriptions of equity compensation plans under which our common stock is authorized for issuance as of September 30, 2014, see Note 8 ("Stockholders' Equity") of the Consolidated Financial Statements contained herein. For additional information concerning certain compensation arrangements, not approved by stockholders, under which options to purchase common stock may be issued, see "Executive Compensation - Employment Agreements", above, and "Certain Relationships and Related Transactions and Director Independence", below.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Party Transactions

In June 2009 we entered into an Exclusive Patent License Agreement between our company and M & R Development Inc., ("M&R") which is currently co-owned by one of our American Power Group employees. Pursuant to the license, we acquired the exclusive worldwide right to commercialize M&R's patented dual fuel alternative energy technology. In April 2012, we entered into an amendment to the patent license agreement. The amendment amends the royalty provisions in the license to modify the calculation of the royalty payments and to amend the timing of the royalty payments. Under the provisions of this amendment, effective April 1, 2012 the monthly royalty amount due to M&R became the lesser of 10% of net sales or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties are due if cumulative EBITDA is less than zero. During the fiscal years ended September 30, 2014 and 2013 no license fees were due to M&R.

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 the Company, 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 that can be applied to the outstanding principal and interest payments to 50% of the royalty payments due to M & R and defer all interest and principal payments due under the note through the end of calendar 2013. Thereafter, the aggregate principal amount due under the note was to be paid in eight equal quarterly payments plus interest but 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 September 30, 2014. 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. As of September 30, 2014, accrued interest due under the note was \$105,134.

Our dual fuel conversion subsidiary leases office and warehousing space in Iowa from M&R. On May 1, 2012, we executed a three year lease with M&R. Under the terms of the lease, monthly rental payments of \$10,000 on a triple net basis are required for the first year and then increasing in years two and three by the percentage growth in the Greater Des Moines Consumer Price Index (or equivalent index) for the latest available twelve months prior to the date of the increase. In April 2014, we notified M&R of our intent to extend for an additional two year term. For the fiscal years ended September 30, 2014 and 2013, total related party rental expense in connection with non-cancellable real estate leases amounted to \$148,094 and \$142,297, respectively.

In September and October 2010, Charles Coppa, our Chief Financial 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, Lyle Jensen, our President and Chief Executive 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 officers and former director agreed to extend the maturity of their notes until April 30, 2014 and reduce their interest rate to 8%. During fiscal 2014, Messrs. Coppa and Jensen agreed to extend the maturity of their notes, totaling \$200,000 to October 1, 2015 and the holder of the former director's note agreed to payments of \$15,000 per month starting May

15, 2014 with the remaining balance due September 30, 2014. The former director's note balance was paid off in October 2014 and Mr. Jensen's loan was paid off in conjunction with our October 2014 refinancing of our credit facility with our primary lender, Iowa State Bank.

During fiscal 2014, Messrs. Jensen and Coppa agreed to take 44,500 shares of our Common Stock (valued at \$27,359) in lieu of amounts due them for services rendered.

All transactions, including loans, between us and our officers, directors, principal stockholders, and their affiliates are approved by a majority of the independent and disinterested outside directors on the Board of Directors. Management believes these transactions were consummated on terms no less favorable to us than could be obtained from unaffiliated third parties.

Independence of the Board of Directors

The Board of Directors has adopted director independence guidelines that are consistent with the definitions of "independence" as set forth in Section 301 of the Sarbanes-Oxley Act of 2002 and Rule 10A-3 under the Securities Exchange Act of 1934. In accordance with these guidelines, the Board of Directors has reviewed and considered facts and circumstances relevant to the independence of each of our directors and has determined that, each of Messrs. Needham, Boyd, Braverman, Weston and Wong qualified as "independent" as of September 30, 2014.

The Board of Directors has determined that each of Messrs. Needham, Boyd, Braverman, Weston and Wong were independent as of September 30, 2014 as defined under the NYSE Alternext US Rules, including, in the case of members of the Audit Committee, the independence requirements contemplated by Rule 10A-3, under the Exchange Act.

Item 14. Principal Accounting Fees and Services

The firm of Schechter, Dokken, Kanter, Andrews & Selcer, Ltd. ("SDKAS") is our independent auditors for the fiscal years ending September 30, 2014 and 2013.

In addition to audit services, SDKAS also provided certain non-audit services to us during the fiscal years ended September 30, 2014 and 2013. The Audit Committee has considered whether the provision of these additional services is compatible with maintaining the independence of SDKAS.

Audit Fees. The aggregate fees billed for professional services rendered by SDKAS for (1) the audit of our financial statements as of and for the fiscal years ended September 30, 2014 and 2013 and (2) the review of the financial statements included in our company's Form 10-Q filings for fiscal years 2014 and 2013 were \$134,200 and \$129,911, respectively.

Audit-Related Fees. There were no audit-related fees billed in fiscal years 2014 and 2013 for assurance and related services rendered by SDKAS that are reasonably related to the performance of the audit or review of our financial statements. Services rendered in this category may consist of financial accounting and reporting consultations and assurance services on specific transactions.

Tax Fees. The aggregate fees billed in fiscal years 2014 and 2013 for professional services rendered by SDKAS for tax compliance, tax advice and tax planning was \$23,380 and \$24,050 respectively.

All Other Fees. There were no other fees billed during fiscal years 2014 and 2013 by SDKAS.

Pre-Approval Policies and Procedures. The Audit Committee has adopted policies which provide that our independent auditors may only provide those audit and non-audit services that have been pre-approved by the Audit Committee, subject, with respect to non-audit services, to a de minimis exception (discussed below) and to the following additional requirements: (1) such services must not be prohibited under applicable federal securities rules and regulations, and (2) the Audit Committee must make a determination that such services would be consistent with the principles that the independent auditor should not audit its own work, function as part of management, act as an advocate of our company, or be a promoter of our company's stock or other financial interests. The chairman of the Audit Committee has the authority to grant pre-approvals of permitted non-audit services between meetings, provided that any such pre-approval must be presented to the full Audit Committee at its next scheduled meeting.

During fiscal years 2014 and 2013, all of the non-audit services provided by SDKAS were pre-approved by the Audit Committee. Accordingly, the Audit Committee did not rely on the de minimis exception noted above. This exception waives the pre-approval requirements for non-audit services if certain conditions are satisfied, including, among others, that such services are promptly brought to the attention of and approved by the Audit Committee prior to the completion of the audit.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements: For a list of financial statements filed with this report, see page 31.

(b) The following exhibits are filed with this report:

Exhibit No.	Description
3.1 † (27)	— Restated Certificate of Incorporation of GreenMan Technologies, Inc., as amended
3.2 (1)	— By-laws of GreenMan Technologies, Inc.
4.1 (27)	— Specimen certificate of Common Stock of American Power Group Corporation
10.1 (2)	— Employment Agreement dated April 1, 2003, between GreenMan Technologies, Inc. and Maurice E. Needham*
10.2 (3)	— Employment Agreement dated April 12, 2006, between GreenMan Technologies, Inc. and Lyle E. Jensen*
10.3 (4)	— Addendum dated January 30, 2008, to the Employment Agreement dated April 12, 2006, between GreenMan Technologies, Inc. and Lyle E. Jensen*
10.4 (5)	— Employment Agreement dated June 1, 1999, between GreenMan Technologies, Inc. and Charles E. Coppa*
10.5 (4)	— Addendum dated January 30, 2008, to the Employment Agreement dated June 1, 1999, between GreenMan Technologies, Inc. and Charles E. Coppa*
10.6 (6)	— Consulting Agreement dated November 18, 2008, between Coastal International, Inc. and GreenMan Technologies, Inc.
10.7 (7)	— 2005 Stock Option Plan, as amended*
10.8 (8)	— Form of confidentiality and non-disclosure agreement for executive employees
10.9 (9)	— Lease Agreement dated April 2, 2001, between WTN Realty Trust and GreenMan Technologies of Georgia, Inc.
10.10 (10)	— Amendment No. 1, dated February 28, 2006, to Lease Agreement dated April 2, 2001, between GreenMan Technologies of Georgia, Inc. and Mart Management, Inc.
10.11 (11)	— Business Loan Agreement dated as of October 27, 2014, between American Power Group, Inc. and Iowa State Bank
10.12 (11)	— Commitment Letter dated October 21, 2014, between American Power Group, Inc. and Iowa State Bank
10.13 (11)	— Commercial Security Agreement dated as of October 27, 2014 between American Power Group, Inc. and Iowa State Bank
10.14 (11)	— Term Promissory Note in the principal amount of \$2,746,752.43, dated as of October 27, 2014, issued by American Power Group, Inc. in favor of Iowa State Bank
10.15 (11)	— Revolving Promissory Note dated as of October 27, 2014 issued by American Power Group, Inc. in favor of Iowa State Bank
10.16 (12)	— Guaranty dated as of November 9, 2010, issued by GreenMan Technologies, Inc., in favor of Iowa State Bank
10.17 (12)	— Assignment of Deposit or Share Account dated as of November 9, 2010, issued by GreenMan Technologies, Inc., in favor of Iowa State Bank
10.18 (13)	— Stock Transfer Agreement, dated as of December 19, 2011, between GreenMan Technologies, Inc. and Iowa State Bank
10.19 (14)	— Subscription Agreement dated September 17, 2010, between Dr. Allen Kahn and GreenMan Technologies, Inc.

