

AMERICAN POWER GROUP Corp  
Form POS AM  
April 12, 2013

As filed with the Securities and Exchange Commission on April 12, 2013  
Registration Number 333-181773

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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POST-EFFECTIVE AMENDMENT NO. 1 TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

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AMERICAN POWER GROUP CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	3510 (Primary Standard Industrial Classification Code Number)	71-0724248 (I.R.S. Employer Identification No.)
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7 Kimball Lane, Building A  
Lynnfield, Massachusetts 01940  
(781) 224-2411  
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive  
Offices)

Charles E. Coppa  
Chief Financial Officer  
American Power Group Corporation  
7 Kimball Lane, Building A  
Lynnfield, Massachusetts 01940  
(781) 224-2411  
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

with a copy to:

Carl F. Barnes, Esq.  
Morse Barnes-Brown & Pendleton, P.C.  
CityPoint  
230 Third Street, 4th Floor  
Waltham, MA 02451  
(781) 622-5930

Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date hereof.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ..

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ..

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ..

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. (Check one):

Larger accelerated filer	..	Accelerated filer	..
Non-accelerated filer	..	Smaller reporting company	x

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.



#### EXPLANATORY NOTE

This Post-Effective Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-181773) (the “Registration Statement”) of American Power Group Corporation (the “Company”) is being filed pursuant to the undertaking in Item 17 of the Registration Statement to update and supplement the information contained in the Registration Statement, as originally declared effective by the Securities and Exchange Commission on July 25, 2012, to include the information contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (the “Annual Report”) that was filed with the Securities and Exchange Commission (the “SEC”) on December 31, 2012, to include the information contained in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2012 that was filed with the SEC on February 13, 2013, and to update certain other information in the Registration Statement.

The information included in this Post-Effective Amendment No. 1 to the Registration Statement updates and supplements the Registration Statement and the Prospectus contained therein. No additional securities are being registered under this Post-Effective Amendment No. 1. All applicable SEC registration fees were paid at the time of the filing of the original Registration Statement.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL AND IS NOT A SOLICITATION OF AN OFFER TO BUY IN ANY STATE IN WHICH AN OFFER, SOLICITATION, OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED APRIL 12, 2013  
PROSPECTUS

AMERICAN POWER GROUP CORPORATION

11,553,282 SHARES OF COMMON STOCK

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

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

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

Our Common Stock is presently quoted on the OTC Markets Group's OTCQB under the symbol "APGI." On April 10, 2013, the last reported sale price of our Common Stock on the OTCQB was \$.56 per share.

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

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

THE DATE OF THIS PROSPECTUS IS \_\_\_\_\_, 2013.

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“GreenMan,” “American Power Group” and “Green Tech Products” are our trademarks and service marks, and we claim common law rights in such marks. This prospectus refers to the trade names, service marks and trademarks of other companies. These references are made with due recognition of the rights of these companies and without any intent to misappropriate these names or marks.





## PROSPECTUS SUMMARY

### AMERICAN POWER GROUP CORPORATION

11,553,282 SHARES OF COMMON STOCK

### ABOUT THIS PROSPECTUS

This summary highlights certain information appearing elsewhere in this prospectus. For a more complete understanding of this offering, you should read the entire prospectus carefully, including the risk factors and the financial statements. References in this prospectus to “we,” “us,” “our” and “American Power Group” refer to American Power Group Corporation together with its subsidiaries. You should read both this prospectus and any prospectus supplement together with additional information described below under the heading “Where You Can Find More Information.”

### ABOUT AMERICAN POWER GROUP

#### Company Overview

Effective August 1, 2012, our company changed its name from GreenMan Technologies, Inc. to American Power Group Corporation. The trading symbol for our Common Stock on the OTCQB also changed from “GMTI” to “APGI.” American Power Group Corporation is a Delaware corporation. Prior to August 1, 2011, our business was comprised of two business segments, our dual fuel conversion operations (American Power Group) and our molded recycled rubber products operations (Green Tech Products). Our business changed substantially in August 2011, when we sold substantially all of the assets of our molded recycled rubber products operations.

#### Products and Services

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

• Diesel fuel and compressed natural gas (CNG) or liquefied natural gas (LNG);

• Diesel fuel and pipeline gas, well-head gas or approved bio-methane; or

• 100% diesel fuel.

Our proprietary technology seamlessly displaces 40% to 70% of the normal diesel fuel consumption with various forms of natural gas and the energized fuel balance between the two fuels is maintained with a patented control system ensuring the engines operate 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 20% to 35%;

• Reduce toxic emissions such as nitrogen oxide (NOX), carbon monoxide (CO) and fine particulate emissions; and

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

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

Our Green Tech Products' molded recycled rubber products operations, sold in August 2011, specialized in the design, development and manufacturing of branded recycled products and services that provide schools and municipalities with environmentally responsible products to create safer work and play environments.



## Recent Developments

### Distributor Agreement

In November 2012, we signed a National Distributor and Master Marketing Agreement with WheelTime Network LLC, a truck service network with 18 member companies providing installation and warranty support through nearly 200 service centers, 2,800 service bays, 3,000 factory-trained technicians and 30 training facilities located across the United States and Canada. Under the agreement, WheelTime will endorse APG's technology to its 18 member companies and encourage each member to become an exclusive certified installer and authorized dealer of APG's Vehicular Turbocharged Natural Gas Systems. As of April 11, 2013 17 of the 18 of WheelTime's member companies have agreed to become installers and dealers of our equipment. We believe that this relationship provides us the opportunity to accelerate the national rollout of our vehicular dual fuel through access to a large national network of qualified diesel engine personnel as well as testing/installation equipment.

In addition, we issued WheelTime a warrant to purchase 1,540,000 shares of our Common Stock at an exercise price of \$.55 per share. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer and service agreement by each of the 18 members during the first year after the original issue date of the Warrant. An additional 30,000 warrants become exercisable if a member agrees to become an exclusive dealer. The Warrant will expire on December 31, 2017.

### Financing Arrangements

In April 2012, we completed the following actions.

#### Private Placement

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, which we refer to in this prospectus as 10% Preferred Stock, and one warrant to purchase 25,000 shares of Common Stock.

The 10% Preferred Stock has a ten percent annual dividend, payable quarterly in shares of Common Stock, provided that if we fail to meet certain conditions set forth in the Certificate of Designations we may be required to pay such dividends in cash. As of the date of issuance, each share of 10% 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 is 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 conversion price of the 10% Preferred Stock. In addition to the conversion right described above, we may require the holders of the 10% 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% 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 into Common Stock basis. The holders of 10% Preferred Stock voting as a separate class are entitled to elect three members of the Board of Directors. In connection with the exercise of that right, Dr. Allen Kahn and Thomas Galvin resigned from the Board of Directors following the completion of the private placement and the Board of Directors appointed Neil Braverman, Dr. Aviel Faliks and Jamie Weston as directors. The number of directors elected by the holders of our Common Stock, voting as a separate class, will be reduced from four to three effective March 31, 2013. Kevin Tierney, Sr. resigned from the Board of Directors on January 10, 2013 in anticipation of that change. The holders of the 10% 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% Preferred Stock. In addition, the approval of the holders of at least 67% of the outstanding 10% Preferred Stock will be required before we may take certain actions.

The holders of the 10% 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% Preferred Stock are entitled to be paid out of the assets of the company an amount equal the stated value of the 10% Preferred Stock, which is initially \$10,000 per share, plus any accrued, but unpaid, dividends.

In addition, in the event we fail to take certain actions regarding the registration of the Common Stock issuable upon conversion of the 10% Preferred Stock or we take certain other actions affecting the 10% Preferred Stock, the holders of the 10% Preferred Stock may require us to redeem such preferred stock at a price to be determined at the time of redemption in accordance with the terms of the 10% Preferred Stock.

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% 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.

In connection with the private placement, we granted the investors the right, exercisable at any time before March 31, 2013, to invest up to \$2.7 million to buy additional units under the same terms described above. As of March 31, 2013, all of the investors have exercised their additional investment rights to purchase a total of 273.9 units, each unit consisting of one share of 10% Preferred Stock and one warrant to purchase 25,000 shares of Common Stock, for gross proceeds of \$2,739,000. The shares of Common Stock underlying these securities are not being registered for resale under this prospectus.

Of the \$8,216,000 in gross proceeds from the private placement, not including the gross proceeds received upon the exercise of the additional investment rights, our net proceeds after fees and expenses were approximately \$7,500,000. We used approximately \$495,000 of the net proceeds to retire short term debt and intend to use the balance to advance our dual fuel technologies business.

In connection with the private placement, we entered into a registration rights agreement with the holders of the 10% Preferred Stock. Pursuant to the registration rights agreement, we were required to file a registration statement with the Securities and Exchange Commission on or before May 30, 2012, to register for resale the shares of Common Stock issuable upon the conversion of the 10% Preferred Stock and upon the exercise of the warrants and to use commercially reasonable best efforts to cause the registration statement to be declared effective. The registration rights agreement requires that we pay to each investor liquidated damages equal to two percent of the amount invested by such investor in the private placement in the event we fail take certain actions affecting the registration of the shares of Common Stock or the ability of the investors to sell shares of Common Stock pursuant to Rule 144 of the Securities Act of 1933, as amended. This prospectus is a part of the registration statement we filed pursuant to the registration rights agreement.

In connection with the private placement, we entered into a voting agreement with the holders of the 10% Preferred Stock. Pursuant to the voting agreement, the investors have agreed to vote their shares of 10% Preferred Stock to elect: (a) two individuals to the Board of Directors designated by Spring Mountain Capital, for as long as Spring Mountain Capital or its affiliates owns shares of 10% Preferred Stock; and (b) one individual to the Board of Directors designated by Associated Private Equity LLC, for as long as Associated Private Equity LLC or its affiliates owns shares of 10% Preferred Stock.

#### Amendments to Certain Related Party Promissory Notes

On April 27, 2012, we entered into amendments to promissory notes in the aggregate principal amount of \$473,500 held by Charles Coppa, our Chief Financial Officer; Lyle Jensen, a member of our Board of Directors and our President and Chief Executive Officer; and Dr. Allen Kahn, who was then a member of our Board of Directors. These amendments reduced the interest rates of the promissory notes to 8% per annum and extended the maturity dates of the notes to April 30, 2014.

#### Amendment to Patent License and Note

On April 27, 2012, we entered into an amendment to the exclusive patent license agreement dated June 17, 2009, under which we license certain dual fuel technology from M & R Development, Inc. 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 will be the lesser of 10% of net sales or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be due if cumulative EBITDA is less than zero. M&R also agreed to waive any prior defaults under the license. In addition, we amended the amended and restated promissory note issued to American Power Group by M&R on December 1, 2009 to extend the maturity of the note until February 15, 2015 and to defer all interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest.

#### Extension of Iowa State Credit Facility

On April 25, 2012, Iowa State Bank agreed to extend the maturity of American Power Group's working capital line of credit to April 25, 2013 and increased the borrowing limits under the facility to \$2.25 million. On December 12, 2012,

Iowa State Bank agreed to further extend the maturity of American Power Group's working capital line of credit to December 31, 2013. The other terms and conditions of the credit facility remain unchanged.

Convertible Debenture Conversions

As a condition to the closing of the private placement on April 30, 2012, the investors required that outstanding convertible promissory notes be converted into shares of Common Stock effective as of and immediately prior to the closing. At or prior to the closing, holders of convertible promissory notes in the aggregate principal amount of \$2,985,000 converted such principal, together with interest accrued thereon, into approximately 6,842,955 shares of Common Stock.

#### Divestiture of Molded Rubber Products Business

In March 2011, we announced our intention to divest our Green Tech Products business and to devote all of our corporate resources to American Power Group's dual fuel conversion business. In July 2011, our shareholders approved the sale of substantially all of Green Tech Products' assets, subject to substantially all of its liabilities, to Irish Knight Holdings, L.L.C., a company co-owned by two of Green Tech Products' senior managers. We completed the sale on August 1, 2011, for consideration consisting of (i) the assumption of substantially all of Green Tech Products' liabilities, which were approximately \$1.2 million, (ii) a \$50,000 stock inventory credit toward the purchase of products and services from the buyer, which credit may be applied during the first nine months after completion of the sale; and (iii) a promissory note in the principal amount of \$100,000 which is payable in increasing monthly installments over a period of 60 months.

In March 2012, Irish Knight Holdings agreed, in consideration of a \$25,000 reduction in the stock inventory credit and a \$38,000 reduction in the then outstanding balance of the promissory note, to pay us a total of \$80,000 by December 31, 2012 in full satisfaction of the inventory credit and note. The note was paid off in December 2012.

#### U.S. Vehicular Rollout Initiative

In April 2011, the Environmental Protection Agency announced it had amended its alternative fuel conversion regulations for light, medium and heavy-duty vehicles. Under the new regulations, testing and compliance procedures differ based on the age category of the vehicle or engine that is being converted: (1) new or relatively new; (2) intermediate age ("IUL"), or (3) outside useful life ("OUL"). All conversion manufacturers seeking exemption must demonstrate compliance, but the requirements differ among age categories.

In September 2011, we were notified by the EPA that our first submission under the new regulations had been approved and as of April 11, 2013, we have successfully obtained 110 EPA approvals for various OUL vehicular families.

#### Corporate Information

We were originally founded in 1992 and have operated as a Delaware corporation since 1995. Our principal executive office is located at 7 Kimball Lane, Building A, Lynnfield, Massachusetts 01940, and our telephone number is (781) 224-2411. We maintain a website at [www.americanpowergroupinc.com](http://www.americanpowergroupinc.com). Our website and the information contained therein or connected thereto are not incorporated into this prospectus.



## SUMMARY OF THE OFFERING

Common Stock offered by selling security holders: 11,553,282 shares

Terms of the Offering: The selling security holders will determine when and how they will sell the Common Stock offered in this prospectus.

Common Stock outstanding, excluding Common Stock offered by selling security holders: 43,088,493 shares

Common Stock outstanding after the offering: 54,641,775 shares, which assumes (i) the conversion of 396.34 outstanding shares of 10% Convertible Preferred Stock into shares of Common Stock and (ii) the payment of all dividends payable on the preferred stock within six months after March 31, 2013 in shares of Common Stock in lieu of cash. We are not selling any shares of the Common Stock covered by this prospectus, and, as a result, will not receive any proceeds from this offering.

Use of proceeds:

OTCQB Symbol: APGI

Risk Factors: See "Risk Factors" beginning on page 8 and the other information in this prospectus for a discussion of the factors you should consider before you decide to invest in the units.

The total number of shares of our Common Stock outstanding excludes (i) 24,461,655 additional shares of Common Stock issuable upon conversion of additional shares of 10% Convertible Preferred Stock, which are not included in this prospectus; (ii) 27,381,656 shares of Common Stock issuable upon the exercise of warrants issued to the purchasers of the 10% Convertible Preferred Stock at an exercise price of \$.50 per share; (iii) 290,000 shares of Common Stock issuable upon the exercise of warrants issued to the placement agent in connection with the private placement of the 10% Convertible Preferred Stock at an exercise price of \$.40 per share; and (iv) 7,457,589 shares of Common Stock issuable under the exercise of stock options and warrants outstanding as of April 11, 2013 at a weighted average exercise price of \$.45 per share.



## SUMMARY CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following summary of selected condensed consolidated financial information as of and for the fiscal years ended September 30, 2012 and 2011 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The following summary of selected condensed consolidated financial information as of and for the three months ended December 31, 2012 and 2011 has been derived from our unaudited financial statements included elsewhere in this prospectus. The condensed consolidated financial information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes thereto included elsewhere in this prospectus.

## Condensed Consolidated Statements of Operations

	Three Months Ended		Fiscal Year Ended	
	December 31,		September 30,	
	2012	2011	2012	2011
Net sales	\$874,953	\$396,017	\$2,633,880	\$1,767,644
Cost of sales	574,404	405,295	1,935,767	1,833,042
Gross profit (loss)	300,549	(9,278)	698,113	(65,398)
Operating expenses:				
Selling, general and administrative	882,882	722,745	2,927,282	3,467,094
Impairment loss	—	—	—	149,600
Research and development	—	37,338	—	1,322,021
	882,882	760,083	2,927,282	4,938,715
Operating loss from continuing operations	(582,333)	(769,361)	(2,229,169)	(5,004,113)
Non operating income (expense)				
Interest and financing costs	(40,591)	(354,763)	(1,612,052)	(819,475)
Interest income	12,061	11,090	53,977	53,191
Loss on induced conversion incentive	—	—	(582,143)	—
Other, net	(28,923)	(30,559)	(127,778)	(188,803)
Non operating expense, net	(57,453)	(374,232)	(2,267,996)	(955,087)
Loss from continuing operations before income taxes	(639,786)	(1,143,593)	(4,497,165)	(5,959,200)
Income tax benefit	—	—	—	321,519
Loss from continuing operations	(639,786)	(1,143,593)	(4,497,165)	(5,637,681)
Discontinued operations				
Loss on disposal of discontinued operations	—	—	(63,085)	(59,526)
Loss from discontinued operations	—	—	—	(1,116,413)
	—	—	(63,085)	(1,175,939)
Net loss	\$(639,786)	\$(1,143,593)	\$(4,560,250)	\$(6,813,620)
10% Convertible Preferred stock dividends	(212,704)	—	(358,460)	—
10% Convertible Preferred stock beneficial conversion feature	—	—	(9,748,127)	—
Net loss available to common shareholders	\$(852,490)	\$(1,143,593)	\$(14,666,837)	\$(6,813,620)
Loss from continuing operations per share - basic and diluted	\$(0.01)	\$(0.03)	\$(0.11)	\$(0.16)
Loss from discontinued operations per share - basic and diluted	—	—	—	(0.03)
Net loss per Common share - 10% Preferred Stock dividend	—	—	(0.01)	—
Net loss per Common share - Preferred Stock beneficial conversion feature	—	—	(0.25)	—

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Net loss attributable to Common shareholders - basic and diluted	\$(0.02 )	\$(0.03 )	\$(0.37 )	\$(0.19 )
Weighted average Common shares outstanding - basic and diluted	45,609,928	36,595,317	39,352,340	35,621,150

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Condensed Consolidated Balance Sheet Data	December 31, 2012
Assets	
Cash and cash equivalents	\$2,934,188
Certificates of deposit, restricted	300,000
Accounts receivable, net	613,198
Inventory	757,901
Costs in excess of billings	33,234
Seller's not, related party, current portion	266,009
Prepaid expenses	123,591
Other current assets	105,490
Property, plant and equipment, net	704,889
Seller's note, related party, non-current	531,378
Long term contracts, net	329,167
Purchased technology, net	329,167
Software development costs, net	1,726,549
Other assets	71,466
Total Assets	\$8,826,227
Liabilities and Stockholders' Equity	
Current liabilities	\$3,386,583
Notes payable, non-current	49,637
Notes payable, related parties, non-current	473,500
Obligations under lease settlement, non-current	505,540
Stockholders' equity	4,410,967
Total Liabilities and Stockholders' Equity	\$8,826,227



## RISK FACTORS

Any investment in our securities involves a high degree of risk. You should carefully consider the risks described below, which we believe represent certain of the material risks to our business, together with the information contained elsewhere in this prospectus, before you make a decision to invest in our units. If any of the following events occur, our business, financial condition and operating results may be materially adversely affected. In that event, the trading price of our securities could decline and you could lose all or part of your investment.

### Risks Related to our Business

Our dual fuel conversion business has lost money in twelve of the past thirteen consecutive fiscal quarters and will 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 \$9.1 million to enhance 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 broader market presence worldwide. Despite these efforts, 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, which 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 will be required 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, and 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.

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

We must substantially increase revenues from our American Power Group's business. Factors that could limit demand for our products and services include potential changes in the regulatory environment. If, for example, the EPA withdraws support for our domestic vehicular dual fuel testing initiative, further development of the domestic market for our vehicular products could be materially delayed. Other adverse events or economic or other conditions affecting markets for our products and services, potential delays in product development, product and service flaws, 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 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 rapid technological change and changes in demand. In seeking market acceptance, we will encounter competition from many sources, including other well-established and larger dominant original equipment providers such as CAT, Cummings, Detroit Diesel, Volvo and Mercedes. 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 are subject to federal, regional, state, local and foreign regulations which 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 issues. All domestic dual fuel conversion systems are subject to the rules of the EPA, with the primary requirement being 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 the unique nature of our dual fuel technology and the fact our primary initial target market is older, out-of-warranty diesel vehicles, we had to 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 in-country distributors in Africa, Australia, Canada and are intending 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.

We face risks associated with marketing, distributing, and servicing our products internationally and our business could be adversely affected if we are unable to manage or grow our business in developing and emerging markets or as a result of political and economic instability or civil unrest in these markets.

In addition to our operations in the United States, we currently have in-country distributors in Africa, Australia, Canada and are intending to market our products and technologies in other international markets, including both industrialized and developing countries. Political and economic instability or civil unrest in the markets where we operate, including Africa, could have a material adverse impact on our sales.

Our combined international operations are subject to various risks common to international activities, such as the following:

- our ability to maintain good relations with our overseas suppliers, distributors and customers to collect amounts owed from our overseas customers;

the possibility that our distributors and agents will continue to sell products into countries subject to United States sanctions notwithstanding our policies prohibiting such sales;

potential difficulties in enforcing contractual obligations and intellectual property rights;

complying with a wide variety of laws and regulations, including product certification, environmental, and import and export laws;

the challenges of operating in disparate geographies and cultures;

political and economic instability; and

adverse tax consequences, including, without limitation, restrictions on our ability to repatriate dividends from our subsidiaries.

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 patents, 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 licensor 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 patents 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.

We license our dual fuel technology from M & R Development, Inc., a related party. Under the terms of the license, 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.

In addition, many of our distribution agreements require us to indemnify the partner 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 of 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, any or all 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 the content partner agreements.

Several of our exclusive distribution agreements are with foreign entities and are governed by the laws of foreign jurisdictions. If a partner breaches such agreement, then we may incur the additional costs of determining our rights and obligations under the agreement, 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 under the agreements and there is uncertainty with respect to the enforceability of such arbitration provisions under the laws of related 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 settling the dispute through traditional legal avenues rather than through an arbitration process.

The creditworthiness of our distributors is 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 which 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 that amount for which we have planned, this would adversely impact our operating results. We intend 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 various arrangements with distribution and installation entities. The success and commercialization of our dual fuel products will be dependent, in part, upon our ability to enter into such 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, if any at all, and that such parties 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 plan to assemble our dual fuel installation kits in-house after receiving components from outside vendors and have the kits 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 (i) obtain adequate supplies of our products in a timely fashion at acceptable quality and prices, (ii) enter into arrangements for the manufacture of our products with manufacturers whose facilities and procedures comply with our requirements, or (iii) that such manufacturers will be able to adequately supply us with our product needs. Our dependence upon others for the manufacture of certain critical components may adversely affect our ability to develop and deliver products on a timely and competitive basis.

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 only two officers, our President and Chief Executive Officer, who has held that position for seven 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 do not maintain a key man insurance policy covering any or senior management or any other key employees. 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 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. Our American Power Group subsidiary may experience some seasonality 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 is 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 completed by our company 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.

#### 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 now traded on the OTC Markets Group's OTCQB;

- 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 April 11, 2013, we had options and warrants outstanding to purchase 35,129,245 additional shares of Common Stock. These reserved shares relate to the following: 4,180,000 shares for issuance upon exercise of awards granted under our 1993 Stock Option Plan, 1996 Non-Employee Director Stock Option Plan and 2005 Stock Option Plan, and 30,949,245 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 24,461,655 shares of Common Stock.

The exercise of these options and warrants as well as the payment of dividends on 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 April 11, 2013, approximately 44,000,000 shares of our Common Stock were eligible for sale in the public market exclusive of the options and warrants noted above.

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

Our directors, executive officers and one other principal stockholder owned approximately 17 percent of our outstanding Common Stock as of April 11, 2013. 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 on our common stock 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 the 10% Convertible Preferred Stock restrict our ability to pay dividends on our Common Stock if the dividends due on the 10% Convertible Preferred Stock are unpaid.

We may be required to pay cash dividends to the holders of our 10% Convertible Preferred Stock, which may reduce the funds available to invest in our business.

The outstanding shares of 10% Convertible Preferred Stock carry a 10% annual dividend that is payable quarterly. If we meet certain financial conditions, we may elect to pay the dividend in cash or in shares of our Common Stock. To date, we have not met such financial conditions and have been required to pay the dividends on the preferred stock in cash unless an individual holder has elected to receive the dividend in shares of our Common Stock. Continued failure to meet these conditions may require us to continue to pay the dividends to the holders of the preferred stock in cash and reduce the funds available to invest in our business.

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. For more information regarding these provisions, see "Description of Capital Stock - Delaware Law and Certain Charter and By-Law Provisions" in this prospectus.

## FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, or 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 prospectus. These statements include, without limitation, statements relating to uncertainties associated with our ability to return to sustained profitability and to raise additional working capital and capital to fund and grow our business, our ability to increase demand for our products and services, our ability to compete effectively, our ability to retain our senior management and other key personnel and to attract additional management and key employees, our ability to enforce our rights under content partner agreements, our ability to collect funds owed to us by our distributors, our ability to depend on the manufacturing and installation abilities of third parties, our ability to acquire and integrate other businesses, our ability to protect our intellectual property rights, our ability to operate as a public company, our belief that our stock price may continue to be volatile, our belief that options, warrants and convertible preferred stock will cause dilution to our shareholders, our belief that, because our directors, officers and principal stockholders own a significant percentage of our share, our shareholders' ability to influence corporate matters will be limited, our belief that we will not pay any cash dividends in the foreseeable future, and our belief that anti-takeover provisions in our charter documents in Delaware law could prevent, deter or delay a change in control of our company.

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.

## USE OF PROCEEDS

We will not receive any proceeds from the sale of Common Stock by the selling security holders. All of the net proceeds from the resale of our Common Stock will go to the selling security holders as described below in the sections entitled “Selling Security Holders” and “Plan of Distribution.” We have agreed to bear the expenses relating to the registration of the Common Stock for the selling security holders.

## DETERMINATION OF OFFERING PRICE

The prices at which the shares of Common Stock covered by this prospectus may actually be sold will be determined by the prevailing public market price for shares of Common Stock, by negotiations between the selling security holders and buyers of our Common Stock in private transactions or as otherwise described in “Plan of Distribution.”

## DILUTION

The selling security holders are offering for resale shares of Common Stock underlying certain outstanding shares of 10% Convertible Preferred Stock and shares of Common Stock issued or issuable within 18 months after April 30, 2012 in lieu of the cash payment of dividends on such preferred stock. To the extent such preferred stock is converted and/or such dividends are paid in shares of Common Stock in lieu of cash payments, existing shareholders will experience dilution to their ownership interests in our company. The resale of the shares of the current outstanding Common Stock under this prospectus will not dilute the ownership interests of existing stockholders.

## SELLING SECURITY HOLDERS

## Selling Security Holders

The Common Stock being offered for resale by the selling security holders consists of shares of Common Stock which may be acquired upon conversion of shares of preferred stock issued in our private placement completed on April 30, 2012 and shares of stock issued or issuable in lieu of the cash payment of dividends on such preferred stock. Please see the "Prospectus Summary" for a description of the private placement. The table below includes the following shares of Common Stock:

9,908,591 shares that have been, or may be, acquired upon the conversion of shares of our 10% Convertible Preferred Stock, which preferred stock was issued to 15 investors in a private placement completed on April 30, 2012; 824,624 shares issued between June 30, 2012 and March 31, 2013 in lieu of the cash payment of dividends on the preferred stock in accordance with the terms of the Certificate of Designation governing such preferred stock; and 820,067 additional shares issuable within six months after March 31, 2013 in lieu of the cash payment of dividends on the preferred stock in accordance with the terms of the Certificate of Designation.

The following table sets forth the name of each selling security holder, the number of shares of Common Stock beneficially owned by each of the selling security holders as of April 11, 2013 and the number of shares of Common Stock being offered by the selling security holders. The following table has been updated to reflect transfers of 10% Convertible Preferred Stock, warrants to purchase shares Common Stock and rights to make an additional purchase of 10% Convertible Preferred Stock and warrants to purchase Common Stock which occurred after the closing of the private placement.

The selling security holders may offer all or part of the shares for resale from time to time. However, the selling security holders are under no obligation to sell all or any portion of such shares nor are the selling security holders obligated to sell any shares immediately upon effectiveness of this prospectus. All information with respect to share ownership has been furnished by the selling security holders.

Name of Selling Security Holder (1)	Maximum Number of Shares That May be Acquired Upon Conversion of Preferred Stock (3)	Shares Issued upon Conversion of Preferred Stock and upon Payment of Dividends on the Preferred Stock	Maximum Number of Additional Shares Issuable Upon Payment of Dividends on the Preferred Stock (2)	Maximum Number of Shares That May be Acquired Upon Exercise of Warrants (3)	Maximum Number of Shares Total Beneficially Owned Before Offering (4)	Maximum Number of Shares Total Beneficially Owned After Offering (5)	Percentage of Common Stock Beneficially Owned After Offering (5)		
Next View Capital LP (6)	2,753,333	—	157,385	2,753,333	5,664,051	1,153,551	4,510,500	8.3	%
Objective Investments LLC (7)	333,333	7,068	13,170	333,333	686,904	140,839	546,065	1	%
Phillip Sylvester Associated Private Equity LLC (8)	666,666	31,706	8,770	666,666	1,373,808	281,678	1,092,130	2	%
Chadds Ford LLC (8)	3,333,333	23,686	178,699	3,333,333	6,869,051	1,408,393	5,460,658	10.4	%
TS World Development Master Fund Ltd (9)	166,666	1,183	8,932	166,666	343,451	70,149	273,302	0.5	%
		4,737			4,737		4,737	0.01	%
	133,333	3,448	3,700	133,333	273,814	56,335	217,479	0.4	%

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Thomas A. Schmitt & Nancy T. Schmitt Jt Ten (9)										
Todd E. Benson (9)	33,333	397	1,390	33,333	68,453	14,084	54,369	0.1	%	
Dave H. Williams IRA (9)	133,333	—	7,148	133,333	273,814	56,335	217,479	0.4	%	
Dave H. Williams (9)	333,334	—	17,869	333,334	684,536	140,839	543,697	1	%	
Mark D. Wyckoff (9)	33,333	—	1,787	33,333	68,453	14,084	54,369	0.1	%	
Ronald H. Muhlenkamp Carpe Diem Opportunity Fund LP (10)	2,333,333	107,623	34,044	2,333,333	4,808,333	985,875	3,822,458	7	%	
Provident Premier Master Fund Ltd. (11)	791,666	264,968	43,507	1,666,665	2,766,806	704,196	2,062,610	3.8	%	
SMC Select Co-Investment Fund I, LP (12)	3,333,333	154,292	48,089	3,333,333	6,869,047	1,408,393	5,460,654	10	%	
SMC Reserve Fund II, LP (12)	5,333,333	246,870	76,940	5,333,333	10,990,476	2,253,429	8,737,047	16.1	%	
SMC Reserve Fund II Offshore, LP (12)	1,333,333	61,717	19,235	1,333,333	2,747,618	563,356	2,184,262	4	%	
SMC Employees Partnership (12)	1,633,333	75,603	23,564	1,633,333	3,365,833	690,113	2,675,720	4.9	%	
Ironman PI Fund II (QP), L.P. (13)	991,666	574,824	74,750	1,666,666	3,307,096	698,275	2,609,631	4.8	%	
Cranshire Capital Master Fund, Ltd. (14)	125,000	125,000	26,804	500,000	776,804	211,258	565,546	1	%	
Kingsbrook Opportunities Master Fund LP (15)	166,666	—	38,108	666,666	871,440	279,310	592,130	1.1	%	

(1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of Company Common Stock over which such person has voting or investment power and of which such person has the right to acquire beneficial ownership within 60 days of the date hereof. The table includes shares owned by

spouses, other immediate family members, in trust, shares held in retirement accounts or funds for the benefit of the named individuals, shares held as restricted stock and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power.

(2) The 10% Preferred Stock has a ten percent annual dividend, payable quarterly in cash or, subject to certain conditions, in shares of Common Stock. The table includes the maximum number of shares of Common Stock that may be issued in payment of these dividends within six months after March 31, 2013. The actual number of shares which may be issued in payment of dividends will depend, in part, on the value of our Common Stock, and whether we have satisfied certain conditions for the payment of dividends with shares of our Common Stock, as of the respective dividend payment dates.

(3) In connection with the private placement of preferred stock and warrants, the Company also granted the investors the right, exercisable at any time before March 31, 2013, to make an additional purchase of up to 1/3 of the number of shares of preferred stock and warrants purchased in the private placement, on the same terms and conditions as the original investments. All investors have exercised their additional investment rights to purchase a total of 273.9 units, each unit consisting of one share of 10% Preferred Stock and one warrant to purchase 25,000 shares of Common Stock. The shares of Common Stock which may be acquired by the selling security holders upon conversion of such shares of preferred stock or exercise of such warrants are not being registered for resale under this prospectus.

(4) Under the terms of the preferred stock and warrants issued in connection with the private placement, a selling security holder may not convert the preferred stock or exercise such warrants to the extent (but only to the extent) such selling security holder or any of its affiliates would beneficially own more than 4.99% of our Common Stock unless such selling security holder provides no less than 61 days prior notice to us of its election to increase the limitation on beneficial ownership. For purposes of the table above, we have disregarded these limitations.

(5) Assumes that all shares of Common Stock registered for resale by this prospectus have been sold.

(6) Stewart R. Flink possesses voting power and investment power over all securities included in this table which are held by Next View Capital LP.

(7) Ross G. Kaminsky possesses voting power and investment power over all securities included in this table which are held by Objective Investments LLC.

(8) Associated Private Equity LLC transferred the following securities to Chadds Ford LCC: (i) five shares of 10% Convertible Preferred Stock which are convertible into 125,000 shares of Common Stock; (ii) a warrant to purchase 125,000 shares of Common Stock; (iii) 1,183 shares of Common Stock; and (vi) the right, exercisable at any time before March 31, 2013, to make an additional purchase of up to 1.6666 units, each unit consisting of one share of 10% Convertible Preferred Stock and a warrant to purchase 25,000 shares of Common Stock. The table above has been updated to include the shares beneficially owned by Chadds Ford LLC and reduce the number of shares beneficially owned by Associated Private Equity LLC. Neil Braverman, a member of our Board of Directors, possesses voting power and investment power over all securities included in this table which are held by Associated Private Equity LLC. Jeanne Braverman possesses voting power and investment power over all securities included in this table which are held by Chadds Ford LLC. Ms. Braverman is the spouse of Mr. Neil Braverman, a member of our Board of Directors.