10.20 (14)	—	Unsecured Promissory Note dated as of September 17, 2010, issued by GreenMan Technologies, Inc. in favor of Dr. Allen Kahn
10.21 (15)	—	Extension Agreement dated March 11, 2011, between GreenMan Technologies, Inc. and Dr. Allen Kahn, with respect to an unsecured promissory note
10.22 (13)	—	Extension Agreement dated October 27, 2011, between GreenMan Technologies, Inc. and Dr. Allen Kahn, with respect to an unsecured promissory note
10.23 (16)	—	Amendment No. 1 dated April 27, 2012, to Unsecured Promissory Note dated as of September 17, 2010, issued by GreenMan Technologies, Inc. in favor of Dr. Allen Kahn
10.24 (17)	—	Amended and Restated Unsecured Promissory Note dated as of April 30, 2014, issued by American Power Group Corporation in favor of the Allen Kahn Revocable Trust AKA Allen Kahn, M.D. Revocable Trust
10.25 (14)	—	Subscription Agreement dated September 17, 2010, between Charles E. Coppa and GreenMan Technologies, Inc. in favor of Charles E. Coppa
10.26 (14)	—	Unsecured Promissory Note dated as of September 17, 2010, issued by GreenMan Technologies, Inc. in favor of Charles E. Coppa
10.27 (15)	—	Extension Agreement dated March 11, 2011, between GreenMan Technologies, Inc. and Charles Coppa, with respect to an unsecured promissory note
10.28 (13)	—	Extension Agreement dated October 27, 2011, between GreenMan Technologies, Inc. and Charles Coppa, with respect to an unsecured promissory note
10.29 (16)	—	Amendment No. 1 dated April 27, 2012, to Unsecured Promissory Note dated as of September 17, 2010, issued by GreenMan Technologies, Inc. in favor of Charles E. Coppa
10.30 (17)	—	Amendment No. 2 dated April 30, 2014, to Unsecured Promissory Note dated as of September 17, 2010, issued by American Power Group Corporation (formerly, GreenMan Technologies, Inc.) in favor of Charles E. Coppa.
10.31 (18)	—	Amendment No. 3 dated September 24, 2014, to Unsecured Promissory Note dated as of September 17, 2010, issued by American Power Group Corporation (formerly, GreenMan Technologies, Inc.) in favor of Charles E. Coppa.
10.32 (13)	—	Promissory Note dated October 12, 2011 between American Power Group, Inc. and Lyle Jensen
10.33 (13)	—	Extension Agreement dated November 27, 2011 between American Power Group, Inc. and Lyle Jensen
10.34 (16)	—	Amendment No. 1 dated April 27, 2012, to Promissory Note dated as of October 12, 2011, issued by GreenMan Technologies, Inc. in favor of Lyle Jensen
10.35 (17)	—	Amendment No. 2 dated April 30, 2014, to Promissory Note dated as of October 12, 2011, issued by American Power Group, Inc. in favor of Lyle Jensen
10.36 (18)	—	Amendment No. 3 dated September 24, 2014, to Promissory Note dated as of October 12, 2011, issued by American Power Group, Inc. in favor of Lyle Jensen
10.37 (19)	—	Form of Common Stock Purchase Warrant issued by GreenMan Technologies, Inc. in April 2011
10.38 (13)	—	Form of Common Stock Purchase Warrant issued by GreenMan Technologies, Inc. in November 2011
10.39 (20)	—	Securities Purchase Agreement between GreenMan Technologies, Inc. and the investors named therein, dated April 30, 2012
10.40 (21)	—	Stockholder Consent and Amendment to Securities Purchase Agreement, amending the Securities Purchase Agreement dated April 30, 2012 between American Power Group Corporation (formerly, GreenMan Technologies, Inc.) and the purchasers named therein
10.41 (16)	—	Form of Warrant issued to investors named in the Securities Purchase Agreement, dated April 30, 2012
10.42 (16)	—	Form of Additional Investment Right, dated April 30, 2012

10.43 (20) — Registration Rights Agreement between GreenMan Technologies, Inc. and the investors named therein, dated April 30, 2012

29

10.44 (20)	—	Voting Agreement between GreenMan Technologies, Inc. and the investors named therein, dated April 30, 2012
10.45 (20)	—	Form of Warrant issued to the placement agent in connection with the private placement of April 30, 2012
10.46 (21)	—	Securities Purchase Agreement between American Power Group Corporation and an investor, dated November 26, 2014
10.47 (21)	—	Form of Warrant issued to the investor, dated November 26, 2014
10.48 (22)	—	National Distributor and Master Marketing Agreement between American Power Group, Inc. and WheelTime Network LLC, dated as of November 27, 2012
10.49 (22)	—	Common Stock Purchase Warrant issued to WheelTime Network LLC, dated November 27, 2012
10.50 (23)	—	Lease - Business Property dated May 1, 2012, between M & R Development, Inc. and American Power Group, Inc.
10.51 (24)	—	Exclusive Patent License Agreement dated as of June 17, 2009, by and between GreenMan Technologies, Inc. and M & R Development, Inc. (formerly known as American Power Group, Inc.)
10.52 (25)	—	Amendment No. 2 dated June 30, 2011, to Exclusive Patent License dated as of June 17, 2009, by and between GreenMan Technologies, Inc. and M & R Development, Inc. (formerly known as American Power Group, Inc.)
10.53 (16)	—	Amendment No. 3 dated April 27, 2012, to Exclusive Patent License dated as of June 17, 2009, by and between GreenMan Technologies, Inc. and M & R Development, Inc. (formerly known as American Power Group, Inc.)
10.54 (1)	—	Amended and Restated Promissory Note dated as of December 1, 2009, in the principal amount of \$800,000, issued by M & R Development, Inc. (formerly known as American Power Group, Inc.) to American Power Group (formerly known as GreenMan Alternative Energy, Inc.)
10.55 (16)	—	Amendment No. 1 dated April 27, 2012, to Amended and Restated Promissory Note dated as of December 1, 2009, issued by M & R Development, Inc. (formerly known as American Power Group, Inc.) to American Power Group, Inc. (formerly known as GreenMan Alternative Energy, Inc.)
21.1 (26)	—	List of All Subsidiaries
31.1**	—	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2**	—	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32.1***	—	Certification of Chief Executive Officer under 18 U.S.C. Section 1350
32.2***	—	Certification of Chief Financial Officer under 18 U.S.C. Section 1350
101.INS****	—	XBRL Instance Document
101.SCH****	—	XBRL Taxonomy Extension Schema Document
101.CAL****	—	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB****	—	XBRL Taxonomy Extension Label Linkbase Document
101.PRE****	—	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF****	—	XBRL Taxonomy Extension Definition Document

(1) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-K for the Fiscal Year Ended September 30, 2011 and incorporated herein by reference.

(2) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-KSB for the Fiscal Year Ended September 30, 2003 and incorporated herein by reference.

(3)

Edgar Filing: AMERICAN POWER GROUP Corp - Form 10-K/A

Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated April 12, 2006 and filed April 17, 2006, and incorporated herein by reference.

- (4) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated January 28, 2008 and filed January 31, 2008, and incorporated herein by reference.

30

- (5) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-QSB for the Quarter Ended December 31, 2000 and incorporated herein by reference.
- (6) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended December 31, 2008 and incorporated herein by reference.
- (7) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended March 31, 2010 and incorporated herein by reference.
- (8) Filed as an Exhibit to GreenMan Technologies, Inc.'s Registration Statement on Form SB-2 No. 33-86138 and incorporated herein by reference.
- (9) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-QSB for the Quarter Ended June 30, 2001 and incorporated herein by reference.
- (10) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated February 17, 2006 and filed March 6, 2006, and incorporated herein by reference.
- (11) Filed as an Exhibit to American Power Group Corporation's Current Report on Form 8-K dated October 31, 2014 and filed November 6, 2014, and incorporated herein by reference.
- (12) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated November 9, 2010 and filed November 15, 2010, and incorporated herein by reference.
- (13) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended December 31, 2011 and incorporated herein by reference.
- (14) Filed as an Exhibit to GreenMan Technologies, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2010, and incorporated herein by reference.
- (15) Filed as an Exhibit to GreenMan Technologies, Inc.'s Registration Statement on Form S-1, No. 333-173264, and incorporated herein by reference.
- (16) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated April 25, 2012 and filed May 2, 2012, and incorporated herein by reference.
- (17) Filed as an Exhibit to American Power Group Corporation's Current Report, as amended, on Form 8-K/A dated April 30, 2014 and filed May 28, 2014, and incorporated herein by reference.
- (18) Filed as an Exhibit to American Power Group Corporation's Current Report on Form 8-K dated September 24, 2014 and filed September 26, 2014, and incorporated herein by reference.
- (19) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter ended March 31, 2011.
- (20) Filed as an Exhibit to Amendment No. 1 to GreenMan Technologies, Inc.'s Registration Statement on Form S-1/A, No. 333-181773, and incorporated herein by reference.
- (21) Filed as an Exhibit to American Power Group Corporation's Current Report on Form 8-K dated November 25, 2014 and filed December 2, 2014, and incorporated herein by reference.
- (22) Filed as an Exhibit to American Power Group Corporation's Form 8-K dated November 27, 2012 and filed November 30, 2012, and incorporated herein by reference.
- (23) Filed as an Exhibit to American Power Group Corporation's Annual Report on Form 10-K for the fiscal year ended September 30, 2012, and incorporated herein by reference.
- (24) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated June 17, 2009 and filed June 23, 2009, and incorporated herein by reference.
- (25) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated June 30, 2011 and filed July 7, 2011, and incorporated herein by reference.
- (26) 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.
- (27) Previously filed as an Exhibit to American Power Group Corporation Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

GreenMan Technologies, Inc. changed its name to American Power Group Corporation effect August 1, 2012.