(9) TS World Development Master Fund Ltd transferred the following securities: (i) to Thomas A. Schmitt & Nancy T. Schmitt Jt. Ten - four shares of 10% Convertible Preferred Stock which are convertible into 100,000 shares of Common Stock; a warrant to purchase 100,000 shares of Common Stock; and the right, exercisable at any time

before March 31, 2013, to make an additional purchase of up to 1.33 units, each unit consisting of one share of 10% Convertible Preferred Stock and a warrant to purchase 25,000 shares of Common Stock; (ii) to Todd Benson - one share of 10% Convertible Preferred Stock which is convertible into 25,000 shares of Common Stock; a warrant to purchase 25,000 shares of Common Stock; and the right, exercisable at any time before March 31, 2013, to make an additional purchase of up to .33 units, each unit consisting of one share of 10% Convertible Preferred Stock and a warrant to purchase 25,000 shares of Common Stock; (iii) to David H. Williams IRA - four shares of 10% Convertible Preferred Stock which are convertible into 100,000 shares of Common Stock; a warrant to purchase 100,000 shares of Common Stock; and the right, exercisable at any time before March 31, 2013, to make an additional purchase of up to 1.33 units, each unit consisting of one share of 10% Convertible Preferred Stock and a warrant to purchase 25,000 shares of Common Stock; (iv) to David H. Williams - ten shares of 10% Convertible Preferred Stock which are convertible into 250,000 shares of Common Stock; a warrant to purchase 250,000 shares of Common Stock; and the right, exercisable at any time before March 31, 2013, to make an additional purchase of up to 3.33 units, each unit consisting of one share of 10% Convertible Preferred Stock and a warrant to purchase 25,000 shares of Common Stock; and (v) to Mark D. Wyckoff - one share of 10% Convertible Preferred Stock which is convertible into 25,000 shares of Common

Stock; a warrant to purchase 25,000 shares of Common Stock; and the right, exercisable at any time before March 31, 2013, to make an additional purchase of up to .33 units, each unit consisting of one share of 10% Convertible Preferred Stock and a warrant to purchase 25,000 shares of Common Stock. The table above has been updated to include the shares beneficially owned by the transferees named in the foregoing sentence and reduce the number of shares beneficially owned by TS World Development Master Fund Ltd. Thomas A. Schmitt possesses voting power and investment power over all securities included in this table which are held by TS World Development Master Fund Ltd. David H. Williams possesses voting power and investment power over all securities included in this table which are held by David H. Williams IRA.

(10) John Ziegelman possesses voting power and investment power over all securities included in this table which are held by Carpe Diem Opportunity Fund LP.

(11) Irv Kessler possesses voting power and investment power over all securities included in this table which are held by Provident Premier Master Fund Ltd., and John Ziegelman is authorized trading agent.

(12) On May 15, 2012, each of SMC Select Co-Investment Fund I, LP, SMC Reserve Fund II, LP, SMC Reserve Fund II Offshore, LP and SMC Employees Partnership provided notice to us of its election to increase the limitation on beneficial ownership under the terms of the preferred stock and the warrants issued in connection with the private placement to 100% of our common stock. John L. Steffens and Gregory P. Ho possess voting power and investment power over all securities included in this table which are held by each of SMC Select Co-Investment Fund I, LP, SMC Reserve Fund II, LP, SMC Reserve Fund II Offshore, LP and SMC Employees Partnership.

(13) G. Bryan Dutt possesses voting power and investment power over all securities included in this table which are held by Ironman PI Fund II (QP), L.P.

(14) Cranshire Capital Advisors, LLC (“CCA”) is the investment manager of Cranshire Capital Master Fund, Ltd. (“Cranshire Master Fund”) and has voting control and investment discretion over securities held by Cranshire Master Fund. Mitchell P. Kopin, the president, the sole member and the sole member of the Board of Managers of CCA, has voting control over CCA.

(15) Kingsbrook Partners LP (“Kingsbrook Partners”) is the investment manager of Kingsbrook Opportunities Master Fund LP (“Kingsbrook Opportunities”) and consequently has voting control and investment discretion over securities held by Kingsbrook Opportunities. Kingsbrook Opportunities GP LLC (“Opportunities GP”) is the general partner of Kingsbrook Opportunities and may be considered the beneficial owner of any securities deemed to be beneficially owned by Kingsbrook Partners. Ari J. Storch, Adam J. Chill and Scott M. Wallace are the sole managing members of Opportunities GP and GP LLC and as a result may be considered beneficial owners of any securities deemed beneficially owned by Opportunities GP and GP LLC. Messrs. Storch, Chill and Wallace possess voting power and investment power over all securities included in this table which are held by each of Kingsbrook Opportunities. Each of Kingsbrook Partners, Opportunities GP, GP LLC and Messrs. Storch, Chill and Wallace disclaim beneficial ownership of these securities.

Except as set forth below under “Board Representation of Certain Selling Security Holders” and other than with respect to acquisition of the securities from us, none of the selling security holders has, or within the past three years has had, any position, office, or other material relationship with us.

#### Board Representation of Certain Selling Security Holders

The Certificate of Designation establishing the preferences and other special rights of our 10% Convertible Preferred Stock provides that the holders of such preferred stock, voting as a separate class, are entitled to elect three members of our Board of Directors. Pursuant to a voting agreement entered into on April 30, 2012 by the purchasers of such preferred stock on April 30, 2012, (a) Spring Mountain Capital (“Spring Mountain”) has a contractual right to designate two members of our Board of Directors for as long as selling security holders affiliated with Spring Mountain own



any shares of such preferred stock; and (b) Associated Private Equity, LLC (“Associated”) has a contractual right to designate one member of our Board of Directors for as long as selling security holders affiliated with Associated own any shares of such preferred stock. In connection with these rights, Spring Mountain designated Dr. Aviel Faliks and Mr. Jamie Weston, and Associated designated Neil Braverman to serve on our Board of Directors, and each was appointed a director of the Company effective April 30, 2012.

#### PLAN OF DISTRIBUTION

Each selling security holder and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their securities covered hereby on the OTC Markets Group's OTCQB or any other stock exchange, market or trading

facility on which the securities are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling security holder may use any one or more of the following methods when selling securities:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker dealer will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- in transactions through broker dealers that agree with the selling security holders to sell a specified number of such securities at a stipulated price per security;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling security holders may also sell securities under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus.

Broker dealers engaged by the selling security holders may arrange for other brokers dealers to participate in sales. Broker dealers may receive commissions or discounts from the selling security holders (or, if any broker dealer acts as agent for the purchaser of securities, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this Prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the securities or interests therein, the selling security holders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the securities in the course of hedging the positions they assume. The selling security holders may also sell securities short and deliver these securities to close out their short positions, or loan or pledge the securities to broker-dealers that in turn may sell these securities. The selling security holders may also enter into option or other transactions with broker-dealers or other financial institutions or create one or more derivative securities which require the delivery to such broker-dealer or other financial institution of securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling security holders and any broker-dealers or agents that are involved in selling the securities may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling security holder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the securities. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the securities. The Company has agreed to indemnify the selling security holders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling security holders may be deemed to be “underwriters” within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. The selling security holders have advised us that there is no underwriter or coordinating broker acting in connection with the proposed sale of the resale securities by the selling security holders.

We agreed to keep this registration effective until the earlier of (i) the date on which the securities may be resold by the selling security holders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for the Company to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect or (ii) the date when all of the securities have been sold pursuant to this prospectus or pursuant

to Rule 144 under the Securities Act or any other rule of similar effect. The resale securities will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale securities covered hereby may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with. Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale securities may not simultaneously engage in market making activities with respect to the Common Stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling security holders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of the Common Stock by the selling security holders or any other person. We will make copies of this prospectus available to the selling security holders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

## DESCRIPTION OF BUSINESS

### General

Effective August 1, 2012, our company changed its name from GreenMan Technologies, Inc. to American Power Group Corporation. The trading symbol for our Common Stock on the OTCQB also changed from "GMTI" to "APGI." American Power Group (together with its subsidiaries we, "us" or our") was originally founded in 1992 and has operated as a Delaware corporation since 1995. Prior to August 1, 2011, American Power Group was comprised of two business segments, the dual fuel conversion operations (American Power Group) and the molded recycled rubber products operations (Green Tech Products). As described below, our business changed substantially in August 2011, when we sold substantially all of the assets of our molded recycled rubber products operations.

### Recent Developments

#### Distributor Agreement

In November 2012, we signed a National Distributor and Master Marketing Agreement with WheelTime Network LLC, a truck service network with 18 member companies providing installation and warranty support through nearly 200 service centers, 2,800 service bays, 3,000 factory-trained technicians and 30 training facilities located across the United States and Canada. Under the agreement, WheelTime will endorse APG's technology to its 18 member companies and encourage each member to become an exclusive certified installer and authorized dealer of APG's Vehicular Turbocharged Natural Gas Systems. As of April 11, 2013, 17 of the 18 of WheelTime's member companies have agreed to become installers and dealers of our equipment. We believe that this relationship provides us the opportunity to accelerate the national rollout of our vehicular dual fuel through access to a large national network of qualified diesel engine personnel as well as testing/installation equipment.

In addition, we issued WheelTime a warrant to purchase 1,540,000 shares of our Common Stock at an exercise price of \$.55 per share. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer and service agreement by each of the 18 members during the first year after the original issue date of the Warrant. An additional 30,000 warrants become exercisable if a member agrees to become an exclusive dealer. The Warrant will expire on December 31, 2017.

### Financing Arrangements

In April 2012, we completed the following actions.

#### Private Placement

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, which we refer to in this prospectus as 10% Preferred Stock, and one warrant to purchase 25,000 shares of Common Stock.

The 10% Preferred Stock has a ten percent annual dividend, payable quarterly in shares of Common Stock, provided that if we fail to meet certain conditions set forth in the Certificate of Designations we may be required to pay such dividends in cash. As of the date of issuance, each share of 10% 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 is 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 conversion price of the 10% Preferred Stock. In addition to the conversion right described above, we may require the holders of the 10% 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% 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 into Common Stock basis. The holders of 10% Preferred Stock voting as a separate class are entitled to elect three members of the Board of Directors. In connection with the exercise of that right, Dr. Allen Kahn and Thomas Galvin resigned from the Board of Directors following the completion of the private placement and the Board of Directors appointed Neil Braverman, Dr. Aviel Falijs and Jamie Weston as directors. The number of directors elected by the holders of our Common Stock, voting as a separate class, was reduced from four to three effective March 31, 2013. Kevin Tierney, Sr. resigned from the Board

of Directors on January 10, 2013 in anticipation of that change. The holders of the 10% 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% Preferred Stock. In addition, the approval of the holders of at least 67% of the outstanding 10% Preferred Stock will be required before we may take certain actions.

The holders of the 10% 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% Preferred Stock are entitled to be paid out of the assets of the company an amount equal the stated value of the 10% Preferred Stock, which is initially \$10,000 per share, plus any accrued, but unpaid, dividends.

In addition, in the event we fail to take certain actions regarding the registration of the Common Stock issuable upon conversion of the 10% Preferred Stock or we take certain other actions affecting the 10% Preferred Stock, the holders of the 10% Preferred Stock may require us to redeem such preferred stock at a price to be determined at the time of redemption in accordance with the terms of the 10% Preferred Stock.

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% 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.

In connection with the private placement, we granted the investors the right, exercisable at any time before March 31, 2013, to invest up to \$2.7 million to buy additional units under the same terms described above. As of March 31, 2013, all investors have exercised their additional investment rights to purchase a total of 273.9 units, each unit consisting of one share of 10% Preferred Stock and one warrant to purchase 25,000 shares of Common Stock, for gross proceeds of \$2,739,000. The shares of Common Stock underlying these securities are not being registered for resale under this prospectus. Of the \$8,216,000 in gross proceeds from the private placement, not including the gross proceeds received upon the exercise of the additional investment rights, our net proceeds after fees and expenses were approximately \$7,500,000. We used approximately \$495,000 of the net proceeds to retire short term debt and intend to use the balance to advance our dual fuel technologies business.

In connection with the private placement, we entered into a registration rights agreement with the holders of the 10% Preferred Stock. Pursuant to the registration rights agreement, we were required to file a registration statement with the Securities and Exchange Commission on or before May 30, 2012, to register for resale the shares of Common Stock issuable upon the conversion of the 10% Preferred Stock and upon the exercise of the warrants and to use commercially reasonable best efforts to cause the registration statement to be declared effective. The registration rights agreement requires that we pay to each investor liquidated damages equal to two percent of the amount invested by such investor in the private placement in the event we fail take certain actions affecting the registration of the shares of Common Stock or the ability of the investors to sell shares of Common Stock pursuant to Rule 144 of the Securities Act of 1933, as amended. This prospectus is a part of the registration statement we filed pursuant to the registration rights agreement.

In connection with the private placement, we entered into a voting agreement with the holders of the 10% Preferred Stock. Pursuant to the voting agreement, the investors have agreed to vote their shares of 10% Preferred Stock to elect: (a) two individuals to the Board of Directors designated by Spring Mountain Capital, for as long as Spring Mountain Capital or its affiliates owns shares of 10% Preferred Stock; and (b) one individual to the Board of Directors designated by Associated Private Equity LLC, for as long as Associated Private Equity LLC or its affiliates owns shares of 10% Preferred Stock.

#### Amendments to Certain Related Party Promissory Notes

On April 27, 2012, we entered into amendments to promissory notes in the aggregate principal amount of \$473,500 held by Charles Coppa, our Chief Financial Officer; Lyle Jensen, a member of our Board of Directors and our President and Chief Executive Officer; and Dr. Allen Kahn, who was then a member of our Board of Directors. These amendments reduced the interest rates of the promissory notes to 8% per annum and extended the maturity dates of the notes to April 30, 2014.

#### Amendment to Patent License and Note

On April 27, 2012, we entered into an amendment to the exclusive patent license agreement dated June 17, 2009, under which we license certain dual fuel technology from M & R Development, Inc. 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 will be the lesser of 10% of net sales or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be due if cumulative EBITDA is less than zero. M&R also agreed to waive any prior defaults under the license. In addition, we amended the amended and restated promissory note issued to American Power Group by M&R on December 1, 2009 to extend the maturity of the note until February 15, 2015 and to defer all interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest.

Extension of Iowa State Credit Facility

On April 25, 2012, Iowa State Bank agreed to extend the maturity of American Power Group's working capital line of credit to April 25, 2013 and increased the borrowing limits under the facility to \$2.25 million. On December 12, 2012, Iowa State Bank



agreed to further extend the maturity of American Power Group's working capital line of credit to December 31, 2013. The other terms and conditions of the credit facility remain unchanged.

#### Convertible Debenture Conversions

As a condition to the closing of the private placement on April 30, 2012, the investors required that outstanding convertible promissory notes be converted into shares of Common Stock effective as of and immediately prior to the closing. At or prior to the closing, holders of convertible promissory notes in the aggregate principal amount of \$2,985,000 converted such principal, together with interest accrued thereon, into approximately 6,842,955 shares of Common Stock.

#### Divestiture of Molded Rubber Products Business

In March 2011, we announced our intention to divest our Green Tech Products business and to devote all of our corporate resources to American Power Group's dual fuel conversion business. In July 2011, our shareholders approved the sale of substantially all of Green Tech Products' assets, subject to substantially all of its liabilities, to Irish Knight Holdings, L.L.C., a company co-owned by two of Green Tech Products' senior managers. We completed the sale on August 1, 2011, for consideration consisting of (i) the assumption of substantially all of Green Tech Products' liabilities, which were approximately \$1.2 million, (ii) a \$50,000 stock inventory credit toward the purchase of products and services from the buyer, which credit may be applied during the first nine months after completion of the sale; and (iii) a promissory note in the principal amount of \$100,000 which is payable in increasing monthly installments over a period of 60 months.

In March 2012, Irish Knight Holdings agreed, in consideration of a \$25,000 reduction in the stock inventory credit and a \$38,000 reduction in the then outstanding balance of the promissory note, to pay us a total of \$80,000 by December 31, 2012 in full satisfaction of the inventory credit and note. The note was paid off in December 2012.

#### U.S. Vehicular Rollout Initiative

In April 2011, the Environmental Protection Agency announced it had amended its alternative fuel conversion regulations for light, medium and heavy-duty vehicles. Under the new regulations, testing and compliance procedures differ based on the age category of the vehicle or engine that is being converted: (1) new or relatively new; (2) intermediate age ("IUL"), or (3) outside useful life ("OUL"). All conversion manufacturers seeking exemption must demonstrate compliance, but the requirements differ among age categories.

In September 2011, we were notified by the EPA that our first submission under the new regulations had been approved and as of April 11, 2013 we have successfully obtained 110 EPA approvals for various OUL vehicular families.

#### Products and Services

Our American Power Group's 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.

The proprietary technology seamlessly displaces 40% to 70% of the normal diesel fuel consumption with various forms of natural gas and the energized fuel balance between the two fuels is maintained with a patented control system ensuring the engines operate 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 20% to 35%;
- Reduce toxic emissions such as nitrogen oxide (NOX), carbon monoxide (CO) and fine particulate emissions; and
- Enhance the engine's operating life, since natural gas is a cleaner burning fuel source.

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

#### 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 installer which completes 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 & gas drilling rigs, shale gas recovery pumps, hospitals, cold storage warehouses, data management centers, government and manufacturing facilities and maritime applications. Vehicular applications include corporate and private route fleets, refuse haulers, public transit, government vehicles, and school buses.

The EPA 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. 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) international; (2) domestic stationary; and (3) domestic vehicular. To address these markets, we have put in place a sales organization consisting of direct sales, exclusive dealers/certified installers, sales representatives, and in-country international distributors, which in most instances are large, well-known companies. We currently have three domestic exclusive dealers/certified installers, and exclusive distributors in six countries that market and distribute our products. We are continuously seeking additional international and domestic distribution partners to expand our distribution network.

#### 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 are cost prohibitive. Under 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 alternative fuel solutions available to existing diesel engine operators are:

• **New Engines** - replace existing diesel engines with new 100% dedicated natural gas burning engines. This is usually a more expensive solution and available in only new engines.

Invasive retrofits - an existing diesel engine can be converted to run exclusively on natural gas or some other type of fuel such as propane. The invasive solution tends to be a higher priced solution than dual fuel because the engine must be totally disassembled and re-configured to run exclusive on the new fuel.

• Non-Invasive retrofits - are solutions, similar to ours where no major changes to the existing diesel engine are required.

Our solution uses software to manage the introduction of natural gas under negative pressure to the engine's turbo charger, thus eliminating the need for costly and maintenance-prone fuel injectors and therefore making our solution more cost effective than others. In addition, our solution has a more universal design than others and therefore is applicable to a wider range of engine

models and sizes than our competitor's solutions currently are. Today, our primary focus is on upgrading 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 issues. All domestic dual fuel conversion systems are subject to the rules of the EPA, with the primary requirement being 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 the unique nature of our dual fuel technology and the fact our primary initial target market is older, out-of-warranty diesel vehicles, we had to 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 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 expand 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. Previously, EPA regulations 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 regulations, testing and compliance procedures differ based on the age category of the vehicle or engine that is being converted: (1) new or relatively new; (2) intermediate age ("IUL"), or (3) outside useful life ("OUL"). All conversion manufacturers seeking exemption must demonstrate compliance, but the requirements differ among age categories. Our initial focus has been on obtaining approval for vehicle families within the OUL category, as we believe the testing requirements are less stringent than those for IUL category.

In September 2011, we were notified by the EPA that our first OUL submission under the new regulations had been approved and as of April 11, 2013 we have successfully obtained 110 EPA approvals for various OUL vehicular engine families.

In addition to our operations in the United States, we currently have in-country distributors in Africa, Australia, Canada are looking 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. We typically use our in-country distributors as a resource to identify the appropriate governing body and applicable regulations surrounding the use of our dual fuel conversion technology.

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 changed or new regulations for immediate 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, 2012, we had 14 full time employees and 2 part-time employees. We are not a party to any collective bargaining agreements and consider the relationship with our employees to be satisfactory.

## DESCRIPTION OF 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 October 1, 2010, we signed a one year lease with M&R with monthly rental payments of \$8,914 on a triple net basis. On October 1, 2011, we executed a new two year lease agreement requiring monthly rental payments of \$10,000 on a triple net basis. On May 1, 2012, we executed a new 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. We have the option to renew this lease for an additional two year term at a mutually agreed upon rate.

We consider our properties in good condition, well maintained and generally suitable to carry on our business activities for the foreseeable future.

## LEGAL PROCEEDINGS

We are subject to routine claims from time to time in the ordinary course of our business. We do not believe that the resolution of any of the claims that are currently known to us will have a material adverse effect on our company or on our financial statements.

## MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock has traded on the OTC Market Group's OTCQB tier under the symbol “GMTI” from February 2011 until August 2012. Prior to that time our stock was traded on the OTC Bulletin Board. On August 1, 2012, we changed our name to American Power Group Corporation and begin trading under the symbol "APGI" on August 7, 2012. 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 2011		
Quarter Ended December 31, 2010	\$0.61	\$0.40
Quarter Ended March 31, 2011	0.60	0.39
Quarter Ended June 30, 2011	0.89	0.55
Quarter Ending September 30, 2011	0.89	0.70
Fiscal 2012		
Quarter Ended December 31, 2011	\$0.79	\$0.48
Quarter Ended March 31, 2012	0.84	0.45
Quarter Ended June 30, 2012	0.78	0.58
Quarter Ending September 30, 2012	0.85	0.47
Fiscal 2013		
Quarter Ended December 31, 2012	\$0.66	\$0.49
Quarter Ending March 31, 2013	0.78	0.65
Quarter Ending June 30, 2013 (through April 10, 2013)	0.64	0.59

On March 31, 2013, the closing price of our Common Stock was \$0.68 per share.

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As of March 31, 2013, we estimate the approximate number of stockholders of record of our Common Stock to be 1,300. 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 in the foreseeable future. Our 10% Convertible Preferred Stock has a 10% annual dividend, payable quarterly in cash or in shares of Common Stock. The terms of the 10% Convertible Preferred Stock restrict our ability to pay dividends on our Common Stock if the dividends due on the 10% Convertible Preferred Stock are unpaid.

Equity Compensation Plan Information

The table below sets forth certain information as of September 30, 2012 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)	4,062,000	\$0.36	1,675,000
Equity compensation plans not approved by stockholders (2)	12,000	1.19	--
	4,074,000		1,675,000

(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 1993 Plan and the 2005 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 (the 1996 Non-Employee Director Plan).

## DIVIDEND POLICY

We have never declared or paid any cash dividends on our Common Stock and we do not anticipate paying any cash dividends in the foreseeable future on our Common Stock. The payment of dividends on Common Stock, if any, in the future is within the discretion of our Board of Directors and will depend on our earnings, capital requirements and financial condition and other relevant facts.

Our 10% Convertible Preferred Stock has a 10% annual dividend, payable quarterly in cash or in shares of Common Stock. The terms of the 10% Convertible Preferred Stock restrict our ability to pay dividends on our Common Stock if the dividends due on the 10% Convertible Preferred Stock are unpaid. Other than the payment of cash dividends as provided under the terms of our 10% Convertible Preferred Stock, we currently intend to retain all future earnings, if any, to finance the development and growth of our business.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes included in this prospectus.

### Introduction

Our business changed in August 2011, when we sold substantially all of the assets of our Green Tech Products, Inc. molded recycled rubber products operations. Green Tech Products' assets, liabilities and results of operations are classified as discontinued operations for all periods presented for the fiscal years ended September 30, 2012 and 2011.

### Results of Operations

Three months ended December 31, 2012 Compared to the Three Months ended December 31, 2011

Net sales from continuing operations for the three months ended December 31, 2012 increased \$478,936 or 121% to \$874,953 as compared to net sales of \$396,017 for the three months ended December 31, 2011. The increase is primarily attributable to stronger domestic vehicular revenues resulting from our ability to actively solicit customer orders due to the increased number of vehicular EPA approvals received to date. Vehicular revenues for the three months ended December 31, 2012 were approximately \$475,000 as compared to zero during the three months ended December 31, 2011.

During the three months ended December 31, 2012, our gross profit was \$300,549 or 34% of net sales as compared to a negative gross profit of \$9,278 of net sales for the three months ended December 31, 2011. The increase, during the three months ended December 31, 2012 was attributable to higher revenue and lower overhead costs.

Selling, general and administrative expenses for the three months ended December 31, 2012 increased \$160,137 or 22% to \$882,882 as compared to \$722,745 for the three months ended December 31, 2011. The increase was primarily attributable to increased sales and marketing costs as well as an increased number of employees.

Research and development costs were \$0 and \$37,338 for the three months ended December 31, 2012 and 2011, respectively, as we completed our internal research and development projects relating to the technical feasibility of our new electronic control unit operating software during the fiscal year ended September 30, 2011.

During the three months ended December 31, 2012, interest and financing expense decreased \$314,172 or 89% to \$40,591 as compared to \$354,763 for the three months ended December 31, 2011. The increase was primarily attributable due to the elimination of certain financing costs and reduced borrowings resulting from the conversion of all convertible debentures during the first half of fiscal 2012.

Our net loss for the three months ended December 31, 2012 decreased \$503,807 or 44% to \$639,786 or (\$0.01) per basic share for the three months ended December 31, 2012 as compared to a net loss of \$1,143,593 or (\$0.03) per basic share for the three months ended December 31, 2011. The calculation of net loss per share available to Common shareholders of (\$0.02) for the three months ended December 31, 2012 reflects the inclusion of a \$212,704 10% Convertible Preferred Stock quarterly dividend associated with the issuance of the 10% Convertible Preferred Stock on April 30, 2012.

Fiscal Year ended September 30, 2012 Compared to Fiscal Year ended September 30, 2011

Net sales from continuing operations for the fiscal year ended September 30, 2012 increased \$866,236 or 49% to \$2,633,880 as compared to net sales of \$1,767,644 for the fiscal year ended September 30, 2011. The increase was primarily attributable to stronger domestic stationary revenue, especially those relating to oil and gas drilling market which were approximately \$1.9 million during the fiscal year ended September 30, 2012 as compared to approximately \$380,000 during the fiscal year ended September

30, 2011. We also experienced stronger international stationary and vehicular dual fuel revenues during the fiscal year ended September 30, 2012.

During the fiscal year ended September 30, 2012, our gross profit was \$698,113 or 27% of net sales as compared to a negative gross profit of \$65,398 for the fiscal year ended September 30, 2011. The increase is attributable to higher revenue and lower manufacturing overhead costs during the fiscal year ended September 30, 2012.

Selling, general and administrative expenses for the fiscal year ended September 30, 2012 decreased \$539,812 or 16% to \$2,927,282 as compared to \$3,467,094 for the fiscal year ended September 30, 2011. The decrease was primarily attributable to lower selling and professional expenses during the fiscal year ended September 30, 2012.

During the fiscal year ended September 30, 2011, we recorded an impairment loss of \$149,600 associated with a long term deposit for the distribution rights to a tire to energy technology which was not completed.

Research and development costs were \$0 and \$1,322,021 for the fiscal years ended September 30, 2012 and 2011 as we completed our internal research and development projects relating to the technical feasibility of our new electronic control unit operating software during the fiscal year ended September 30, 2011.

During the fiscal year ended September 30, 2012, interest and financing expense increased \$792,577 to \$1,612,052 as compared to \$819,475 for the fiscal year ended September 30, 2011. The increase was primarily attributable to increased borrowings and the accelerated amortization of debt discounts and financing costs of approximately \$1.25 million. In addition, we recorded a non-cash incentive conversion expense of \$582,143 during the fiscal year ended September 30, 2012 associated with the repricing of certain convertible debentures.

During the fiscal year ended September 30, 2011, we recognized a net income tax benefit of \$321,519 associated with refundable federal and state income taxes.

Our net loss from continuing operations decreased \$1,140,516 to \$4,497,165 for the fiscal year ended September 30, 2012 as compared to a net loss of \$5,637,681 for the fiscal year ended September 30, 2011.

The loss from discontinued operations for the fiscal year ended September 30, 2012 and 2011 of \$63,085 and \$1,175,939, relates to the net results of our molded rubber products operations which were sold in August 2011.

Our net loss for the fiscal year ended September 30, 2012 was \$4,560,250 or \$(0.11) per basic share as compared to a net loss of \$6,813,620 or \$(0.19) per basic share for the fiscal year ended September 30, 2011. The calculation of net loss per share attributable to Common shareholders of \$(0.37) for the fiscal year ended September 30, 2012 reflects the inclusion of \$358,460 of 10% Convertible Preferred Stock dividends paid and a beneficial conversion feature of \$9,748,127 associated with the issuance of the 10% Convertible Preferred Stock on April 30, 2012.

#### Liquidity and Capital Resources

As of December 31, 2012 and September 30, 2012, we had \$3,234,188 and \$4,723,485, respectively, in cash, cash equivalents and restricted certificates of deposit. As of December 31, 2012 and September 30, 2012, we had working capital of \$1,747,028 and \$4,525,197, respectively. As of September 30, 2012 and December 31, 2012, under the terms of our working capital line, we had sufficient collateral to borrow and additional \$25,000 and \$305,000 above the then outstanding balance. Based on our fiscal 2013 operating budget, cash on hand at December 31, 2012 and anticipated availability under our bank working capital line, we believe we will be able to satisfy our cash requirements through at least December 2013 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 American Power Group is 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 three months ended December 31, 2012 and 2011, and for the fiscal years ended September 30, 2012 and 2011, as they affect our liquidity. During the three months ended December 31, 2012, net cash used in operating activities was \$591,215. Our net loss for the three months ended December 31, 2012 was \$639,786, while our cash flow was positively impacted by the following non-cash expenses and changes to our working capital: \$195,188 of depreciation, amortization, warrants and stock options and an increase of \$321,291 in accounts payable and accrued expenses. During three months ended December 31, 2011, net cash used in operating activities was \$658,797. Our net loss for the three months ended December 31, 2011 was

\$1,143,593, while our cash flow was positively impacted by the following non-cash expenses and changes to our working capital: \$298,176 of depreciation, amortization, stock options and deferred financing costs and a decrease of \$96,732 in accounts receivable, inventories and other current assets. This was offset by a decrease of \$145,526 in accrued expenses.

During the fiscal year ended September 30, 2012, net cash used by operations was \$2,216,086. Our net loss for the fiscal year ended September 30, 2012 was \$4,560,250 with our cash flow being positively impacted by the following non- cash expenses and

changes to our working capital: \$2,281,608 of depreciation, stock compensation expense and amortization. During the fiscal year ended September 30, 2011, net cash used in operating activities was \$4,130,403. Our net loss for the fiscal year ended September 30, 2011 was \$6,813,620 (including a non-cash impairment loss of \$598,479, including an inventory valuation allowance of \$175,229) while our cash flow was positively impacted by the following additional non-cash expenses: \$1,120,467 of depreciation, amortization, stock compensation expense and deferred financing costs.

Net cash used in investing activities was \$882,958 for the three months ended December 31, 2012, reflecting the capitalization of \$467,468 of costs associated with our dual fuel electronic control unit engine family software applications and the purchase of \$415,472 of property, plant and equipment. There were no cash flows relating to investing activities during the three months ended December 31, 2011.

Net cash used in investing activities was \$1,451,497 for the fiscal year ended September 30, 2012 reflecting the capitalized costs associated with our dual fuel electronic control unit engine family software applications. Net cash provided by investing activities for the fiscal year ended September 30, 2011 was \$583,705, reflecting the maturing of several certificates of deposit which offset the purchase of machinery and equipment.

Net cash used in financing activities was \$15,124 during the three months ended December 31, 2012, reflecting the payment of cash dividends on the 10% Convertible Preferred Stock and normal debt payments. Net cash provided by financing activities was \$608,176 during the three months ended December 31, 2011, reflecting the proceeds of \$507,000 of new convertible notes payable plus \$156,000 of proceeds from related parties which offset normal debt payments.

Net cash provided by financing activities was \$7,937,411 for the fiscal year ended September 30, 2012 reflecting the net proceeds of \$7,410,343 from the sale of our 10% Convertible Preferred Stock, \$1,185,000 of new convertible debentures and \$436,000 of notes payable proceeds. Net cash provided by financing activities was \$3,406,805 during the fiscal year ended September 30, 2011, reflecting the proceeds of approximately \$2.2 million of new notes payable and \$2.2 million of convertible notes payable and normal debt payments.

#### Effects of Inflation and Changing Prices

Generally, we are exposed to the effects of inflation and changing prices. Given that our dual fuel conversion technology replaces a certain percentage of diesel fuel with natural gas, we would be impacted by any material change in the net fuel savings between the two fuels (such as a decrease in diesel fuel prices and an increase in natural gas prices). We have generally been unaffected by interest rate changes in the three months ended December 31, 2012 and 2011, because we no longer 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 8 to our Audited Consolidated Financial Statements included in this prospectus.

#### 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 an 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 installation services in both the stationary and vehicular applications. We recognize the revenue associated with the dual fuel conversion equipment based on its relative fair value as determined when sold separately when title and risk passes to our customer and recognize the service revenue when the service is complete using parameters specified in the first paragraph of this Revenue Recognition Policy.

#### Recent Accounting Pronouncements

ASU 2011-11, Balance Sheet (Topic 210):  
Disclosures about Offsetting Assets and  
Liabilities

This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. The requirements are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. We are currently evaluating the prospective effects, if any, of adopting this guidance. This ASU gives an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets other than goodwill. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. We are currently evaluating the prospective effects, if any, of adopting this guidance. This ASU makes certain incremental improvements to U.S. GAAP, including, among other revisions, conforming amendments that identify when the use of fair value should be linked to the definition of fair value in ASC 820. The majority of the amendments in ASU 2012-04 were effective upon issuance on October 1, 2012, for both public entities and nonpublic entities. For public entities, the more substantive amendments that are subject to transition guidance are effective for fiscal years beginning after December 15, 2012. We are currently evaluating the prospective effects, if any, of adopting this guidance.

ASU 2012-02, Intangibles-Goodwill and Other  
(Topic 350): Testing Indefinite-Lived  
Intangible Assets for Impairment

ASU 2012-04, Technical Corrections and  
Improvements



**DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS**

Our directors and executive officers are as follows:

Name	Age	Position
Maurice E. Needham	72	Chairman of the Board of Directors
Lyle Jensen	62	Chief Executive Officer; President; Director
Charles E. Coppa	49	Chief Financial Officer; Treasurer; Secretary
Lew F. Boyd	67	Director
Neil Braverman	73	Director
Dr. Aviel Faliks	38	Director
Jamie Weston	48	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 Common Stock currently have the right to elect four members of the Board of Directors, and the holders of the 10% Convertible Preferred Stock have the right to elect three members of the Board of Directors. On and after March 31, 2013, (i) the holders of the Common Stock, voting as a separate class, will have the right to elect three members of the Board of Directors and (ii) the holders of the Common Stock and the 10% Convertible Preferred Stock, voting together as a single class, will 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. Mr. Weston and Dr. Faliks have agreed to forgo their quarterly retainers.

We have established an Audit Committee consisting, effective February 5, 2013, of Mr. Weston (Chair) and Mr. Faliks, and a Compensation Committee consisting of Messrs. Boyd (Chair), Needham and, effective May 29, 2012, Messrs. 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 has also served as a Director of Comtel Holdings, an electronics contract manufacturer since April 1999. 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 17 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 eight 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 fifteen 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 16 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 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.