*Indicates a management contract or compensatory plan or arrangement.

** 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-K and will not be deemed "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.

In accordance with Rule 406T of Regulation S-T, the XBRL (eXtensible Business Reporting Language) information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections, is not part of any registration statement or prospectus to which it relates and is not incorporated by reference into any registration statement, prospectus or other document.

American Power Group Corporation
Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	<u>34</u>
Consolidated Balance Sheets as of September 30, 2014 and 2013	<u>35</u>
Consolidated Statements of Operations for the Years Ended September 30, 2014 and 2013	<u>36</u>
Consolidated Statements of Changes in Stockholders' (Deficit) Equity for the Years Ended September 30, 2014 and 2013	<u>37</u>
Consolidated Statements of Cash Flows for the Years Ended September 30, 2014 and 2013	<u>38</u>
Notes to Consolidated Financial Statements	<u>40</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
American Power Group Corporation
Lynnfield, Massachusetts

We have audited the accompanying consolidated balance sheets of American Power Group Corporation and subsidiaries (the "Company") as of September 30, 2014 and 2013 and the related consolidated statements of operations, changes in stockholders' (deficit) equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Power Group Corporation and subsidiaries as of September 30, 2014 and 2013 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the 2014 financial statements have been restated for a correction of an error.

/s/ Schechter Dokken Kanter Andrews & Selcer, Ltd.
Minneapolis, Minnesota
December 22, 2014, except for Notes 2, 9, 10 and 14
which are dated June 29, 2015

American Power Group Corporation
Consolidated Balance Sheets

	September 30, 2014	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$126,420	\$1,684,169
Certificates of deposit, restricted	300,000	300,000
Accounts receivable, trade, less allowance for doubtful accounts of \$0 and \$120,393 as of September 30, 2014 and September 30, 2013	1,713,639	1,612,280
Inventory	794,211	908,059
Prepaid expenses	145,604	150,816
Other current assets	30,971	48,472
Assets related to discontinued operations	—	66,922
Total current assets	3,110,845	4,770,718
Property, plant and equipment, net	831,782	929,821
Other assets:		
Seller's note, related party, non-current	797,387	797,387
Long term contracts, net	241,667	291,667
Purchased technology, net	241,667	291,667
Software development costs, net	3,118,798	3,180,804
Other	179,001	134,469
Total other assets	4,578,520	4,695,994
	\$8,521,147	\$10,396,533
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	\$1,011,644	\$1,086,347
Accrued expenses	904,298	914,023
Billings in excess of cost	—	7,533
Notes payable, current	246,550	106,972
Notes payable, related parties, current	198,500	473,500
Obligations due under lease settlement, current	68,518	68,518
Total current liabilities	2,429,510	2,656,893
Notes payable, net of current portion	2,364,431	1,490,160
Notes payable, related parties, net of current portion	200,000	—
Warrant liability	6,497,001	—
Obligations due under lease settlement, net of current portion	505,540	505,540
Total liabilities	11,996,482	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, 941 shares and 942 shares issued and outstanding at September 30, 2014 and 2013	941	942
Common stock, \$.01 par value, 150 million shares authorized, 50,735,050 shares and 48,375,316 issued and outstanding at September 30, 2014 and 2013	507,351	483,753
Additional paid-in capital	58,248,103	66,570,909
Accumulated deficit	(62,231,730)	(61,311,664)
Total stockholders' (deficit) equity	(3,475,335)	5,743,940

\$8,521,147

\$10,396,533

See accompanying notes to consolidated financial statements.

35

American Power Group Corporation
Consolidated Statements of Operations

	Years Ended September 30,	
	2014	2013
Net sales	\$6,287,633	\$7,017,122
Cost of sales	4,081,057	4,290,995
Gross profit	2,206,576	2,726,127
Operating expenses		
Selling, general and administrative	4,195,528	4,597,311
Operating loss from continuing operations	(1,988,952)	(1,871,184)
Non operating income (expense)		
Interest and financing costs	(190,234)	(158,839)
Interest income	44,530	46,688
Revaluation of warrants	2,330,048	—
Other, net	(157,280)	(126,506)
Non operating income (expense), net	2,027,064	(238,657)
Income (loss) from continuing operations	38,112	(2,109,841)
Discontinued operations		
Income from discontinued operations, net of taxes	—	66,922
	—	66,922
Net income (loss)	38,112	(2,042,919)
10% Convertible Preferred stock dividends	(958,178)	(883,370)
Net loss available to common stockholders	\$(920,066)	\$(2,926,289)
Income (loss) from continuing operations per share – basic and diluted	\$—	\$(0.04)
Income from discontinued operations per share - basic and diluted	—	—
Net loss per Common share - 10% Preferred Stock dividend	(0.02)	(0.02)
Net loss attributable to Common stockholders - basic and diluted	\$(0.02)	\$(0.06)
Weighted average shares outstanding:		
Basic	49,593,915	46,480,848
Diluted	71,240,258	46,480,848

See accompanying notes to consolidated financial statements.

36

American Power Group Corporation
Consolidated Statements of Changes in Stockholders' (Deficit) Equity
Years Ended September 30, 2014 and 2013

	10% Convertible Preferred Stock		Common Stock		Additional Paid In Capital	Accumulated	
	Shares	Amount	Shares	Amount		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	—	—	—	—	127,000	—	127,000
Common stock issued upon option exercise	—	—	507,275	5,073	24,405	—	29,478
Warrants issued	—	—	—	—	441,422	—	441,422
Sale of 10% Convertible Preferred stock, net of fees	274	274	—	—	2,646,005	—	2,646,279
Common Stock issued upon Preferred Stock conversion	(91)	(91)	2,283,960	22,840	(22,749)	—	—
Common stock issued for 10% Convertible Preferred stock dividend	—	—	663,901	6,639	442,520	(449,159)	—
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(434,211)	(434,211)
Net loss for fiscal year ended September 30, 2013	—	—	—	—	—	(2,042,919)	(2,042,919)
Balance, September 30, 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	—	—	—	—	71,590	—	71,590
Common stock issued upon option exercise	—	—	1,802,132	18,022	40,196	—	58,218
Common stock issued for services rendered	—	—	44,500	445	26,914	—	27,359
Warrants issued	—	—	—	—	9,530	—	9,530
Common Stock issued upon Preferred Stock conversion	(1)	(1)	8,870	89	(88)	—	—
Additional fees related to issuance of 10% Convertible Preferred Stock	—	—	—	—	(27,666)	—	(27,666)
Fair value of warrant liability reclassified as additional paid in capital	—	—	—	—	1,825,491	—	1,825,491
Common stock issued for 10% Convertible Preferred stock dividend	—	—	504,232	5,042	383,767	(388,809)	—
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(569,369)	(569,369)
	—	—	—	—	—	38,112	38,112

Net income for fiscal year
ended September 30, 2014

Balance, September 30, 2014	941	\$941	50,735,050	\$507,351	\$58,248,103	\$(62,231,730)	\$(3,475,335)
-----------------------------	-----	-------	------------	-----------	--------------	----------------	---------------

See accompanying notes to consolidated financial statements.

37

American Power Group Corporation
Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$38,112	\$(2,042,919)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Revaluation of warrants	(2,330,048)	—
Inventory valuation allowance	27,556	44,073
(Gain) loss on disposal of property, plant, and equipment	(12,743)	680
(Gain) on discontinued operations	—	(66,922)
Shares issued for services rendered	27,359	—
Warrants issued for services rendered	9,530	441,422
Depreciation expense	332,038	268,418
Amortization of deferred financing costs	10,244	25,685
Stock compensation expense	71,590	127,000
Provision for bad debts	—	120,393
Amortization of software development costs	452,347	273,700
Amortization of long term contracts	50,000	49,999
Amortization of purchased technology	50,000	49,999
(Increase) decrease in assets:		
Accounts receivable	(101,359)	(1,300,595)
Inventory	86,292	(488,579)
Costs in excess of billings	—	62,667
Prepaid and other current assets	180,360	118,779
Other assets	(44,532)	(63,902)
(Decrease) increase in liabilities:		
Accounts payable	(101,699)	322,832
Billings in excess of costs	(7,533)	5,725
Accrued expenses	(9,725)	253,617
Net cash used in operating activities	(1,272,211)	(1,797,928)
Cash flows from investing activities:		
Proceeds from sale and disposal of property, plant and equipment	24,400	400
Purchase of property and equipment	(242,769)	(860,397)
Software development costs	(366,232)	(2,088,903)
Net cash used in investing activities	(584,601)	(2,948,900)
Cash flows from financing activities:		
Proceeds from notes payable	1,079,890	97,250
Repayment of notes payable, related party	(75,000)	—
Repayment of notes payable	(157,010)	(297,534)
Proceeds from exercise of stock options	58,218	29,478
Payment made for fees related to 10% Convertible Preferred stock	(27,666)	—
Deferred financing costs	(10,000)	(33,750)
Payment of cash dividend on 10% convertible preferred stock	(569,369)	(434,211)
Net proceeds on issuance of 10% convertible preferred stock	—	2,646,279
Net cash provided by financing activities	299,063	2,007,512
Net (decrease) increase in cash and cash equivalents	(1,557,749)	(2,739,316)
Cash and cash equivalents at beginning of year	1,684,169	4,423,485
Cash and cash equivalents at end of year	\$126,420	\$1,684,169

See accompanying notes to consolidated financial statements.