AVIEL FALIKS, Ph.D., has been a Director since April 30, 2012. Since April 2011, Dr. Faliks has served as Managing Director of Spring Mountain Capital, LP. From January 2009 to March 2011, he previously was a private investor, acquiring distressed consumer companies that were restructured, rebuilt, and sold to strategic investors. From May 2004 to December 2008 and prior to his private equity investment activities, Dr. Faliks was the co-founder and Managing Director of Apex Capital Management, a hedge fund based in New York and Hong Kong specializing in Greater China investments. He was previously CEO of AccuImage Diagnostic Corp. Dr. Faliks began his investment career at Bear Stearns' Strategic Structures and Transactions Group. He received a Ph.D. in Chemical Physics from Princeton University and graduated with a B.A. with honors in Applied Mathematics from Harvard College. The Board of Directors believes that Dr. Faliks' extensive business and financial 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.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table summarizes the compensation paid or accrued for services rendered during the fiscal years ended September 30, 2012 and 2011, 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, 2012 and 2011, respectively.

Name and Principal Position	Annual Compensation			Option Awards (1) (2)	All Other Compensation (3)	Total
	Fiscal Year	Salary	Bonus			
Lyle Jensen Chief Executive Officer	2012	\$250,000	\$—	\$9,000	\$25,679	\$284,679
	2011	250,000	—	4,800	\$20,353	275,153
Charles E. Coppa Chief Financial Officer	2012	\$161,500	\$—	\$9,000	\$25,544	\$196,044
	2011	161,500	—	\$22,000	\$17,165	\$200,665

Amounts shown do not reflect compensation actually received by the named executive officer. The amounts in the Option Awards column reflect the dollar amount recognized as compensation cost for financial statement reporting purposes for the fiscal years ended September 30, 2012 and September 30, 2011, in accordance with ASC 718 for all stock options granted in such fiscal years. The calculation in the table above excludes all assumptions with respect to forfeitures. There can be no assurance that the amounts set forth in the Option Awards column will ever be realized. A forfeiture rate of zero was used in the expense calculation in the financial statements.

(1) During fiscal year 2012 Messrs. Jensen and Coppa were each granted options to purchase 50,000 shares of Common Stock which vested immediately on the date of grant and have a ten year term. In fiscal year 2011, Mr. Jensen and Mr. Coppa were granted options to purchase 15,000 and 75,000 shares of Common Stock respectively, which vest immediately on the date of grant and have a ten-year term.

(2) Represents payments made to or on behalf of Messrs. Jensen and Coppa for health and life insurance and auto allowances.

## Employment Agreements

Mr. Jensen has a five-year employment agreement pursuant to which he receives a base salary to \$250,000 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.

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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 year 2012 or 2011.

Mr. Coppa has a two-year employment agreement pursuant to which he receives a base salary to \$161,500 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 year 2012 or 2011.

#### Outstanding Equity Awards

The following table sets forth information concerning outstanding stock options for each named executive officer as of September 30, 2012:

Name	Date of Grant	Number of Securities Underlying Unexercised Options		Exercise Price Per Share	Option Expiration Date
		Exercisable	Unexercisable		
Lyle Jensen	February 20, 2003 (1)	2,000	—	\$1.95	February 20, 2013
	April 24, 2004 (1)	2,000	—	\$1.10	April 24, 2014
	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)	60,000	40,000	\$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 E. 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)	60,000	40,000	\$0.35	November 18, 2018
	June 8, 2009 (2)	120,000	80,000	\$0.22	June 8, 2019
	March 4, 2010 (2)	40,000	60,000	\$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, 2012:

Name	Fees Earned or Paid in Cash or Common Stock (1)	Option Awards (2) (3)	All Other Compensation (4)	Total
Maury Needham	\$—	\$9,000	\$110,868	\$119,868
Lew Boyd	\$20,000	\$9,000	\$—	\$29,000
Kevin Tierney, Sr. (5)	\$20,000	\$—	\$—	\$20,000
Neil Braverman	\$8,333	\$16,900	\$15,000	\$40,233
Aviel Faliks	\$—	\$—	\$—	\$—
Jamie Weston	\$—	\$—	\$—	\$—
Thomas Galvin (5)	\$10,000	\$—	\$—	\$10,000
Dr. Allen Kahn (5)	\$5,000	\$—	\$—	\$5,000

All non-employee directors receive a quarterly board fee of \$5,000 per quarter with the exception of Dr. Faliks and (1) Mr. Weston who have agreed to forgo their quarterly retainers. Mr. Galvin and Dr. Kahn resigned from the Board on April 30, 2012. Mr. Tierney resigned from the Board of Directors on January 10, 2013.

Amounts shown do not reflect compensation actually received by the named director. The amounts in the Option Awards column reflect the dollar amount recognized as compensation cost for financial statement reporting (2) purposes for the fiscal year ended September 30, 2012, in accordance with ASC 718 for all stock options granted in such fiscal years. The calculation in the table above excludes all assumptions with respect to forfeitures. There can be no assurance that the amounts set forth in the Option Awards column will ever be realized. A forfeiture rate of 0% was used in the expense calculation in the financial statements.

During fiscal year 2012, Messrs. Needham and Boyd were each granted immediately vested options to purchase (3) 50,000 shares of common stock at an exercise price of \$.48 per share and have a ten-year term from date of grant. Mr. Braverman was granted options to purchase 50,000 shares at an exercise price of \$.60 per share which vest equally over a five-year term and have a ten-term from date of grant.

During fiscal year 2012, we paid Mr. Needham \$110,868 including \$92,000 of salary and \$18,868 relating to health, life insurance and auto allowance. In May 2012, the Board of Directors approved the issuance of 25,000 (4) shares of unregistered common stock as restricted stock awards to Mr. Braverman as future incentive, and recorded a \$15,000 expense (the assigned fair value based on the closing bid price) associated with the issuance of such shares. Mr. Braverman has agreed to hold the shares for a minimum of 12 months after the issuance.

(5) Mr. Galvin and Dr. Kahn resigned from the Board on April 30, 2012. Mr. Tierney resigned from the Board of Directors on January 10, 2013.



As of September 30, 2012, each Director who is not named executive officers for the fiscal year ended September 30, 2012 holds the following aggregate number of shares under outstanding stock options:

Name	Number of Shares Underlying Outstanding Stock Options
Maury Needham	850,000
Lew Boyd	346,000
Kevin Tierney	50,000
Neil Braverman	50,000
Aviel Faliks	—
Jamie Weston	—

### Stock Option Plans

Our 1993 Stock Option Plan (the “1993 Plan”) was established to provide options to purchase shares of common stock to our employees, officers, directors and consultants. The 1993 Plan expired on June 10, 2004 as it related to new grants. During the fiscal year ended September 30, 2012, the remaining 22,500 options outstanding under the 1993 plan expired unexercised.

On June 16, 2005, our shareholders approved the 2005 Stock Option Plan (the “2005 Plan”) and in March 2010 approved an increase to the number of shares authorized under the 2005 Plan from 3,500,000 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 year ended September 30, 2011, 280,000 options were granted under the 2005 Plan at exercise prices ranging from \$.24 to \$.32. As of September 30, 2011, there were 3,861,000 options granted and outstanding under the 2005 Plan which are exercisable at prices ranging from \$0.23 to \$0.80.

During the year ended September 30, 2012, 500,000 options were granted under the 2005 Plan at exercise prices ranging from \$.48 to \$.60 per share. As of September 30, 2012, there were 4,062,000 options granted and outstanding under the 2005 Plan which are exercisable at prices ranging from \$.23 to \$.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, 2012, options to purchase 12,000 are outstanding and exercisable at prices ranging from \$0.51 to \$1.95.

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## 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, 2012 and 2011.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of March 31, 2013:

by each of our directors and executive officers;

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

- 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 April 11, 2013, 46,838,117 shares of our Common Stock were issued and outstanding.

## Security Ownership of Management and Directors

Name (1)	Number of Shares of Common Stock Beneficially Owned (2)	Percentage of Class (2)	
Maurice Needham (3)	2,098,339	4.41	%
Lyle Jensen (4)	1,809,022	3.78	%
Charles E. Coppa (5)	1,145,595	2.42	%
Lew F. Boyd (6)	650,178	1.38	%
Neil Braverman (7)	6,715,386	12.55	%
Jamie Weston (8)	3,342,269	6.66	%
Aviel Faliks (9)	3,342,269	6.66	%
All officers and directors as a group (7 persons) (10)	15,760,789	32.10	%

\*less than 1%

## Security Ownership of Certain Beneficial Owners

Name (1)	Number of Shares of Common Stock Beneficially Owned (2)	Percentage of Class (2)	
Dr. Allen Kahn (11)	5,031,250	10.74	%
Next View Capital LP (12)	5,506,666	10.52	%
Associated Private Equity LLC (13)	6,691,569	12.51	%
SMC Select Co-Investment Fund I, LP (14)	6,820,958	12.75	%
SMC Reserve Fund II, LP (15)	10,913,536	18.98	%
SMC Reserve Fund II Offshore, LP (16)	2,728,383	5.51	%
SMC Employees Partnership (17)	3,342,269	6.67	%
Ronald H. Muhlenkamp (18)	4,774,289	9.27	%

(1)

Except as noted, each person's address is care of American Power Group Corporation, 7 Kimball Lane, Building A, Lynnfield, Massachusetts 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 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. Under the terms of the preferred stock and warrants issued in connection with our private placement
- (2) completed on April 30, 2012, Next View Capital LP, Associated Private Equity LLC and Ronald H. Muhlenkamp may not convert such preferred stock or exercise such warrants to the extent (but only to the extent) the respective stockholder or any of its affiliates would beneficially own more than 4.99% of our Common Stock unless such stockholder provides no less than 61 days prior notice to us of its election to increase the limitation on beneficial ownership. For purposes of the table above, we have disregarded these limitations.
- (3) Includes 710,000 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 1,074,000 shares of Common Stock issuable pursuant to immediately exercisable stock options
- (5) Includes 567,000 shares of Common Stock issuable pursuant to immediately exercisable stock options.
- (6) Includes 284,000 shares of Common Stock issuable pursuant to immediately exercisable stock options.
- Mr. Braverman is a member of Associated Private Equity, LLC, a Delaware limited liability company (“Associated”), an entity that beneficially owns 6,690,386 shares of Common Stock which includes 2,500,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock beneficially owned by Associated, 833,350 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock Associated acquired in accordance with an additional investment right granted by the Company to Associated in connection with Associated's investment, 2,500,000 shares of Common Stock issuable upon exercise
- (7) of warrants beneficially owned by Associated and 833,350 shares of Common Stock issuable upon exercise of warrants Associated acquired in accordance with the additional investment right. 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 4454 Wayside Drive, Naples, FL 34119.
- Mr. Weston is a partner of SMC Employees Partnership, a New York limited partnership (“SMC EP”), an entity that beneficially owns 3,342,269 shares of Common Stock which includes 1,225,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock beneficially owned by SMC EP, 408,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock SMC EP acquired in accordance with an additional investment right granted by the Company to SMC EP in connection with SMC EP's investment, 1,225,000 shares of Common Stock issuable upon exercise of warrants beneficially owned by SMC EP
- (8) and 408,333 shares of Common Stock issuable upon exercise of warrants SMC EP acquired in accordance with the additional investment right. 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.
- (9) Dr. Faliks is a partner of SMC EP, an entity that beneficially owns 3,342,269 shares of Common Stock which includes 1,225,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock beneficially owned by SMC EP, 408,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock SMC EP acquired in accordance with an additional investment right granted by the Company to SMC EP in connection with SMC EP's investment, 1,225,000 shares of Common Stock issuable upon exercise of warrants beneficially owned by SMC EP and 408,333 shares of Common Stock issuable upon exercise of warrants SMC EP acquired in accordance with the additional investment right. Pursuant to Rule 16a-1

of the Securities Exchange Act of 1934, as amended, Dr. Faliks 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. Dr. Faliks' address is care of Spring Mountain Capital, LLC, 65 East 55th Street, 33rd Floor, New York, New York 10022.

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

(11) Dr. Kahn resigned from the Board of Directors on April 30, 2012. Dr. Kahn's address is 175 East Delaware Place, Apartment 7808, Chicago, IL 60611.

(12) Includes 2,065,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 688,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 2,065,000 shares of Common Stock issuable upon exercise of warrants and 688,333 shares of Common Stock issuable upon exercise of warrants the stockholder acquired in accordance with the additional investment right. 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 180 Crestview Drive, Deerfield, Illinois 60015.

- (13) Includes 2,500,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 833,350 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 2,500,000 shares of Common Stock issuable upon exercise of warrants and 833,350 shares of Common Stock issuable upon exercise of warrants the stockholder acquired in accordance with the additional investment right. 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 4454 Wayside Drive, Naples, Florida 34119.
- (14) Includes 2,500,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 833,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 2,500,000 shares of Common Stock issuable upon exercise of warrants and 833,333 shares of Common Stock issuable upon exercise of warrants the stockholder acquired in accordance with the additional investment right. 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.
- (15) Includes 4,000,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 1,333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 4,000,000 shares of Common Stock issuable upon exercise of warrants and 1,333,333 shares of Common Stock issuable upon exercise of warrants the stockholder acquired in accordance with the additional investment right. 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 1,000,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 333,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 1,000,000 shares of Common Stock issuable upon exercise of warrants and 333,333 shares of Common Stock issuable upon exercise of warrants the stockholder acquired in accordance with the additional investment right. 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.
- (17) Includes 1,225,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 408,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 1,225,000 shares of Common Stock issuable upon exercise of warrants and 408,333 shares of Common Stock issuable upon exercise of warrants the stockholder acquired in accordance with the additional investment right. 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.
- (18) Includes 1,750,000 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock, 583,333 shares of Common Stock issuable upon conversion of shares of 10% Convertible Preferred Stock the stockholder acquired in accordance with an additional investment right granted by the Company to the stockholder in connection with the stockholder's investment, 1,750,000 shares of Common Stock issuable upon exercise of warrants and 583,333 shares of Common Stock issuable upon exercise of warrants the stockholder

acquired in accordance with the additional investment right. 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.

#### TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS

On occasion we may engage in certain related party transactions. Pursuant to our Audit Committee charter, our policy is that all related party transactions are reviewed and approved by the Board of Directors or Audit Committee prior to our entering into any related party transactions.

##### Stock Issuances; Options Granted

In March 2010, Dr. Kahn exercised options to purchase 36,000 shares of Common Stock at prices ranging from \$.33 to \$.40 per share.

On September 2, 2010, the Board of Directors approved the issuance of 25,000 shares of unregistered Common Stock as restricted stock awards to Mr. Galvin as future incentive and recorded a \$12,500 expense (the assigned fair value based on the closing bid price) associated with the issuance of such shares during the fiscal year ended September 30, 2010.

On September 17, 2010, Dr. Kahn and Mr. Coppa loaned us \$323,500 in aggregate, pursuant to the terms of a private offering of 12% unsecured, six-month notes payable. In addition, the Board of Directors approved the issuance of 161,750 shares of unregistered Common Stock in aggregate to Dr. Kahn and Mr. Coppa in conjunction with a debt offering and recorded a deferred



financing expense of \$72,788 (the assigned fair value based on the closing bid price). In February 2011, Mr. Boyd loaned us \$20,000 under the same terms and was issued 10,000 shares of unregistered Common Stock valued at \$4,700 (the assigned fair value based on the closing bid price). On March 11, 2011, Dr. Kahn and Mr. Coppa agreed to extend the maturity of their note for an additional six months after the original maturity date of their notes in return for the issuance of 161,750 shares of unregistered Common Stock valued at \$84,293 (the assigned fair value based on the closing bid price).

During January 2011 Messrs. Needham, Coppa, Boyd and Dr. Kahn exercised options to purchase an aggregate of 108,667 shares of Common Stock at prices ranging from \$.28 to \$.45 per share.

On February 8, 2011, Messrs. Tierney and Galvin agreed to accept 41,668 shares of unregistered Common Stock (valued at \$16,667) in lieu of cash for certain director's fees due the individuals.

On June 27, 2011, we granted options to Messrs. Needham, Jensen, Boyd and Coppa to purchase an aggregate of 165,000 shares of our Common Stock at an exercise price of \$0.80 per share, which represented the closing price of our stock on the date of each respective grant.

On October 27, 2011, Messrs. Tierney and Galvin agreed to accept 60,000 shares of unregistered Common Stock (valued at \$30,000) in lieu of cash for certain director's fees due the individuals.

On January 18, 2012, we granted options to Messrs. Needham, Jensen, Boyd and Coppa to purchase an aggregate of 200,000 shares of our Common Stock at an exercise price of \$0.48 per share, which represented the closing price of our stock on the date of each respective grant.

On January 31, 2012, Mr. Coppa agreed to accept 20,000 shares of unregistered Common Stock (valued at \$9,000) in lieu of cash for certain wages due him.

On May 1, 2012, the Board of Directors approved the issuance of 25,000 shares of unregistered common stock as restricted stock awards to Mr. Braverman as future incentive and recorded a \$15,000 expense (the assigned fair value based on the closing bid price) associated with the issuance of such shares during the fiscal year ended September 30, 2012. In addition, Mr. Braverman was granted options to purchase 50,000 shares of Common Stock at an exercise price of \$.60 per share.

During May and June 2012, Dr. Kahn and Mr. Galvin exercised options to purchase an aggregate of 79,000 shares of Common Stock at exercise prices ranging from \$0.23 to \$0.51 per share.

#### Related Party Transactions

On November 18, 2008, we entered into a month-to-month consulting agreement at a rate of \$7,500 per month with a company owned by Mr. Boyd who also serves as the Chairman of our Compensation committee. The consulting firm is currently providing assistance in the areas of due diligence support as well as market opportunity identification and evaluation, Board of Director candidate identification and evaluation and other services as our Board may determine. During the fiscal years ended September 30, 2012 and 2011 we paid \$97,978 and \$97,508, respectively relating to this contract. The agreement was terminated in December 2012.