38

American Power Group Corporation
 Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2014	2013
Supplemental disclosure of cash flow information:		
Interest paid	\$162,933	\$151,030
Supplemental disclosure of non-cash investing and financing activities:		
Reclassification of estimated fair value of warrants exercised during the year to additional paid in capital	\$1,825,491	\$—
Software development costs included in accounts payable and accrued expenses	24,109	56,000
Fixed asset costs included in accounts payable	2,887	—
Insurance premiums financed with short-term debt	90,969	101,895
Dividends paid on preferred stock through issuance of common stock	388,809	449,159

See accompanying notes to consolidated financial statements.

39

American Power Group Corporation
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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

On October 27, 2014, we entered into loan agreement with Iowa State Bank in which we refinanced approximately \$2,567,000 due the bank under an existing loan agreement, \$30,000 of transaction fees and \$150,000 due an officer of the Company. Under the terms of the new term loan, we will make 82 monthly payments of \$44,223 including principal and interest commencing January 15, 2015, with the final payment of all principal and accrued interest not yet paid due on October 15, 2021. In addition, Iowa State Bank has provided a new \$500,000 working capital line of credit which has an initial expiration of January 15, 2016. (See Note 6)

On November 28, 2014, we completed a private placement for \$2 million of 10% Series B Convertible Preferred Stock with an accredited investor. (See Note 13)

On December 8, 2014, we were notified by the Environmental Protection Agency ("EPA") of our first 28 approvals under the Inside Useful Life ("IUL") designation which is defined as vehicular engines older than 2 years but having less than 435,000 miles which are principally engine family years 2010 and newer that utilize the OEM selective catalyst reduction technology. We believe that of the approximate 3.5 - 4 million Class 8 trucks operating in North America that an estimated 600,000 to 700,000 Class 8 trucks fall into the IUL designation.

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.

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 September 30, 2014, we had \$426,420 in cash, cash equivalents and restricted certificates of deposit and working capital of \$681,335. Based on our fiscal 2015 operating budget, cash on hand at September 30, 2014, our new extended and expanded Iowa State Bank credit facility, our recently completed \$2,000,000 private placement of Series B 10% Convertible Preferred 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 2015 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.

Principles of Consolidation and 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.

40

Management Estimates

The preparation of financial statements in conformity with the United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recorded during the reporting period. Actual results could differ from those estimates. Such estimates relate primarily to the evaluation of intangible assets, the valuation reserve on inventory, the value of our lease settlement obligation, the warranty accrual and the value of equity instruments issued. The amount that may be ultimately realized from assets and liabilities could differ materially from the values recorded in the accompanying financial statements as of September 30, 2014.

Cash Equivalents

Cash equivalents include short-term investments with original maturities of three months or less.

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 fiscal year ended September 30, 2014 and 2013, respectively, we have pledged a \$300,000 certificate of deposit as collateral for two loans currently outstanding with Iowa State Bank.

Concentration of Credit Risk

Financial instruments which potentially subject us to a concentration of credit risk are cash and cash equivalents. We maintain our bank accounts at multiple banks which at times such balances may exceed FDIC insured limits. We have not experienced any losses as a result of this practice.

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.

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. As of September 30, 2014 and September 30, 2013, respectively, we had recorded inventory valuation allowance of \$71,629 and \$44,073.

Inventory consists of the following:

	September 30, 2014	September 30, 2013
Raw materials, net of valuation allowance	\$694,479	\$895,905
Work in progress	30,913	11,423
Finished goods	68,819	731
Total inventory	\$794,211	\$908,059

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization expense is provided on the straight-line method. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Significant improvements and major renewals that extend the useful life of equipment are capitalized.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were \$181,345 and \$171,362 for the fiscal year ended September 30, 2014 and 2013, respectively.

Revenue Recognition

Our dual fuel conversion operations derive revenue from (1) product revenue which is earned from the sale and installation of dual fuel conversion equipment and (2) maintenance and service agreements. All components are purchased from external sources including several proprietary patented components which are configured by our internal engineering staff to a customer's specific diesel engine family. The components are assembled into installation

kits by us and then delivered on site for installation. All installations are managed by an American Power Group led team or certified third party installer.

41

Overall, our services and dual fuel conversion equipment for both vehicular and stationary are generally sold based upon purchase orders or contracts with our customers that include fixed or determinable prices but do not include right of return provisions or other significant post-delivery obligations. We recognize revenue from product sales when title passes to the customer, the customer assumes risks and rewards of ownership, collectability is reasonably assured, and delivery occurs as directed by our customer. Service revenue, including engineering services, is recognized when the services are rendered and collectability is reasonably assured.

Percentage of Completion. Revenue from certain long-term, integrated project management contracts to provide and install our dual fuel conversion equipment for stationary power generation is reported on the percentage-of-completion method of accounting. Progress is generally based upon costs incurred to date in relation to the total estimated costs for each contract. Revisions in costs and earnings during the course of the contract are reflected in the accounting period in which facts requiring revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued.

Bill and Hold Arrangements. On occasion, we recognize revenue on a "bill-and-hold" basis in accordance with the authoritative guidance. Under "bill-and-hold" arrangements, revenue is recognized once the product is complete and ready for shipment, title and risk of loss has passed to the customer, management receives a written request from the customer for "bill-and-hold" treatment, the product is segregated from other inventory, and no further performance obligations exist.

Multiple-Element Arrangements. We also enter into Multiple-Element Arrangements to sell our dual fuel conversion equipment with engineering and/or installation services in both the stationary and vehicular applications. Due to a lack of significant customer demand, we do not offer maintenance services as part of these agreements but will provide customer support services on an as requested basis and charge a per hour/diem fee plus any direct costs. Each of the requested deliverables is clearly denoted within the agreement as a separate and distinct item of value and accounted for as such from a revenue recognition perspective. We recognize the revenue associated with the sale of dual fuel conversion equipment when title and risk passes to our customer and recognize the engineering and/or installation service revenue when each service is complete using parameters specified in our Revenue Recognition Policy. Fees charged for engineering and/or installation services are based on our estimate of the time and materials required to complete the task. Generally, the timing of when engineering and installation services take place are typically driven by a customer-established timeline but are usually completed shortly after the customer takes delivery of the dual fuel conversion equipment.

Shipping and Handling Fees and Costs.

Shipping and handling fees and costs billed to customers and incurred by the Company are reported on a net basis in cost of sales in the consolidated statements of operations.

Income Taxes

Deferred tax assets and liabilities are recorded for temporary differences between the financial statement and tax basis of assets and liabilities using the currently enacted income tax rates expected to be in effect when the taxes are actually paid or recovered. A deferred tax asset is also recorded for net operating loss and tax credit carryforwards to the extent their realization is more likely than not. The deferred tax benefit for the period represents the change in the net deferred tax asset or liability from the beginning to the end of the period. As of September 30, 2014, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and has approximately \$42,000 of accrued interest and penalties relating to state income taxes associated with an inactive subsidiary. The Company with few exceptions, is no longer subject to U.S. Federal, state or local income tax examinations by authorities for years before fiscal 2011.

Stock-Based Compensation

The Company measures and recognizes compensation cost for all share-based awards based on the grant-date fair value estimated using the Black-Scholes option pricing model. We have estimated for forfeitures in determining expected terms on stock options for calculating expense. Amortization of stock compensation expense was \$71,590 and \$127,000 for the fiscal year ended September 30, 2014 and 2013, respectively. The unamortized compensation expense at September 30, 2014 was \$66,257 and will be amortized over a weighted average remaining amortizable life of approximately 3.0 years.

The fair value of each option grant during the year ended September 30, 2014 under the 2005 Stock Option Plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions; dividend yield of 0%; risk-free interest rate of approximately 1.5%; expected volatility based on historical trading information of approximately 56% and expected terms of 4 to 5 years.

The fair value of each option grant during the year ended September 30, 2013 under the 2005 Stock Option Plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions; dividend yield of 0%; risk-free interest rate of approximately 1%; expected volatility based on historical trading information of approximately 66% and expected terms of 4 years.