On June 17, 2009 we entered into an exclusive patent license agreement between our company and M & R Development Inc., formerly known as American Power Group, Inc. and 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. During the fiscal years ended September 30, 2012 and 2011 we incurred license fees to M&R of \$120,404 and \$173,637, respectively.

On April 27, 2012, we entered into 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 will be the lesser of 10% of net sales or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be due if cumulative EBITDA is less than zero. M&R also agreed to waive any prior defaults under the license. In addition, we amended the amended and restated promissory note dated December 1, 2009 to extend the maturity of the note until February 15, 2015 and to defer all interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest.

In conjunction with the July 2009 acquisition of substantially all the American Power Group operating assets we acquired a promissory note from the previous owners of M&R, payable to American Power Group Corporation, in the principal amount of \$800,000. Per our agreement, 25% of any royalties due from time to time to M&R under a technology license agreement will be applied against outstanding interest and principal due under the terms of the note rather than be paid to M&R. In conjunction with the 10% Convertible Preferred Stock financing, on April 27, 2012, we amended the note to extend the maturity of the note from July 2013 to February 2015 and defer all interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest. During the fiscal year

ended September 30, 2012 we applied \$31,923 of license fees due against accrued interest due under the note. As of September 30, 2012, accrued interest due under the note was \$19,146.

Our dual fuel conversion subsidiary leases office and warehousing space in Iowa from M&R. On October 1, 2010, we signed a one-year lease with M&R with monthly rental payments of \$8,914 on a triple net basis. On October 1, 2011, we executed a new 2 year lease agreement requiring monthly rental payments of \$10,000 on a triple net basis. On May 1, 2012, we executed a new 3 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. We have the option to renew this lease for an additional two year term at a mutually agreed upon rate. For the fiscal years ended September 30, 2012 and 2011, total related party rental expense in connection with non-cancellable real estate leases amounted to \$143,248 and \$145,460, respectively.

In February and March 2011, in connection with a private placement of additional promissory notes, Mr. Boyd loaned us \$20,000. We issued 0.5 shares of unregistered Common Stock for each dollar invested in the offering, or 10,000 shares of Common Stock to Mr. Boyd. We repaid this note in full in May 2012.

On October 12, 2011 Mr. Jensen loaned us \$150,000 pursuant to the terms of a 10% promissory note due November 27, 2011 (and subsequently extended to April 30, 2014).

On April 27, 2012, we entered into amendments to promissory notes in the aggregate principal amount of \$473,500 held by Charles Coppa, our Chief Financial Officer; Lyle Jensen, a member of our Board of Directors and our President and Chief Executive Officer; and Dr. Allen Kahn, a former member of our Board of Directors. These amendments reduced the interest rates of the promissory notes to 8% per annum and extended the maturity dates of the notes to April 30, 2014.

In September and October 2010, in connection with a private placement of our 12% unsecured, six-month promissory notes to third parties, Dr. Kahn and Mr. Coppa loaned us \$273,500 and \$50,000, respectively. In addition, we issued 0.5 shares of unregistered Common Stock for each dollar invested in the offering, including 136,750 and 25,000 shares of Common Stock to the director and officer, respectively. In March 2011, the note holders agreed to extend the maturity date of the notes to the earlier of the completion of a financing of at least \$3 million or six months after the original maturity date of the notes. In consideration of these extensions, we issued 0.5 additional shares of unregistered Common Stock for each dollar invested in the offering, including 136,750 and 25,000 shares of Common Stock to the director and officer, respectively.

Pursuant to our Audit Committee charter, our policy is that 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.

The Board of Directors has determined that each of Messrs. Needham, Boyd, Braverman, Weston and Faliks are independent 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.

#### EXPERTS

Our consolidated financial statements for the years ended September 30, 2012 and 2011 included in this prospectus, and included in the registration statement, were audited by Schechter, Dokken, Kanter, Andrews & Selcer, Ltd., an independent registered public accounting firm, as stated in their report appearing with the consolidated financial statements herein and incorporated in this registration statement, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

LEGAL MATTERS

Morse Barnes-Brown & Pendleton, P.C. has passed upon the validity of the securities offered hereby.

## DESCRIPTION OF CAPITAL STOCK

The following description of our securities, including all material provisions of our Common Stock, and provisions of our Restated Certificate of Incorporation, as amended, and our By-Laws is only a summary. You should refer to our Restated Certificate of Incorporation, as amended, and our By-Laws, copies of which have been filed as an exhibit to our Quarterly Report on Form 10-Q which we filed with the SEC on August 14, 2012, and our Annual Report on Form 10-K, which we filed with the SEC on January 13, 2012, respectively. The following discussion is qualified in its entirety by reference to such exhibits.

### Authorized Capital Stock

We are authorized to issue 150,000,000 shares of Common Stock, with a par value of \$0.01 per share, and 1,000,000 shares of Preferred Stock,” with a par value of \$1.00 per share, and which may be issued in one or more series. On April 30, 2012, our Board of Directors designated 1,146 of such shares of preferred stock as our 10% Convertible Preferred Stock, all of which shares were issued on that date.

### Capital Stock Issued and Outstanding

As of April 11, 2013, there were issued and outstanding:

• 46,838,117 shares of Common Stock;

• 978.5 shares of 10% Convertible Preferred Stock, convertible into 24,461,655 shares of Common Stock;

• Options to purchase 4,280,000 shares of our Common Stock at exercise prices ranging from \$.23 to \$1.10 per share; and

• Warrants to purchase 30,949,245 shares of our Common Stock at exercise prices ranging \$.40 to \$.61 per share.

### Common Stock

Holders of our Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders, including the election of directors. The holders of Common Stock voting as a separate class are entitled to elect four members of the Board of Directors until March 31, 2013, at which time such holders will be entitled to elect three members. Holders of our Common Stock are entitled to receive ratably such dividends, if any, as may be declared by our Board of Directors out of funds legally available therefor, subject to any preferential dividend rights of outstanding Preferred Stock. Upon our liquidation or dissolution, the holders of Common Stock are entitled to receive ratably our net assets available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding Preferred Stock. Holders of our Common Stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of our Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock which we may designate and issue in the future.

### 10% Convertible Preferred 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 and at the option of the holder, into 25,000 shares of Common Stock. The conversion ratio of the 10% Convertible Preferred Stock is subject to adjustment in the event the Company issues shares of Common Stock or other securities convertible into or exchangeable for Common Stock at a price per share which is less than the conversion price of the Preferred Stock. The conversion price of the 10% Convertible Preferred Stock is currently \$0.40 per share.

The holders of the 10% Convertible Preferred Stock will 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 into Common Stock 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% 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% 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 the stated value of the 10% Convertible Preferred Stock, which is initially \$10,000 per share, plus any accrued, but unpaid, dividends.

The 10% Convertible Preferred Stock may be required to convert into shares of Common Stock at our election if the trading price of the Common Stock meets certain thresholds as set forth in the Certificate of Designations. If we fail to meet certain

obligations regarding the registration of the 10% Convertible Preferred Stock or certain other matters affecting the 10% Convertible Preferred Stock, the holders of 10% Convertible Preferred Stock may require the company to redeem the 10% Convertible Preferred Stock.

#### Preferred Stock

In addition, our Board of Directors is authorized, subject to certain limitations prescribed by law, without further stockholder approval, to issue from time to time up to an aggregate of 998,854 shares of Preferred Stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights and terms of redemption of shares constituting any series or designations of such series. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of holders of any Preferred Stock that may be issued in the future. Issuance of Preferred Stock could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of our company.

#### Warrants

In November 2012, we issued a warrant to purchase 1,540,000 shares of Common Stock at an exercise price of \$.55 per share to WheelTime Network, LLC, a truck service network with 18 member companies, as a result of entering into a National Distributor and Master Marketing Agreement with WheelTime. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer agreement and a dealer agreement by each of the 18 members during the first year after the issue date of the warrant. An additional 30,000 shares become exercisable if a member agrees to become an exclusive dealer. The warrant will expire on December 31, 2017.

On April 30, 2012, we issued warrants to purchase 20,540,000 shares of Common Stock to investors in a private placement. Each warrant enables the holder to purchase shares of Common Stock at an exercise price of \$0.50 per share. Between December 2012 and March 2013, we issued warrants to purchase 6,846,660 shares of Common Stock to investors pursuant to the additional investment rights granted to each investor in the April 30, 2012 private placement. Each warrant enables the holder to purchase shares of Common Stock at an exercise price of \$0.50 per share. In connection with the private placement, we also issued warrants to purchase 450,000 shares to the placement agent. The placement agent's warrants enable the holders to purchase shares of Common Stock at an exercise price of \$0.40 per share. All of 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 and upon other customary terms, and may be exercised at any time during a five-year period beginning on the six-month anniversary of the date of issuance.

Between April 2011 and February 2012, we issued warrants to purchase 1,517,200 shares of Common Stock to purchasers of certain convertible promissory notes. These warrants enable the holders to purchase shares of Common Stock at exercise prices ranging from \$.42 to \$.61 per share. The warrants are subject to adjustment in the event of certain subdivisions or combinations of our Common Stock, including stock splits and stock dividends, and may be exercised at any time during a five-year period beginning on the date of issuance.

The descriptions of the warrants are only a summary and are qualified in their entirety by the provisions of each warrant.

#### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission, Washington, D.C. 20549, under the Securities Act of 1933, a registration statement on Form S-1 relating to the shares of Common Stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. For further information with respect to our company and the shares we are offering by this prospectus you should refer to the registration statement, including the exhibits and schedules thereto. You may inspect a copy of the registration statement without charge at the Public Reference Room of the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also

maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The Securities and Exchange Commission's World Wide Web address is [www.sec.gov](http://www.sec.gov).

We file periodic reports, proxy statements and other information with the Securities and Exchange Commission in accordance with requirements of the Exchange Act. These periodic reports, proxy statements and other information are available for inspection and copying at the public reference facilities and Internet site of the Securities and Exchange Commission referred to above. In addition, you may request a copy of any of our periodic reports filed with the Securities and Exchange Commission at no cost, by writing or telephoning us at the following address:



Investor Relations

American Power Group Corporation  
7 Kimball Lane, Building A  
Lynnfield, Massachusetts 01940  
(781) 224-2411

Information contained on our website is not a prospectus and does not constitute a part of this prospectus. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the Securities and Exchange Commission are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements. You should rely only on the information contained in or incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

**DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION  
FOR SECURITIES ACT LIABILITIES**

Pursuant to our Restated Certificate of Incorporation and Bylaws, we may indemnify our officers and directors to the fullest extent authorized by Delaware law, as the same exists or may hereafter be amended. We have agreed to indemnify each of our directors and certain officers against certain liabilities, including liabilities under the Securities Act of 1933. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the provisions described above, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by our director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

FINANCIAL STATEMENTS  
AMERICAN POWER GROUP CORPORATION

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American Power Group Corporation  
Condensed Consolidated Balance Sheets

	December 31, 2012 (Unaudited)	September 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$2,934,188	\$4,423,485
Certificates of deposit, restricted	300,000	300,000
Accounts receivable, trade, less allowance for doubtful accounts of \$162,887 as of December 31, 2012 and September 30, 2012, respectively	613,198	432,078
Inventory	757,901	463,553
Costs in excess of billings	33,234	62,667
Seller's note, related party, current portion	266,009	164,038
Prepaid expenses	123,591	120,405
Other current assets	105,490	87,702
Total current assets	5,133,611	6,053,928
Property, plant and equipment, net	704,889	338,922
Other assets:		
Seller's note, related party, non-current	531,378	633,349
Long term contracts, net	329,167	341,666
Purchased technology, net	329,167	341,666
Software development costs, net	1,726,549	1,309,601
Other	71,466	70,567
Total other assets	2,987,727	2,696,849
	<b>\$8,826,227</b>	<b>\$9,089,699</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,050,081	\$763,515
Accrued expenses	639,131	604,406
Billings in excess of cost	1,808	1,808
Notes payable, current	1,627,045	90,484
Obligations due under lease settlement, current	68,518	68,518
Total current liabilities	3,386,583	1,528,731
Notes payable, non-current	49,637	1,605,037
Notes payable, related parties, non-current	473,500	473,500
Obligations due under lease settlement, non-current	505,540	505,540
Total liabilities	4,415,260	4,112,808
Stockholders' equity:		
Preferred stock, \$1.00 par value, 998,854 shares authorized, 0 shares issued and outstanding	—	—
10% Convertible Preferred stock, \$1.00 par value, 1,146 shares authorized, 724 shares and 759 shares issued and outstanding at December 31, 2012 and September 30, 2012	724	759
Common stock, \$.01 par value, 150 million shares authorized, 46,215,812 shares and 44,920,180 issued and outstanding at December 31, 2012 and September 30, 2012	462,158	449,201
Additional paid-in capital	63,185,951	62,912,306

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Accumulated deficit	(59,237,866 )	(58,385,375 )
Total stockholders' equity	4,410,967	4,976,891
	\$8,826,227	\$9,089,699

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Three Months Ended December 31,	
	2012	2011
Net sales	\$874,953	\$396,017
Cost of sales	574,404	405,295
Gross profit (loss)	300,549	(9,278)
Operating expenses:		
Selling, general and administrative	882,882	722,745
Research and development	—	37,338
	882,882	760,083
Operating loss from continuing operations	(582,333)	(769,361)
Non operating income (expense)		
Interest and financing costs	(40,591)	(354,763)
Interest income	12,061	11,090
Other, net	(28,923)	(30,559)
Non operating expense, net	(57,453)	(374,232)
Net loss	(639,786)	(1,143,593)
10% Convertible Preferred dividends	(212,704)	—
Net loss available to Common shareholders	\$(852,490)	\$(1,143,593)
Loss from continuing operations per share - basic and diluted	\$(0.01)	\$(0.03)
Net loss per Common Share - 10% Preferred dividend	(0.01)	—
Net loss attributable to Common shareholders per share - basic and diluted	\$(0.02)	\$(0.03)
Weighted average shares outstanding - basic and diluted	45,609,928	36,595,317

See accompanying notes to unaudited condensed interim consolidated financial statements.

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American Power Group Corporation  
Condensed Consolidated Statement of Changes in Stockholders' Equity  
For the Three Months Ended December 31, 2012  
(Unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid In Capital	Deficit	
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	—	—	—	—	38,190	—	38,190
Common stock issued upon option exercise	—	—	57,762	578	6,922	—	7,500
Value of warrants issued for services rendered	—	—	—	—	31,957	—	31,957
Sale of 10% Convertible Preferred stock unit:							
Sale of 10% Convertible Preferred stock, net of fees	5	5	—	—	48,995	—	49,000
Common stock issued upon Preferred stock conversion	(40 )	(40 )	992,295	9,923	(9,883 )	—	—
Common stock issued for 10% Convertible Preferred stock dividend	—	—	245,575	2,456	157,464	(159,920 )	—
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(52,785 )	(52,785 )
Net loss for the three months ended December 31, 2012	—	—	—	—	—	(639,786 )	(639,786 )
Balance, December 31, 2012	724	\$724	46,215,811	\$462,158	\$63,185,951	\$(59,237,866)	\$4,410,967



See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Three Months Ended December 31,	
	2,012	2,011
Cash flows from operating activities:		
Net loss	\$(639,786 )	\$(1,143,593)
Adjustments to reconcile net loss to net cash used in operating activities:		
Warrants issued for services rendered	31,957	110,400
Depreciation expense	49,505	36,534
Amortization of stock issued	—	90,600
Amortization of beneficial conversion feature and warrants	—	99,920
Amortization of deferred financing costs	—	14,284
Stock compensation expense	38,190	31,638
Amortization of software costs	50,538	—
Amortization of long term contracts	12,499	12,500
Amortization of purchased technology	12,499	12,500
Decrease (increase) in assets:		
Accounts receivable	(181,120 )	96,732
Inventory	(294,348 )	(40,027 )
Costs in excess of billings	29,433	57,120
Prepaid and other current assets	(20,974 )	43,136
Other assets	(899 )	(177,760 )
(Decrease) increase in liabilities:		
Accounts payable	286,566	(30,548 )
Billings in excess of costs	—	(17,759 )
Accrued expenses	34,725	145,526
Net cash used in operating activities	(591,215 )	(658,797 )
Cash flows from investing activities:		
Purchase of property and equipment	(415,472 )	—
Software development costs	(467,486 )	—
Net cash used in investing activities	(882,958 )	—
Cash flows from financing activities:		
Proceeds from notes payable	22,050	507,000
Proceeds from notes payable, related party	—	156,000
Repayment of notes payable, related party	—	(11,000 )
Repayment of notes payable	(40,889 )	(43,824 )
Proceeds from sale of 10% convertible preferred stock, net of fees	49,000	—
Proceeds from exercise of stock options	7,500	—
Payment of cash dividend on 10% Convertible Preferred stock	(52,785 )	—
Net cash (used in) provided by financing activities	(15,124 )	608,176
Net decrease in cash and cash equivalents	(1,489,297 )	(50,621 )
Cash and cash equivalents at beginning of year	4,423,485	153,657
Cash and cash equivalents at end of period	\$2,934,188	\$103,036

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

-Continued-

	Three Months Ended December 31,	
	2,012	2,011
Supplemental disclosure of cash flow information:		
Interest paid	\$46,246	\$85,899
Taxes paid	6,032	—
Supplemental disclosure of non-cash financing activities:		
Shares issued with debt extensions	—	210,876
Shares issued in converted debt	—	328,313
Beneficial conversion feature	—	139,901
Warrants issued	—	52,159
Shares issued for preferred stock dividend	159,920	—

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

1. Nature of Operations, Risks, and Uncertainties

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

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

Recent Developments

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

In addition, we issued WheelTime a warrant to purchase 1,540,000 shares of our Common Stock at an exercise price of \$.55 per share. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer agreement and a dealer agreement by each of the 18 members during the first year after the original issue date of the Warrant. An additional 30,000 warrants become exercisable if a member agrees to become an exclusive dealer. The warrant will expire on December 31, 2017.

In December 2012, Iowa State Bank agreed to extend the maturity of our \$2.25 million credit facility to from April 23, 2013 to December 31, 2013.

Nature of Operations, Risks, and Uncertainties

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

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

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

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

- Reduce fuel and operating costs by 20% to 35%;
- Reduce toxic emissions such as nitrogen oxide (NOX), carbon monoxide (CO) and fine particulate emissions; and
- Enhance the engine's operating life, since natural gas is a cleaner burning fuel source.

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

As of December 31, 2012, we had \$3,234,188 in cash, cash equivalents and restricted certificates of deposit and working capital of \$1,747,028. We believe we will be able to satisfy our cash requirements for the near future but 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 American Power Group is 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.

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## 2. Basis of Presentation

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

The accompanying interim financial statements at December 31, 2012 are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2012 included in our Annual Report on Form 10-K. The balance sheet at September 30, 2012 has been derived from the audited financial statements as of that date; certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations, although we believe the disclosures which have been made herein are adequate to ensure that the information presented is not misleading. The results of operations for the interim periods reported are not necessarily indicative of those that may be reported for a full year. In our opinion, all adjustments which are necessary for a fair statement of our financial position as of December 31, 2012 and the operating results for the interim periods ended December 31, 2012 and 2011 have been included.

## 3. Certificates of Deposit

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

## 4. Receivables

### Accounts Receivable

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

### Seller's Note Receivable, Related Party

In conjunction with the July 2009 acquisition of substantially all the American Power Group operating assets, including the name American Power Group (excluding its dual fuel patent), we acquired a promissory note from the previous owners of American Power Group (renamed M&R Development, Inc.), payable to us, in the principal amount of \$800,000. The note bears interest at the rate of 5.5% per annum and was based on the difference between the assets acquired and the consideration given. Per our agreement, 25% of any royalties due periodically to M&R under a technology license agreement will be applied against outstanding interest and principal due under the terms of the note rather than be paid to M&R. In conjunction with the 10% Convertible Preferred Stock financing, on April 27, 2012, we amended the note to extend the maturity of the note from July 2013 to February 2015 and defer all interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest. Based on the fiscal year 2013 plan, we have classified \$266,009 of the balance as the current portion. We consider this a related party note as one of the former owners of American Power Group is now an employee of ours.

## 5. Inventory

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

	December 31, 2012	September 30, 2012
Raw materials	\$738,718	\$448,212
Work in progress	158	—
Finished goods	19,025	15,341
Total inventory	\$757,901	\$463,553



#### 6. Intangible Assets

We review intangibles for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of our intangible assets below their carrying value.

In conjunction with the American Power Group acquisition and 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.

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Amortization expenses associated with the long term technology license agreement and the purchased dual fuel conversion technology amounted to \$25,000 and \$25,000 for the three months ended December 31, 2012 and 2011, respectively. Accumulated amortization was \$341,667 at December 31, 2012 and \$316,667 at September 30, 2012. Our internally developed software is a critical embedded component in the operation of our dual fuel conversion equipment and principally controls the operation of our Electronic Control Unit ("ECU"). The ECU monitors all engine performance parameters and operates the natural gas fuel control valve and variable fuel metering valve towards the goal of maximizing the amount of natural gas utilized while remaining within all original engine manufacturer specifications. The software allows us to seamlessly and constantly monitor and control the various gaseous fuels to maximize performance and emission reduction while remaining within all original OEM diesel engine performance parameters. We have developed a base software application and Environmental Protection Agency's testing protocol for both our Outside Useful Life ("OUL") and Intermediate Useful Life ("IUL") engine applications, which will be customized for each engine family approved in order to maximize the performance of the respective engine family. Prior to shipment, each ECU's embedded software component is configured by our internal engineering staff to a customer's specific diesel engine family and shipped as part of a complete system. We do not market or sell our software separately.

During fiscal 2011, we incurred costs to develop these software applications that were recorded as research and development costs and expensed as incurred until we were able to establish technological feasibility, which we did in September 2011 with our first EPA engine family approval. As a result, we began capitalizing costs associated with our software application development. We will cease capitalization of additional costs when the product or enhancement is available for general release to customers. As of December 31, 2012, we have capitalized \$1,820,268 of development costs associated with our OUL (\$1,270,211) and IUL (\$550,057) applications, which will be amortized on a straight line basis over an estimated useful life of 60 months for OUL applications and 84 months for IUL applications. Amortization costs for the three months ended December 31, 2012 and 2011 were \$50,538 and \$0, respectively.

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

Twelve months ending December 31:	Contracts	Technology	Software Development	Total
2013	\$50,000	\$50,000	\$225,350	\$325,350
2014	50,000	50,000	242,662	342,662
2015	50,000	50,000	242,662	342,662
2016	50,000	50,000	242,662	342,662
2017	50,000	50,000	190,778	290,778
2018 and thereafter	79,167	79,167	582,435	740,769
	\$329,167	\$329,167	\$1,726,549	\$2,384,883

On June 30, 2011, we amended the Exclusive Patent License Agreement dated as of June 17, 2009 between our company and M&R. Pursuant to the amendment:

The royalties payable to M&R will be reduced from 10% to 6% for sales as defined in the license from and after the date (the "Royalty Modification Date") that the sum of all royalties paid to M&R under the license equals \$15 million on a cumulative basis, and will be eliminated altogether from and after the date that the sum of all royalties paid to M&R equals \$36 million on a cumulative basis (the "Technology Transfer Date");

Prior to the Royalty Modification Date, neither M&R nor any of its stockholders, directors, officers or other representatives may (i) sell, license or otherwise transfer any of the patent rights licensed by us or any other proprietary technology or information owned by M&R which relate to the licensed patent rights (together, the "Technology Rights"), (ii) sell or otherwise transfer a majority of M&R's outstanding capital stock or (iii) enter into any agreement or commitment contemplating either of the foregoing;

M&R has assigned all of its right, title and interest in and to the Technology Rights to us, such assignment to be effective on the Technology Transfer Date, and subject only to the prior receipt by M&R of \$36 million in cumulative royalty payments on or before such date;

At any time during the period beginning on the Royalty Modification Date and ending on the first anniversary of the Royalty Modification Date, we may purchase all of the Technology Rights from M&R for an additional payment of \$17.5 million; and

If we do not exercise the foregoing purchase right prior to the first anniversary of the Royalty Modification Date, and if M&R subsequently receives a bona fide offer from a third party to purchase some or all of the Technology Rights, we

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will have the right, exercisable at any time within 30 days after the receipt of such an offer, to purchase the Technology Rights from M&R for a purchase price equal to 110% of the price offered by such third party less the sum of all royalties paid to M&R on or before the date we give notice of our election to purchase the Technology Rights. In conjunction with the 10% Convertible Preferred Stock financing, on April 27, 2012, we again amended the Exclusive Patent License Agreement 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 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be due if cumulative EBITDA is less than zero. During the three months ended December 31, 2012 and 2011, we incurred license fees to M&R of \$0 and \$38,548.

#### 7. Contracts in Progress

Contracts in progress consist of the following:

	December 31, 2012	September 30, 2012
Costs incurred on uncompleted contracts	\$438,347	\$419,396
Estimated earnings on contracts in progress	133,717	126,564
	572,064	545,960
Less billings on contracts in progress	540,638	485,101
	\$31,426	\$60,859
Costs and estimated earnings in excess of billings	\$33,234	\$62,667
Billings in excess of costs and estimated earnings	1,808	1,808
	\$31,426	\$60,859

#### 8. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2012	September 30, 2012	Estimated Useful Lives
Machinery and equipment	\$1,042,617	\$719,474	3 -7 years
Less accumulated depreciation	(430,058 )	(380,552 )	
Machinery and equipment, net	612,559	338,922	
Construction in progress	92,330	—	
	\$704,889	\$338,922	

#### 9. Product Warranty Costs

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

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

	December 31, 2012	September 30, 2012
Warranty accrual at the beginning of the period	\$18,306	\$27,620
Charged to costs and expenses relating to new sales	34,538	23,814
Costs of product warranty claims	(13,738 )	(33,128 )
Warranty accrual at the end of period	\$39,106	\$18,306

#### 10. Notes Payable/Credit Facilities

##### Credit Facilities

American Power Group has a \$2,250,000 credit facility with Iowa State Bank of which \$1,200,000 is considered our working capital line under which we may borrow up to 50% of the value of eligible inventory and 75% of eligible accounts receivable. As of December 31, 2012, we have \$1,560,110 outstanding under the credit facility and in

December 2012, Iowa State Bank agreed to extend the maturity of the credit facility to December 31, 2013.

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#### Notes Payable, Related Party

In September 2010, we commenced a private offering of 12% unsecured, six-month promissory notes payable in an effort to raise up to \$850,000 in gross proceeds. In addition, we agreed to issue 0.5 shares of unregistered Common Stock for each \$1 invested in the offering. In September and October 2010, an officer and former director loaned us \$323,500 under the terms of this offering.

On October 12, 2011 an officer loaned us \$150,000 pursuant to the terms of a 10% promissory note due November 27, 2011. In conjunction with the 10% Convertible Preferred Stock financing in April 2012, this officer and the two other related parties holding notes in the aggregate principal amount of \$323,500 agreed to extend the maturity of their notes until April 30, 2014 and a reduction in their interest rate to 8%. These notes have been classified as long term as of December 31, 2012.

#### Convertible Notes Payable

In October 2010, we commenced a private offering of 10% convertible notes payable and raised \$500,000 in gross proceeds. The convertible notes were due 24 months after issuance and are convertible, after six months, into shares of Common Stock at a conversion price equal to 85% of the closing price of our Common Stock on the day the notes are issued. In conjunction with the issuance of these notes we recorded deferred financing costs of \$29,555, including \$2,905 associated with the issuance of placement agent warrants to purchase an aggregate of 15,000 shares of our Common Stock at exercise prices ranging from \$0.45 to \$0.61 per share. The warrants are immediately exercisable and have a term of two years from the date of grant. During the three months ended December 31, 2011, \$234,143 of the notes were converted into 550,503 shares of our Common Stock with the remaining principal balance and \$34,066 of interest converted into 1,229,228 shares of our Common Stock during the remainder of the fiscal year ended September 30, 2012. Amortization of deferred financing costs was \$6,716 during the three months ended December 31, 2011. In addition, the notes contained a beneficial conversion feature of \$85,343 at issuance based on the intrinsic value of the shares into which the notes are convertible. Amortization of the beneficial conversion feature was \$29,899 during the three months ended December 31, 2011.

During the period of April 2011 and July 2011, we issued additional 10% unsecured convertible promissory notes for gross proceeds of \$1,725,000. The notes were convertible at \$0.59 and during the fiscal year ended September 30, 2012, all notes plus accrued interest of \$157,521 were converted into 4,083,604 shares of our Common Stock. In conjunction with this offering, we granted warrants to purchase an aggregate of 877,119 shares of our Common Stock at an exercise price of \$0.65 per share. We also incurred deferred financing cost of \$51,750 associated with placement agent fees. Amortization of deferred financing costs was \$6,523 during the three months ended December 31, 2011. We recorded a debt discount associated with the issuance of the warrants of \$187,011. In addition, the notes contained a beneficial conversion feature of \$318,367 at issuance based on the intrinsic value of the shares into which the notes are convertible. The debt discount value and the beneficial conversion feature were recorded as paid-in-capital and were amortized to interest expense over the two year term of the notes or ratably upon any partial conversion. Amortization of the debt discount value and beneficial conversion feature was \$63,691 for the three months ended December 31, 2011.

In November 2011, we commenced a new private offering of 10% convertible notes payable and received \$1,185,000 in gross proceeds. Each note is convertible into shares of Common Stock at a conversion price equal to 85% of the closing bid price of the Common Stock on the day the notes were issued. In addition, each investor received warrants to purchase an aggregate of 775,105 shares of our Common Stock at exercise prices ranging from \$0.42 to \$0.64 per share. In April 2012, as required by the 10% Convertible Preferred Stock investors, all notes plus accrued interest of \$30,940 were converted into 2,650,322 shares of our Common Stock. We incurred deferred financing cost of \$34,450 associated with placement agent fees. Amortization of deferred financing costs was \$1,047 during the three months ended December 31, 2011. We recorded a debt discount associated with the issuance of the warrants of \$122,834 and in addition, the notes contained a beneficial conversion feature of \$325,949 at issuance based on the intrinsic value of the shares into which the notes are convertible. The debt discount value and the beneficial conversion feature were recorded as paid-in-capital and were amortized to interest expense over the two year term of the notes or ratably upon any partial conversion. Amortization of the debt discount value and beneficial conversion feature was \$6,736 for the

three months ended December 31, 2011.

11. Stockholders' Equity

Common Stock

During the three months ended December 31, 2012, holders exercised warrants to purchase an aggregate of 160,000 shares of Common Stock at an exercise price of \$0.40 utilizing a cashless exercise feature resulting in the net issuance of 50,262 shares of Common Stock. In addition, another holder exercised warrants to purchase 7,500 shares of Common Stock at exercise prices ranging from \$0.51 to \$0.62 per share.

During the three months ended December 31, 2012, 39.7 shares of 10% Convertible Preferred Stock were converted into 992,295 shares of Common Stock. As of December 31, 2012, there were approximately 724.6 shares of 10% Convertible Preferred

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Stock outstanding which are convertible into 18,115,000 shares of Common Stock which had a fair value of approximately \$11,775,000 based on the closing price of our Common Stock on December 31, 2012.

On December 31, 2012, certain 10% Convertible Preferred Stock holders agreed to accept 245,575 shares of Common Stock (valued at \$159,920) in lieu of cash for dividend payments due the holders.

#### 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. We incurred cash fees associated with the placement of approximately \$676,000. In conjunction with the private placement we issued the placement agent a five-year warrant to purchase 450,000 shares of our Common Stock at an exercise price of \$0.40 per share (valued at \$173,000). We used approximately \$495,000 of the net proceeds to retire short term debt and intend to use the balance to advance our dual fuel technologies business.

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. During the three months ended December 31, 2012 we recorded a 10% preferred dividend of \$185,475 of which \$52,785 was paid in cash. 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. In connection with the exercise of that right, Dr. Allen Kahn and Thomas Galvin resigned from the Board of Directors following the completion of the private placement and the Board of Directors appointed Neil Braverman, Dr. Aviel Faliks and Jamie Weston as directors. The number of directors elected by the holders of our Common Stock, voting as a separate class, will be reduced from four to three effective March 31, 2013. Kevin Tierney, Sr., resigned from the Board of Directors on January 10, 2013 in anticipation of that change.

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.



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 \$2.7 million to buy additional units under the same terms described above. During the three months ended December 31, 2012, an investor exercised his additional right to purchase 5 units for net proceeds of \$49,000 after fees.

We determined the initial value of the 10% Convertible Preferred Stock to be \$4,629,873, the investor warrants to be \$2,219,758 and the additional investment right to be \$1,366,369 using models we consider to be appropriate. In addition, we determined a beneficial conversion feature of \$9,748,127 based on the intrinsic value of the shares of Common Stock to be issued

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pursuant to these three rights. The value of the beneficial conversion feature is considered a “deemed dividend” and has been recorded as a charge to retained earnings at quarter ended June 30, 2012.

In connection with the private placement, we entered into a registration rights agreement with the holders of the 10% Convertible Preferred Stock. Pursuant to the registration rights agreement, we filed a registration statement with the Securities and Exchange Commission on May 30, 2012, to register for resale certain shares of Common Stock issuable upon the payment of dividends on the 10% Convertible Preferred Stock, the conversion of the 10% Convertible Preferred Stock and upon the exercise of the warrants. On July 25, 2012 our registration statement relating to the potential resale of up to 11,553,282 shares of Common Stock was declared effective.

In connection with the private placement, we entered into a voting agreement with the holders of the 10% Convertible Preferred Stock. Pursuant to the voting agreement, the investors have agreed to vote their shares of 10% Convertible Preferred Stock to elect: (a) two individuals to the Board of Directors designated by Spring Mountain Capital, for as long as Spring Mountain Capital or its affiliates owns shares of 10% Convertible Preferred Stock; and (b) one individual to the Board of Directors designated by Associated Private Equity LLC, for as long as Associated Private Equity LLC or its affiliates owns shares of 10% Convertible Preferred Stock.

#### Stock Options

Amortization of stock compensation expense was \$38,190 and \$31,638 for the three months ended December 31, 2012 and 2011, respectively. The unamortized compensation expense at December 31, 2012 was \$229,939 and will be amortized over a weighted average remaining life of approximately 3 years.

In December 2012, we granted an employee options 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 the grant. The options were granted under the 2005 Stock Option Plan, have a ten-year term and vest 20% upon date of grant with the balance equally over a term of four years 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 rates of approximately 1%; expected volatility based on historical trading information of 67% and expected term of 4 years. In November 2012, we signed a National Distributor and Master Marketing Agreement with WheelTime Network LLC, a truck service network with 18 member companies providing installation and warranty support through nearly 200 service centers, 2,800 service bays, 3,000 factory-trained technicians and 30 training facilities located across the United States and Canada. In conjunction with this agreement we issued WheelTime a warrant to purchase 1,540,000 shares of our Common Stock at an exercise price of \$.55 per share and expiring on December 31, 2017. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer agreement and a dealer agreement by each of the 18 members during the first year after the original issue date of the Warrant. An additional 30,000 warrants become exercisable if a member agrees to become an exclusive dealer. The fair value of the 100,000 immediately exercisable warrants at the date of grant in aggregate was \$31,957 and is included in selling, general and administrative expenses during the three months ended December 31, 2012. The valuation 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 rates of approximately 1%; expected volatility based on historical trading information of 67% and expected term of 5 years. We will record the value of the remaining warrants at the date in which each increment becomes earned and exercisable.