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 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 \$100,000 for the fiscal years ended September 30, 2014 and 2013. Accumulated amortization was \$516,666 and \$416,666 at September 30, 2014 and 2013, respectively.

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 testing protocol for both our OUL and IUL engine applications, which will be customized for each engine family approved in order to maximize the performance of the respective engine family.

During fiscal year 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 each engine family is available for general release to customers. As of September 30, 2014, we have capitalized \$3,888,028 of development costs associated with our Outside Useful Life ("OUL") (\$1,801,506) and Inside Useful Life ("IUL") (\$2,086,522) 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 fiscal years ended September 30, 2014 and 2013, respectively, were \$452,347 and \$273,700.

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

Years ending September 30:	Contracts	Technology	Software Development	Total
2015	\$50,000	\$50,000	\$607,344	\$707,344
2016	50,000	50,000	658,376	758,376
2017	50,000	50,000	637,672	737,672
2018	50,000	50,000	455,194	555,194
2019	41,667	41,667	276,794	360,128
2020 and thereafter	—	—	483,418	483,418
	\$241,667	\$241,667	\$3,118,798	\$3,602,132

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 on a quarterly basis and we may adjust this provision if necessary. The increase in warranty reserve at September 30, 2014 is attributable to the increase in units sold and specific new product development initiatives during fiscal 2014.

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

	September 30, 2014	September 30, 2013
Warranty accrual at the beginning of the period	\$118,591	\$18,306
Charged to costs and expenses relating to new sales	212,033	146,594

Costs of product warranty claims	(109,062	) (46,309)
Warranty accrual at the end of period	\$221,562	\$118,591	

Long-Lived Assets

Long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We evaluate at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, we use future undiscounted cash flows

of the related asset or asset grouping over the remaining life in measuring whether the assets are fully recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value of asset less the cost to sell.

Recent Accounting Pronouncements

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U. S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. For public business entities, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the prospective effects, of adopting this guidance.

ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)

ASU 2014-12 requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company is currently evaluating the prospective effects, if any, of adopting this guidance.

ASU 2014-16, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern Reclassification

This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for interim periods within annual periods beginning after December 15, 2016. The Company is currently evaluating the prospective effects of adopting this guidance.

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss less the sum of 10% Convertible Preferred Stock dividends declared by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potential common shares that may be issued by us relate to outstanding 10% Convertible Preferred Stock, stock options and warrants. Basic and diluted net income per share is \$.00 for the year ended September 30, 2014. The fully diluted share calculation reflects the net inclusion of 11,117,688 shares of Common Stock issuable upon conversion of our 10% Convertible Preferred Stock, and the net inclusion of 10,528,655 shares of Common Stock issuable pursuant to outstanding options and warrants. The net loss per share for the year ended September 30, 2013 was (\$.04) and does not do not include the effect of the inclusion of 10% Convertible Preferred Stock, outstanding options and warrants since their inclusion would be anti-dilutive. The calculation of diluted net loss per share for the year ended September 30, 2013 excludes 34,201,803 options and warrants that were outstanding at September 30, 2013 and 23,544,990 shares issuable upon conversion of Preferred Stock at September 30, 2013. Due to our operating at a loss, these options and warrants are deemed to be anti-dilutive as their exercise price exceeds the average closing price used in the calculation of fully diluted shares. In addition, in November 2014, we issued \$2 million of Series B 10%

Convertible Preferred Stock which if converted would result in the issuance of 5 million additional shares of Common Stock. We also issued the investor warrants to purchase 5 million shares of Common Stock in conjunction with issuance of the Series B 10% Convertible Preferred Stock.

2. 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 9). 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:

Consolidated Statements of Operations

	Year Ended September 30, 2014		
	As Initially Reported	Adjustments	Adjusted
Non operating income (expense):			
Revaluation of warrants	\$—	\$2,330,048	\$2,330,048
Non operating income (expense), net	(302,984	) 2,330,048	2,027,064
Net income (loss)	(2,291,936	) 2,330,048	38,112
Net loss available to Common Stockholders	\$(3,250,114	) \$2,330,048	\$(920,066)
Income (loss) income from continuing operations per share - basic and diluted	\$(0.05	) \$0.05	\$—
Net loss attributable to Common stockholders - basic and diluted	\$(0.07	) \$0.05	\$(0.02)

Consolidated Balance Sheets

	As of September 30, 2014		
	As Initially Reported	Adjustments	Adjusted
Liabilities:			
Warrant liability	\$—	\$6,497,001	\$6,497,001
Total liabilities	5,499,481	6,497,001	11,996,482
Stockholders' (deficit) equity:			
Additional paid-in capital	67,075,152	(8,827,049)	58,248,103
Accumulated deficit	(64,561,778	) 2,330,048	(62,231,730)
Total stockholders' (deficit) equity	3,021,666	(6,497,001)	(3,475,335)
	\$8,521,147	\$—	\$8,521,147

Consolidated Statements of Stockholders' (Deficit) Equity

	Preferred Stock		Common Stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Paid In Capital	Deficit	Total
As Initially Reported:							
Balance, September 30, 2014	941	\$941	50,735,050	\$507,351	\$67,075,152	\$(64,561,778)	\$3,021,666
Adjustments	—	—	—	—	(8,827,049)	2,330,048	(6,497,001)
Adjusted:							
Balance, September 30, 2014	941	\$941	50,735,050	\$507,351	\$58,248,103	\$(62,231,730)	\$(3,475,335)

Consolidated Statements of Cash Flows

	Year Ended September 30, 2014		
	As Initially Reported	Adjustments	Adjusted
Cash flows from operating activities:			
Net income (loss)	\$(2,291,936)	\$2,330,048	\$38,112
Revaluation of warrants	—	(2,330,048)	(2,330,048)
Net cash used in operating activities	(1,272,211)	—	(1,272,211)

3. Discontinued Operations

During September 2013, we were notified of a refund of previously paid insurance premiums associated with former discontinued operations and as a result recorded income from discontinued operations of \$66,922 for the twelve months ended September 30, 2013.

Net gain or loss from our discontinued operations for the twelve months ended September 30 were as follows:

	September 30, 2014	September 30, 2013
Income (loss) from discontinued operations, net of taxes	\$—	\$66,922

4. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2014	September 30, 2013	Estimated Useful Lives
Leasehold improvements	\$127,087	\$127,087	5 years
Machinery and equipment	1,653,127	1,431,871	3 – 7 years
Less accumulated depreciation	(948,432)	(629,137)	
Machinery and equipment, net	\$831,782	\$929,821	

5. Contracts in Progress

Contracts in progress consist of the following:

	September 30, 2014	September 30, 2013	
Costs incurred on uncompleted contracts	\$—	\$14,572	
Estimated earnings on contracts in progress	—	25,387	
	—	39,959	
Less billings on contracts in progress	—	47,492	
	\$—	\$(7,533)
Costs and estimated earnings in excess of billings	\$—	\$—	
Billings in excess of costs and estimated earnings	—	7,533	
	\$—	\$(7,533)

6. 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 the Company, 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 that can be applied to the outstanding principal and interest payments to 50% of the royalty payments due to M & R and defer all interest and principal payments due under the note through the end of calendar 2013. Thereafter, the aggregate principal amount due under the note was to be paid in eight equal quarterly payments plus interest but 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 September 30, 2014. 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. As of September 30, 2014, accrued interest due under the note was \$105,134.

7. Notes Payable/Credit Facilities

Credit Facilities

Notes payable consists of the following at:	September 30, 2014	September 30, 2013
Term notes payable, Iowa State Bank, secured by a \$300,000 certificate of deposit and 2 million shares of common stock, with a rate of 7% and principal due April 1, 2015	\$ 2,500,000	\$ 1,420,110
Term notes payable, Iowa State Bank, secured by various American Power Group equipment with interest rates ranging from 6.4% to 7.7% and requiring monthly payments from \$305 to \$1,162 and due dates ranging from August 2014 to February 2018	70,050	131,203
Other unsecured term note payable with interest rate at 5.95%, requiring monthly payments of principal and interest with a due date of February 27, 2015	40,931	45,819
	2,610,981	1,597,132
Less current portion	(246,550)	(106,972)
Notes payable, non-current portion	\$ 2,364,431	\$ 1,490,160

The following is a summary of maturities of carrying values of all notes payable as it relates to the refinancing terms agreed to on October 27, 2014:

Years Ending September

30:

2015	\$ 246,550
2016	336,406
2017	365,289
2018	396,044
2019 and beyond	1,266,692
	\$ 2,610,981

On October 27, 2014, we entered into loan agreement and new working capital line of credit (collectively referred to as the "Credit Facility") with Iowa State Bank in which we refinanced approximately \$2,567,000 due to the bank under an existing loan agreement, \$30,000 for transaction fees and \$150,000 due to an officer of the Company. Under the terms of the new term loan, we will make 82 monthly payments of \$44,223 including principal and interest commencing January 15, 2015, with the final payment of all principal and accrued interest not yet paid due on October 15, 2021. In addition, Iowa State Bank has provided a new \$500,000 working capital line of credit which has an initial expiration of January 15, 2016. The maximum amount APG may borrow from time to time under the line of credit is equal to lesser of (i) the sum of (x) 70% of our eligible accounts receivable, other than accounts receivable outstanding for more than 90 days, (y) 50% of the value of our inventory, and (z) \$300,000; or (ii) \$500,000. All borrowings under the term loan and the line of credit bear interest at a rate equal to the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks (known as The Wall Street Journal U.S. Prime Rate) plus 4.0%, with a minimum interest rate of 8.0% per annum. As of September 30, 2014, we had sufficient collateral to borrow an additional \$500,000 under the terms of new working capital line of credit.

Our obligations under the Credit Facility continue to be secured by the grant of a first priority security interest in all of our assets. We have guaranteed the obligation and have secured that guarantee by granting Iowa State Bank a security interest in a \$300,000 certificate of deposit and certain additional collateral. In addition, we have agreed under the terms of a stock transfer agreement that if we fail to pay any portion of the outstanding amounts when due, we will issue to Iowa State Bank that number of shares of common stock which is equal in value to the outstanding balance due. For purposes of determining the number of shares of common stock to be issued under the stock transfer agreement, the value of our common stock will be deemed to be the closing price of the common stock on the date of

such default. In no event, however, will we be obligated to issue more than 2,000,000 shares of the common stock under the stock transfer agreement. In addition, two directors and two officers have each pledged 125,000 shares of our common stock as additional collateral for the Credit Facility.

The Credit Facility requires us to maintain a current ratio of 1.00 and a minimum adjusted debt-to-worth ratio of 2.5, such ratios to be tested monthly. Amounts borrowed under the Credit Facility are subject to acceleration upon certain events of default, including: (i) any failure to pay when due any amount owed under the Credit Facility; (ii) any failure to keep the collateral insured; (iii) any default under any of the documents related to the Credit Facility; (iv) any attempt by any other creditor to collect any indebtedness through court proceedings; (v) any assignment for the benefit of creditors by us, or our insolvency ; (vi) the institution of certain bankruptcy proceedings by or against us; (vii) any breach of any covenant in the documents related to the Credit Facility; and (viii) any other occurrence that either significantly impairs the value of the collateral or causes Iowa State Bank to reasonably believe that they will have difficulty collecting the amounts borrowed under the Credit Facility.

Note Payable-Related Party- Other

The following is a summary of unsecured notes payable-related party at:

	September 30, 2014	September 30, 2013
Former director 8% promissory note, due September 30, 2014	\$ 198,500	\$ 273,500
Officer's 8% promissory note	200,000	200,000
	\$ 398,500	\$ 473,500

In October 2014, we paid the estate of our former director the remaining principal balance of \$198,500 and on October 27, 2014, the \$150,000 note due to an Officer was paid from the proceeds of our new 82 month term note with Iowa State Bank.

8. Commitments and Contingencies

Employment Agreements

We have employment agreements with three of our corporate officers, which provide for base salaries, participation in employee benefit programs including our stock option plans and severance payments for termination without cause.

Rental Agreements

We rent approximately 1,100 square feet of office space in Lynnfield, Massachusetts, on a rolling six-month basis at \$1,250 per month. For the years ended September 30, 2014 and 2013, total rental expense in connection with this office space lease amounted to \$15,000 per year.

Our dual fuel conversion subsidiary leases office and warehousing space in Iowa from M&R Development (“M&R”), a company co-owned by an American Power Group employee. In April 2014, we renewed for an additional two years the 3 year lease agreement requiring monthly rental payments of \$10,260 on a triple net basis. Under the original terms of the lease, monthly rental payments of \$10,000 on a triple net basis were required for the first year and then increasing in years two and three by the percentage growth in the Greater Des Moines Consumer Price Index (or equivalent index) for the latest available twelve months prior to the date of the increase.

For the fiscal years ended September 30, 2014 and 2013, total related party rental expense in connection with non-cancellable real estate leases amounted to \$146,594 and \$142,297, respectively.

The total future minimum rental commitment at September 30, 2014 under the above related party office and warehousing space operating lease is as follows:

Years Ending September 30,	
2015	\$ 123,120
2016	123,120
2017	71,820
	\$ 318,060

Lease Settlement Obligations

We are currently renting property located in Georgia relating to a former discontinued business. We have the right to terminate the Georgia lease with 6 months notice but are obligated to continue to pay rent until the earlier to occur of (1) the sale by the landlord of the premises; (2) the date on which a new long term tenant takes over; or (3) 3 years from the date on which we vacate the property. As a result, we have recorded a lease settlement obligation of \$574,058 representing the net present value of the 36 month maximum obligation due under the new amended

agreement. During fiscal 2013 we sublet two portions of the

49

property and currently sublease one portion of the property to to an entity which is paying \$7,500 per month on a tenant-at-will basis for the past several fiscal years. During fiscal years 2014 and 2013, we had rental income of \$90,000 and \$122,600, respectively, associated with the Georgia property and rental expense of \$249,215 and \$242,017, respectively. We are currently working with the tenant towards a goal of leasing the entire facility from the landlord.

The total future minimum rental obligations at September 30, 2014 under the above real estate operating lease is as follows:

Years Ending September 30,	
2015	\$ 211,704
2016	211,704
2017	211,704
	\$ 635,112

License Agreement

In April 2012, we amended the Exclusive Patent License Agreement between M&R and us to modify the calculation of the royalty payments and the timing of the royalty payments. Under the provisions of this amendment, effective April 27, 2012 the monthly royalty due shall be the lesser of 10% of net sales (or 6% of net sales when we have paid \$15 million in cumulative royalties) or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be due if cumulative EBITDA is less than \$0. M&R has agreed that once we have paid \$15 million in cumulative royalties, we can purchase all rights, title and interest in and to their dual fuel technology for an additional payment of \$17.5 million to be made within twelve months thereafter. If we do not exercise the foregoing purchase right during this period, M&R has agreed to assign all dual fuel technology to us upon the receipt of \$36 million in cumulative royalty payments. During the fiscal years ended September 30, 2014 and 2013, we incurred license fees to M&R of \$0 and \$0, respectively.

9. Warrants to Purchase Common Stock

In conjunction with the issuance of our 10% Convertible Preferred stock in 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 have 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.

In determining the initial fair value of the warrants as of October 1, 2013, we prepared a valuation simulation using the Black Scholes option pricing model as well as 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 year ended September 30, 2014, we recorded warrant valuation income of \$2,330,048 associated with a change in the fair value of all warrants containing the down round provision outstanding as of September 30, 2014 and

exercised during the year ended September 30, 2014. During the year ended September 30, 2014, warrants to purchase 2,755,483 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 \$1,825,491 and reclassified this amount to Additional paid-in capital. Our warrant liability was \$6,497,001 as of September 30, 2014.

The warrant liabilities were valued at September 30, 2014 using the Black-Scholes option-pricing model with the following assumptions.

Warrants	10% Convertible Preferred Stock Financing	
	Private Placement 1 September 30 2014	Private Placement 2 September 30 2014
Closing price per share of common stock	\$0.60	\$0.60
Exercise price per share	0.50	0.50
Expected volatility	56.0	% 56.0
Risk-free interest rate	1.1	% 1.4
Dividend yield	—	—
Remaining expected term of underlying securities (years)	3.0	4.0
Warrants outstanding	17,623,387	6,032,787

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

10. Fair Value Measurements

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.

At September 30, 2014 and 2013, our financial instruments consisted of accounts receivable, accounts payable, notes payable and convertible notes payable. These instruments approximate their fair values as these instruments are either due currently or were negotiated currently and bear interest at market rates. As of September 30, 2014, the fair value of the underlying Common Stock to be issued upon conversion of the 941 shares of the 10% Convertible Preferred Stock is approximately \$14,122,000 based upon the intrinsic value of the conversion feature on that date (see Note 11).

We have classified certain warrants related to our 10% Convertible Preferred Stock private placements noted in Note 9 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. We have assessed the fair value of the warrant on a quarterly basis retrospectively and we will reassess the fair value of the warrant liabilities on a quarterly basis going forward.

The following table summarizes the financial liabilities measured a fair value on a recurring basis as of September 30, 2013 and September 30, 2014.

	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	\$—	\$—	\$—	\$—
September 30, 2014				
Warrant liability	\$6,497,001	\$—	\$—	\$6,497,001

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 twelve month period ended September 30, 2014.

	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	(2,330,048)
Reclassification of estimated fair value of warrants exercised during the year to additional paid in capital	\$(1,825,491)
Balance at September 30, 2014	\$6,497,001

11. Stockholders' Equity

Common Stock

During the twelve months ended September 30, 2013, holders exercised warrants and options to purchase an aggregate of 1,175,000 shares of Common Stock at exercise prices ranging from \$0.28 to \$0.40 utilizing a cashless exercise feature resulting in the net issuance of 440,833 shares of Common Stock. In addition, a former director exercised warrants to purchase 30,000 shares of Common Stock at an exercise price of \$0.32 per share.

During the twelve months ended September 30, 2014, holders exercised options and warrants to purchase an aggregate of 3,334,296 shares of Common Stock at exercise prices ranging from \$0.28 to \$0.65 utilizing a cashless exercise feature resulting in the net issuance of 1,697,919 shares of Common Stock. In addition, warrants were exercised to purchase 104,213 shares of Common Stock at exercise prices ranging from \$0.48 to \$0.65.

10% Convertible Preferred Stock

On April 30, 2012, we completed a private placement in which we entered into a securities purchase agreement with certain accredited investors and sold 821.6 units for gross proceeds to us of \$8,216,000. Each unit had a purchase price of \$10,000 and consisted of one share of 10% Convertible Preferred Stock and one warrant to purchase 25,000 shares of Common Stock. The 10% Convertible Preferred Stock has a 10% annual dividend, payable quarterly in cash or in shares of Common Stock. As of the date of issuance, each share of 10% Convertible Preferred Stock is convertible, at any time at the option of the holder, into 25,000 shares of Common Stock at a conversion price of \$0.40 per share. The conversion price of the 10% Convertible Preferred Stock is subject to adjustment in the case of stock splits, stock dividends, combinations of shares, similar recapitalization transactions and certain pro-rata distributions to common stockholders. The conversion price will also be adjusted if we sell or grant any shares of common stock or securities convertible into, or rights to acquire, common stock at an effective price per share that is lower than the then conversion price, except in the event of certain exempt issuances. In addition to the conversion

right described above, we may require the holders of the 10% Convertible Preferred Stock to convert their shares into shares of Common Stock in the event the volume weighted average price of our Common Stock exceeds certain threshold amounts.

The holders of the 10% Convertible Preferred Stock vote with the Common Stock on all matters presented to the holders of the Common Stock, other than the election of certain directors, on an as-converted basis. The holders of 10% Convertible Preferred Stock voting as a separate class are entitled to elect three members of the Board of Directors. The holders of the 10% Convertible Preferred Stock also have certain rights to elect additional members of the Board of Directors in the event we fail to make the dividend payments as required by the terms of the 10% Convertible Preferred Stock. In addition, the approval of the holders of at least 67% of the outstanding 10% Convertible Preferred Stock will be required before we may take certain actions.

The holders of the 10% Convertible Preferred Stock have priority in the event of a liquidation of our company over the outstanding shares of Common Stock. Upon liquidation, dissolution or winding up of our company, whether voluntary or involuntary, before any distribution or payment is made to the holders of the Common Stock, the holders of the 10% Convertible Preferred Stock are entitled to be paid out of the assets of the company an amount equal to the stated value of the 10% Convertible Preferred Stock, which is initially \$10,000 per share, plus any accrued, but unpaid, dividends.

Each investor also received a warrant to purchase a number of shares of Common Stock equal to the number of shares into which the 10% Convertible Preferred Stock purchased by such investor is convertible as of the date of issuance of the warrant. The warrants have an exercise price of \$0.50 per share and may be exercised at any time during a five-year period beginning October 30, 2012. The warrants are subject to adjustment in the event we issue shares of Common Stock or other securities convertible into or exchangeable for Common Stock at a price per share which is less than the exercise price of the warrants and upon other customary terms. See Notes 2 and 9 for further details on our accounting for this adjustment provision.

In connection with the private placement, we granted the investors an additional investment right, exercisable at any time before March 31, 2013, to invest up to approximately \$2.7 million to buy additional units under the same terms described above. During the twelve months ended September 30, 2013, all investors exercised their additional right to purchase approximately 274 units for net proceeds of \$2,646,005 after fees.

During the twelve months ended September 30, 2013, approximately 91 shares of 10% Convertible Preferred Stock were converted into 2,283,960 shares of Common Stock and during the twelve months ended September 30, 2014, 0.35 shares of 10% Convertible Preferred Stock were converted into 8,870 shares of Common Stock. As of September 30, 2014, there were approximately 941 shares of 10% Convertible Preferred Stock outstanding which are convertible into approximately 23,536,120 shares of Common Stock which had a fair value of approximately \$14,122,000 based on the closing price of our Common Stock on September 30, 2014.

During the fiscal years ended September 30, 2014 and 2013, we recorded dividends associated with the 10% Convertible Preferred Stock of \$958,178 and \$883,370. During the fiscal years ended September 30, 2014 and 2013, we paid cash dividends of \$569,369 and \$434,211 and issued 504,232 (valued at \$338,809) and 663,901 shares of Common Stock (valued at \$449,159) in lieu of cash for dividend payments.

2005 Stock Option Plans

The 2005 Stock Option plan (the "2005 Plan") has 6 million shares authorized. The options granted under the 2005 Plan may be either options intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended; or non-qualified stock options. In March 2010, our stockholders approved an increase to the number of shares authorized under the 2005 Plan from 3.5 million to 6 million shares.

During fiscal year 2013, we granted options to employees to purchase an aggregate of 200,000 shares of our Common Stock at an exercise price of \$0.54 per share, which represented the closing price of our stock on the date of each respective grant. The options granted have a ten-year and vest 40,000 shares on date of grant and the balance equally over a four-year period from the date of grant. The fair value of the options at the date of grant in aggregate was \$53,580 which was determined on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions; dividend yield of 0%; risk-free interest rate of approximately 1%; expected volatility based on historical trading information of approximately 66% and expected term of 4 years.

During fiscal year 2014, we granted options to employees to purchase 100,000 shares of our common stock, in aggregate, at exercise prices ranging from \$0.58 to \$0.69 per share, which represented the closing price of our stock on the date of the grant. The options granted have a ten-year term with one 50,000 share grant vesting 10,000 shares on date of grant and the balance equally over a four-year period from the date of grant and the other 50,000 share grant vesting equally over a five-year term from date of grant. The fair value of the option at the date of grant in aggregate was \$29,490 which was determined on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions; dividend yield of 0%; risk-free interest rate of approximately 1%; expected volatility based on historical trading information of approximately 56% and an expected term of 5 years.

	Year Ended September 30, 2014		Year Ended September 30, 2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	4,172,000	\$.37	4,062,000	\$.36
Granted	100,000	.64	200,000	.54
Forfeited or expired	(120,000)	.54	(20,000)	.32
Exercised	(350,000)	.36	(70,000)	.30
Outstanding at end of period	3,802,000	.37	4,172,000	.37
Exercisable at end of period	3,522,000	.36	3,406,000	.36
Reserved for future grants	1,395,000		1,495,000	
Aggregate intrinsic value of exercisable options	\$897,730		\$1,117,690	
Aggregate intrinsic value of all options	\$922,730		\$1,333,490	
Weighted average fair value of options granted during the period		\$.29		\$.27

Information pertaining to options outstanding under the plan at September 30, 2014 is as follows:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$.23 - .80	3,802,000	4.4 years	\$.37	3,522,000	4.2 years	\$.36

The following table summarizes activity related to non-vested options:

	Year Ended September 30, 2014	
	Shares	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	766,000	\$.24
Granted	100,000	.29
Vested or terminated	(586,000)	.21
Non-vested at end of period	280,000	.21

Non-Employee Director Stock Option Plan

Under the terms of our 1996 Non-Employee Director Stock Option Plan, on a non-employee director's initial election to the Board of Directors, they are automatically granted an option to purchase 2,000 shares of our common stock. The exercise price per share of options granted under the Non-Employee Director Stock Option Plan is 100% of the fair-market value of our common stock on the business day immediately prior to the date of the grant and is immediately exercisable for a period of ten years from the date of the grant. During fiscal year 2006, the Compensation Committee agreed to discontinue future option grants pursuant to the Non-Employee Director Stock Option Plan.

As of September 30, 2014, options to purchase 4,000 shares of our Common Stock are outstanding and exercisable at \$0.51 and had a weighted average exercise price of \$.81 per share and a weighted average contractual life of .75 years. During the fiscal year ended September 30, 2014, options to purchase 4,000 shares of Common Stock at \$1.95 per share expired unexercised. During the fiscal year ended September 30, 2014, two officers agreed to take 44,500 shares of our Common Stock (valued at \$27,359) in lieu of amounts due to them for services rendered.

During the fiscal year ended September 30, 2013, options to purchase 8,000 shares of Common Stock at prices ranging from \$0.51 to \$1.10 per share and had a weighted average exercise price of \$.81 per share and a weighted average contractual life of 1.2 years. During the fiscal year ended September 30, 2013, options to purchase 4,000 shares of Common Stock at \$1.95 per share expired unexercised.

Warrants and Other Stock Options

Information pertaining to all warrants and other stock options granted and outstanding is as follows:

	Year Ended September 30, 2014		Year Ended September 30, 2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	30,021,803	\$.51	22,742,589	\$.50
Granted	50,000	.59	8,456,656	.51
Forfeited, expired, repurchased	(540,000)	.55	(6,000)	.61
Exercised	(3,138,509)	.51	(1,171,442)	.49
Outstanding at end of period	26,393,294	.50	30,021,803	.51
Exercisable at end of period	26,393,294	.50	29,316,803	.51
Aggregate intrinsic value of exercisable options /warrants	\$2,549,356		\$5,136,131	
Aggregate intrinsic value of all options/warrants	\$2,530,356		\$5,215,021	
Weighted average fair value of options granted during the period		\$.19		\$.49

Exercise Prices	Warrants/Options Outstanding			Warrants/Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$0.40 - \$0.65	26,393,294	3.2 years	\$.50	26,393,294	3.2 years	\$.50

Common Stock Reserved

We have reserved common stock at September 30, 2014 as follows:

Stock options reserved for the 2005 Stock Option Plan	3,802,000
Other stock options	104,000
Warrants	26,293,294
Shares issuable upon conversion of preferred stock	23,536,120
	53,735,414

Approximately 23.5 million of shares reserved for the warrants relate to the April 2012 Convertible Preferred Stock offering and approximately 1 million shares relate to warrants issued to the Wheel Time Network.

12. Employee Benefit Plan

We have implemented a Section 401(k) plan for all eligible employees. Employees are permitted to make elective deferrals of up to 75% of employee compensation up to the maximum contribution allowed by law and employee contributions to the 401(k) plan are fully vested at all times. We may make discretionary contributions to the 401(k) plan which become vested over a period of five years. There were no corporate contributions to the 401(k) plan during the years ended September 30, 2014 and 2013.

13. Concentrations

Long-lived Assets, Revenues and Revenue by Geographic Areas:

The Company has one location in the United States, where 100% of the long-lived assets are held.

During the fiscal year ended September 30, 2014, approximately 69% of our sales were derived from our dual fuel stationary solution for oil and gas applications and 31% from our dual fuel vehicular applications. During the fiscal year ended September 30, 2013, approximately 80% of our sales were derived from our dual fuel stationary solution for oil and gas applications and 20% from our dual fuel vehicular applications.

Our revenue decreased 10% in fiscal year ended September 30, 2014, as compared to total revenue in the prior fiscal year. Approximately \$1.4 million or 24% of stationary revenue last year was associated with additional installation/equipment revenue associated with the full turnkey conversion of multiple engines in the high pressure fracturing market. These conversions were at a higher per unit revenue due to the full turnkey nature of the orders as compared to the more typical sale of just our dual fuel systems.

After consideration of these facts, stationary sales in fiscal year September 30, 2014, increased 3% as compared to the core stationary sales in fiscal year September 30, 2013. Vehicular sales from fiscal year ended September 30, 2014, increased 38% as compared to vehicular sales fiscal year September 30, 2013.

	September 30, 2014	September 30, 2013
Stationary Dual Fuel Systems	\$4,356,430	\$5,613,989
Vehicular Dual Fuel Systems	1,931,203	1,403,133
	\$6,287,633	\$7,017,122

The following table sets forth sales by geographic area:

	September 30, 2014	September 30, 2013
United States	\$5,038,238	\$6,415,145
Canada	1,051,298	293,318
Australia	—	131,112
Nigeria	71,020	126,600
Peru	111,200	—
Other foreign countries	15,877	50,947
	\$6,287,633	\$7,017,122

Customers:

During the fiscal year ended September 30, 2014, three oil and gas stationary customers accounted for 39%, 16% and 9% of consolidated net sales. The customer who accounted for 39% and 34% of consolidated net sales in 2014 and 2013, respectively, is one of our stationary Dealer/Certified Installers who focuses specifically on the oil and gas industry opportunities. While we believe the loss of this Dealer/Certified Installer would have a short term negative impact on our business, we believe that end customer interest remains strong and there are alternatives available to us to continue meeting end customer demand, including the ability to market and install through in-house resources. Therefore, we do not believe that the loss of this individual customer would have a material adverse effect on our business. In addition, we believe the impact of the loss of this individual customer would be mitigated with the signing of additional Dealer/Installer agreements and the anticipated increasing vehicular revenue and vehicular engine family approvals over the coming months.

The other two customers representing 16% and 9% of consolidated net sales in 2014 related to other conversions of oil and gas industry opportunities.

Vehicular revenues for the fiscal year ended September 30, 2014 increased approximately \$528,070 or 38% to approximately \$1.9 million as a result of our ability to actively solicit customer orders due to the increased number of vehicular EPA approvals received to date as well as our new WheelTime dealer/installer relationship. With over 3.5 million Class 8 vehicles on the road in the U.S., our industry leading EPA Outside Useful Life ("OUL") approvals of

456 and our Wheel Time network of

56

dealers/installers, we believe have the resources necessary to continue to grow our vehicular revenue to mitigate the potential loss of any one individual oil and gas stationary customer.

On December 8, 2014, we received notification from the Environmental Protection Agency ("EPA") that our Clean Alternative Fuel Vehicle and Engine Conversion Submission has been approved for 28 Volvo/Mack engine families. We have secured a list from R.L. Polk of approximately 11,000 U.S. registered Volvo/Mack owners representing over 72,000 trucks for model years between 2010 and 2013, which we believe make them ideal candidates for dual fuel conversions.

We were dependent on a third-party firm for providing engineering services relating for our EPA testing and approval activities. At September 30, 2014 and 2013, the supplier accounted for approximately 0% and 32% of the American Power Group, Inc's accounts payable. We have completed our EPA testing and approval activities for Outside Useful Life engine families, therefore mitigating the potential adverse effect of the loss of this vendor.

14. Income Taxes

Historically we have provided a valuation reserve equal to 100% of our potential deferred tax benefit due to the uncertainty of our ability to realize the anticipated benefit given our historical losses. The difference between the statutory federal income tax rate of 34% and the effective rate is primarily due to net operating losses incurred by us and the provision of a valuation reserve against the related deferred tax assets.

The following differences give rise to deferred income taxes:

	September 30, 2014		September 30, 2013	
Net operating loss carry forwards	\$ 11,855,859		\$ 11,048,202	
General business credits	306,850		282,244	
Differences in fixed asset basis	(63,840	)	(38,181)
Alternative Minimum Tax amounts	14,923		14,923	
State NOL amounts	956,108		941,227	
Capitalized development costs	(1,085,342	)	(1,135,547)
Other, net	183,856		201,643	
	12,168,414		11,314,511	
Valuation reserve	(12,168,414	)	(11,314,511)
Net deferred tax asset	\$—		\$—	

The following differences between the U.S. Federal statutory income tax rate and our effective tax rate are:

	September 30, 2014		September 30, 2013	
Statutory U.S. tax rate	34.0	%	34.0	%
State taxes, net of federal benefit	0.8		1.8	
Amortization	45.7		(0.9)
All others, net	(164.8	)	(4.3)
U.S. business credits	(47.0	)	6.9	
Revaluation of warrants	(2109.2)	—	
Valuation allowance	2240.5		(37.5)
Effective Tax Rate	—	%	—	%

As of September 30, 2014, we had net operating loss carryforwards of approximately \$35 million. The net operating loss carryforwards expire beginning in 2021 through 2033. In addition, we have Federal tax credit carryforwards of approximately \$306,850 available to reduce future tax liabilities. The Federal tax credit carryforwards expire beginning in 2030 through 2033. These carryforwards maybe subject to limitations under Sections 382 and 383 of the Internal Revenue Code if significant ownership changes have been determined to have occurred.

15. Subsequent Event

On November 28, 2014, we sold 200 shares of Series B 10% Convertible Preferred Stock for gross proceeds of \$2 million and issued a warrant to purchase up to 5,000,000 shares of our Common Stock. Each share of the Series B 10% Convertible Preferred Stock is convertible, at any time at the option of the holder, into 25,000 shares of Common Stock at a conversion price of \$0.40 per share. The Warrant enables the investor to purchase up to 5,000,000 shares of Common Stock at an exercise price of \$0.50 per share. The Series B 10% Convertible Preferred Stock has a 10% annual dividend, payable quarterly in cash or in shares of Common Stock. The terms of the Series B 10% Preferred Stock and the Warrant are substantially equivalent to the terms of our outstanding 10% Convertible Preferred Stock and warrants issued in April 2012.

In connection with this transaction, the 2012 securities purchase agreement under which we issued shares of 10% Convertible Preferred Stock and warrants was amended to provide that the issuance of the Series B Preferred Stock would not trigger adjustments to the exercise price of the warrants issued in connection with that agreement. The parties to the 2012 Agreement did not otherwise amend the terms of the 10% Convertible Preferred Stock or the related warrants. The offer and sale of the Series B Preferred Stock and the Warrant were not registered under the Securities Act of 1933, as amended (the "Securities Act"), by reason of an exemption from the registration requirements under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act. The Company has not agreed to register these securities, any shares of Common Stock that may be issued upon the conversion or exercise of these securities, or any shares of Common Stock that may be issued as a dividend on the Series B 10% Preferred Stock, for resale under the Securities Act.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

American Power Group Corporation

/s/ Lyle Jensen
 Lyle Jensen
 Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ Maurice E. Needham Maurice E. Needham	Chairman of the Board	June 29, 2015
/s/ Lyle Jensen Lyle Jensen	Chief Executive Officer, President and Director	June 29, 2015
/s/ Charles E. Coppa Charles E. Coppa	Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)	June 29, 2015
/s/ Lew F. Boyd Lew F. Boyd	Director	June 29, 2015
/s/ Neal Braverman Neal Braverman	Director	June 29, 2015
/s/Jamie Weston Jamie Weston	Director	June 29, 2015
/s/ Raymond L. M. Wong Raymond L. M. Wong	Director	June 29, 2015