#### 12. Related Party Transactions

On November 18, 2008 we entered into a four-month (extended in March 2009 on a month-to-month basis) consulting agreement at a rate of \$7,500 per month with a company owned by one of our directors who also serves as the Chairman of our Compensation Committee. The consulting firm is currently providing assistance in the areas of due diligence support, “green” market opportunity identification and evaluation, Board of Director candidate identification and evaluation of candidates for nomination to the Board of Directors and other services as our Board may determine. The agreement was terminated in December 2012.



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, 2012 and 2011 and the related consolidated statements of operations, changes in stockholders' equity (deficit) 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 provides 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, 2012 and 2011 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.

/s/ Schechter Dokken Kanter Andrews & Selcer, Ltd.

Minneapolis, Minnesota

December 31, 2012

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American Power Group Corporation  
Consolidated Balance Sheets

	September 30, 2012	September 30, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$4,423,485	\$ 153,657
Certificates of deposit, restricted	300,000	300,000
Accounts receivable, trade, less allowance for doubtful accounts of \$162,887 and \$151,840 as of September 30, 2012 and September 30, 2011	432,078	371,575
Inventory	463,553	348,179
Costs in excess of billings	62,667	143,770
Seller's note, related party, current portion	164,038	275,000
Prepaid expenses	120,405	164,912
Other current assets	87,702	112,921
Total current assets	6,053,928	1,870,014
Property, plant and equipment, net	338,922	383,540
Other assets:		
Seller's note, related party, non-current	633,349	525,000
Long term contracts, net	341,666	391,672
Purchased technology, net	341,666	391,672
Software development costs, net	1,309,601	—
Other	70,567	224,898
Total other assets	2,696,849	1,533,242
	<b>\$9,089,699</b>	<b>\$3,786,796</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$763,515	\$969,424
Accrued expenses	604,406	917,984
Billings in excess of cost	1,808	42,707
Notes payable, current	90,484	2,167,285
Obligations due under lease settlement, current	68,518	68,518
Notes payable, related parties, current	—	370,138
Total current liabilities	1,528,731	4,536,056
Notes payable, net of current portion	1,605,037	84,695
Convertible notes payable, net of current portion	—	1,739,460
Notes payable, related parties, net of current portion	473,500	—
Obligations due under lease settlement, net of current portion	505,540	505,540
Total liabilities	4,112,808	6,865,751
Stockholders' equity (deficit):		
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, 759 shares and 0 shares issued and outstanding at September 30, 2012 and 2011	759	—
Common stock, \$.01 par value, 150 million shares authorized, 44,920,180 shares and 36,173,033 issued and outstanding at September 30, 2012 and 2011	449,201	361,730
Additional paid-in capital	62,912,306	40,297,853
Common shares held as collateral	—	(20,000 )

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Accumulated deficit	(58,385,375	) (43,718,538	)
Total stockholders' equity (deficit)	4,976,891	(3,078,955	)
	\$9,089,699	\$3,786,796	

See accompanying notes to consolidated financial statements.

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American Power Group Corporation  
Consolidated Statements of Operations

	Years Ended September 30,	
	2012	2011
Net sales	2,633,880	1,767,644
Cost of sales	1,935,767	1,833,042
Gross profit (loss)	698,113	(65,398 )
Operating expenses		
Selling, general and administrative	2,927,282	3,467,094
Impairment loss	—	149,600
Research and development	—	1,322,021
	2,927,282	4,938,715
Operating loss from continuing operations	(2,229,169 )	(5,004,113 )
Non operating (expense) income		
Interest and financing costs	(1,612,052 )	(819,475 )
Loss on induced conversion incentive	(582,143 )	—
Interest income	53,977	53,191
Other, net	(127,778 )	(188,803 )
Non operating expense, net	(2,267,996 )	(955,087 )
Loss from continuing operations before income taxes	(4,497,165 )	(5,959,200 )
Income tax benefit	—	321,519
Loss from continuing operations	(4,497,165 )	(5,637,681 )
Discontinued operations		
Loss on disposal of discontinued operations, net of taxes	(63,085 )	(59,526 )
Loss from discontinued operations, net of taxes	—	(1,116,413 )
	(63,085 )	(1,175,939 )
Net loss	(4,560,250 )	(6,813,620 )
10% Convertible Preferred stock dividends	(358,460 )	—
10% Convertible Preferred stock beneficial conversion feature	(9,748,127 )	—
Net loss available to common shareholders	\$(14,666,837 )	\$(6,813,620 )
Loss from continuing operations per share – basic and diluted	\$(0.11 )	\$(0.16 )
Loss from discontinued operations per share – basic and diluted	—	(0.03 )
Net loss per Common share - 10% Preferred Stock dividend	(0.01 )	—
Net loss per Common share - Preferred Stock beneficial conversion feature	(0.25 )	—
Net loss attributable to Common shareholders - basic and diluted	\$(0.37 )	\$(0.19 )
Weighted average Common shares outstanding - basic and diluted	39,352,340	35,621,150

See accompanying notes to consolidated financial statements.

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American Power Group Corporation  
 Consolidated Statement of Changes in Stockholders' Equity (Deficit)  
 Years Ended September 30, 2012 and 2011

	10% Convertible Preferred Stock		Common Stock		Additional Paid In Capital	Accumulated Deficit	Common Shares Held As Collateral	Total
	Shares	Amount	Shares	Amount				
Balance, October 1, 2010	—	\$—	33,300,060	\$333,001	\$39,090,313	\$(36,904,918)	\$—	\$2,518,396
Compensation expense associated with stock options	—	—	—	—	252,482	—	—	252,482
Common stock issued with promissory notes	—	—	581,750	5,817	278,276	—	—	284,093
Common stock issued upon exercise of options	—	—	249,555	2,495	66,905	—	—	69,400
Common stock issued for services rendered	—	—	41,668	417	16,250	—	—	16,667
Common stock issued as additional collateral	—	—	2,000,000	20,000	—	—	(20,000 )	—
Beneficial conversion discount on convertible notes payable	—	—	—	—	403,711	—	—	403,711
Value of warrants issued for financing	—	—	—	—	189,916	—	—	189,916
Net loss for fiscal year ended September 30, 2011	—	—	—	—	—	(6,813,620 )	—	(6,813,620 )
Balance, September 30, 2011	—	\$—	36,173,033	\$361,730	\$40,297,853	\$(43,718,538)	\$(20,000 )	\$(3,078,955)
Compensation expense associated with stock options	—	—	—	—	169,418	—	—	169,418
Common stock issued upon option exercise	—	—	115,856	1,158	29,697	—	—	30,855
Common stock issued with	—	—	421,750	4,218	206,658	—	—	210,876

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promissory notes								
Common stock issued for services rendered	—	—	288,757	2,888	141,011	—	—	143,899
Common stock issued upon convertible debt exercise	—	—	7,510,151	75,101	3,338,655	—	—	3,413,756
Common stock issued for convertible debt interest	—	—	454,734	4,547	294,723	—	—	299,270
Beneficial conversion discount on convertible notes payable	—	—	—	—	325,949	—	—	325,949
Induced conversion incentive on convertible notes payable	—	—	—	—	582,143	—	—	582,143
Value of warrants issued for financing	—	—	—	—	122,834	—	—	122,834
Sale of 10% Convertible Preferred stock unit:								
Sale of 10% Convertible Preferred stock, net of fees	822	822	—	—	3,823,397	—	—	3,824,219
Value of warrants issued with 10% Convertible Preferred stock	—	—	—	—	2,219,758	—	—	2,219,758
Value of additional investment right issued with 10% Convertible Preferred stock	—	—	—	—	1,366,369	—	—	1,366,369
10% Convertible Preferred stock beneficial conversion feature	—	—	—	—	9,748,127	(9,748,127)	—	—
Common Stock issued upon Preferred Stock conversion	(63)	(63)	1,557,705	15,577	(15,514)	—	—	—
	—	—	398,194	3,982	261,228	(265,210)	—	—

Common stock issued for 10% Convertible Preferred stock dividend								
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(93,250 )	—	(93,250 )
Return of collateral shares	—	—	(2,000,000 )	(20,000 )	—	—	20,000	—
Net loss for fiscal year ended September 30, 2012	—	—	—	—	—	(4,560,250 )	—	(4,560,250 )
Balance, September 30, 2012	759	\$759	44,920,180	\$449,201	\$62,912,306	\$(58,385,375)	\$—	\$4,976,891

See accompanying notes to consolidated financial statements.

American Power Group Corporation  
Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(4,560,250 )	\$(6,813,620 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment loss and inventory valuation allowance	—	598,479
Loss on disposal of property, plant, and equipment	7,622	—
Loss on disposal of discontinued operations	63,085	59,526
Shares issued for services rendered	143,899	16,667
Amortization of stock issued with debt	210,876	351,313
Amortization of beneficial conversion feature and warrants	934,327	2,905
Amortization of debt incentive conversion	582,143	105,182
Depreciation expense	135,710	187,942
Amortization of deferred financing costs	105,941	20,198
Stock compensation expense	169,418	252,482
Amortization of patents	—	10,830
Amortization of software development costs	43,182	—
Amortization of long term contracts	50,006	139,620
Amortization of purchased technology	50,006	49,995
(Increase) decrease in assets:		
Accounts receivable	(60,503 )	(194,223 )
Inventory	(115,374 )	135,304
Costs in excess of billings	81,103	(143,770 )
Prepaid and other current assets	169,945	158,049
Other assets	30,138	3,293
(Decrease) increase in liabilities:		
Accounts payable	(205,909 )	579,076
Billings in excess of costs	(40,899 )	18,257
Accrued expenses	(10,552 )	332,092
Net cash used in operating activities	(2,216,086 )	(4,130,403 )
Cash flows from investing activities:		
Purchase of property and equipment	(98,714 )	(52,957 )
Software development costs	(1,352,783 )	—
Maturity of certificates of deposit	—	757,500
Cash provided in the sale of Green Tech Products assets	—	(120,838 )
Net cash (used in) provided by investing activities	(1,451,497 )	583,705
Cash flows from financing activities:		
Proceeds from convertible notes payable	1,185,000	2,225,000
Proceeds from notes payable	280,000	2,190,372
Proceeds from notes payable, related party	156,000	152,302
Repayment of notes payable, related party	(52,638 )	(150,257 )
Repayment of notes payable	(936,678 )	(998,707 )
Proceeds from exercise of stock options	30,855	69,400
Deferred financing costs	(44,834 )	(81,305 )
Proceeds from Seller's note	2,613	—
Payment of cash dividend on 10% convertible preferred stock	(93,250 )	—
Net proceeds on issuance of 10% convertible preferred stock	7,410,343	—

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Net cash provided by financing activities	7,937,411	3,406,805
Net increase (decrease) in cash and cash equivalents	4,269,828	(139,893 )
Cash and cash equivalents at beginning of year	153,657	293,550
Cash and cash equivalents at end of year	\$4,423,485	\$ 153,657

See accompanying notes to consolidated financial statements.

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American Power Group Corporation  
Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2012	2011
Supplemental disclosure of cash flow information:		
Interest paid	\$ 237,500	\$ 265,455
Supplemental disclosure of non-cash financing activities:		
Shares issued and returned as additional collateral	\$ (20,000	) \$ 20,000
Shares issued with debt	—	284,093
Shares issued with debt extensions	210,875	—
Shares issued for converted debt	3,713,026	—
Beneficial conversion feature attributable to convertible debt	325,949	403,711
Warrants issued	122,834	187,011
Insurance premiums financed with short-term debt	100,219	—
Shares issued for preferred stock dividend	265,210	—
Beneficial conversion feature attributable to 10% convertible preferred stock	9,748,127	—

See accompanying notes to consolidated financial statements

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American Power Group Corporation  
Notes to Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

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

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

### Recent Developments

On April 30, 2012, we completed a private placement of 10% Convertible Preferred Stock to several institutional investors for gross proceeds of approximately \$8.2 million. The 10% Convertible Preferred Stock is convertible into Common Stock at a conversion price of \$0.40 per share and the investors also received five year warrants to purchase a number of shares of Common Stock equal to the number of shares into which the 10% Convertible Preferred Stock is convertible, at an exercise price of \$0.50 per share. The investors have the right, exercisable at any time before March 31, 2013, to invest up to \$2.7 million to purchase additional shares of 10% Convertible Preferred stock and warrants under the same terms.

### 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 80% (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 20% to 35%;
- Reduce toxic emissions such as nitrogen oxide (NOX), carbon monoxide (CO) and fine particulate emissions; and
- Enhance the engine's operating life, since natural gas is a cleaner burning fuel source.

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



On August 1, 2011, we completed the sale of substantially all of our Green Tech Products' molded recycled rubber products operations to Irish Knight Holdings, L.L.C., a company co-owned by two of Green Tech Products' senior managers. Green Tech Products specialized in the design, development and manufacturing of branded recycled products and services that provide schools and municipalities with environmentally responsible products to create safer work and play environments.

As of September 30, 2012, we had \$4,723,485 in cash, cash equivalents and restricted certificates of deposit and working capital of \$4,525,197. We believe we will be able to satisfy our cash requirements for the near future but 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 American Power Group is 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.

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## Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of APGC and our wholly-owned subsidiaries American Power Group, Inc. and Green Tech Products, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. All molded rubber product operations have been classified as discontinued operations for all periods presented in the accompanying consolidated financial statements.

## 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 estimated lives of property and equipment, other intangible assets, the valuation reserve on deferred taxes, the value of our lease settlement obligation, the value of equity instruments issued and percentage of completion on contracts. 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, 2012.

## 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 September 30, 2012 and 2011, 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. Inventory consists of the following:

	September 30, 2012	September 30, 2011
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Raw materials	\$448,212	\$338,594
Work in progress	—	8,642
Finished goods	15,341	943
Total inventory	\$463,553	\$348,179

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization expense is provided on the straight-line

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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 \$40,142 and \$9,915 for the fiscal years ended September 30, 2012 and 2011, respectively.

#### Research and Development Costs

The Company expenses research and development costs as incurred. Research and development costs were \$0 and \$1,322,021 for the fiscal years ended September 30, 2012 and 2011 as we completed our internal research and development projects relating to the technical feasibility of our new electronic control unit operating software during the fiscal year ended September 30, 2011.

#### 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. Revenues from fixed price and modified fixed price sales and installation contracts are recognized on the percentage of completion method based on 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 becomes known. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued. Revenues from product sales are recognized when the product's installation is complete, title and risk transfer to the customer and collectability is reasonably assured. Revenues derived from maintenance and service agreements are recognized when the service has been rendered to the customer.

#### 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 carry forwards 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, 2012, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and has approximately \$24,000 of accrued interest and penalties relating to state income taxes associated with an inactive subsidiary. The Company is no longer subject to U.S. Federal, state or local income tax examinations by authorities for years before fiscal 2009.

#### 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 \$169,418

and \$252,482 for the fiscal years ended September 30, 2012 and 2011, respectively. The unamortized compensation expense at September 30, 2012 was \$214,548 and will be amortized over a weighted average remaining amortizable life of approximately 2.5 years.

The fair value of each option grant during the year ended September 30, 2012 under the 2005 Stock Option Plan were 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 67% and expected terms of 2 to 5 years.

The fair value of each option grant during the year ended September 30, 2011 under the 2005 Stock Option Plan were 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

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ranging from 71% to 87% and expected terms of 2 to 3 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, 2012 and 2011, respectively. Accumulated amortization was \$316,667 and \$216,667 at September 30, 2012 and 2011, 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, 2012, we have capitalized \$1,352,783 of development costs associated with our Outside Useful Life ("OUL") (\$507,533) and Inside Useful Life ("IUL") (\$845,250) 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 year ended September 30, 2012 was \$43,182.

Years ending September 30:	Contracts	Technology	Development	Total
2013	\$50,000	\$50,000	\$225,223	\$325,223
2014	50,000	50,000	242,535	342,535
2015	50,000	50,000	242,535	342,535
2016	50,000	50,000	242,535	342,535
2017	50,000	50,000	220,634	320,634
2018 and thereafter	91,666	91,666	136,139	319,471
	\$341,666	\$341,666	\$1,309,601	\$1,992,933

On June 30, 2011, we amended the Exclusive Patent License Agreement dated as of June 17, 2009 between our company and M&R. Pursuant to the amendment:

The royalties payable to M&R will be reduced from 10% to 6% for sales as defined in the license from and after the date (the "Royalty Modification Date") that the sum of all royalties paid to M&R under the license equals \$15 million on a cumulative basis, and will be eliminated altogether from and after the date that the sum of all royalties paid to M&R equals \$36 million on a cumulative basis (the "Technology Transfer Date");

Prior to the Royalty Modification Date, neither M&R nor any of its stockholders, directors, officers or other representatives may (i) sell, license or otherwise transfer any of the patent rights licensed by us or any other proprietary technology or information owned by M&R which relate to the licensed patent rights (together, the “Technology Rights”), (ii) sell or otherwise transfer a majority of M&R's outstanding capital stock or (iii) enter into any agreement or commitment contemplating either of the foregoing;

M&R has assigned all of its right, title and interest in and to the Technology Rights to us, such assignment to be effective on the Technology Transfer Date, and subject only to the prior receipt by M&R of \$36 million in cumulative royalty payments on or before such date;

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At any time during the period beginning on the Royalty Modification Date and ending on the first anniversary of the Royalty Modification Date, the Company may purchase the Technology Rights from M&R for an additional payment of \$17.5 million; and

If we do not exercise the foregoing purchase right prior to the first anniversary of the Royalty Modification Date, and if M&R subsequently receives a bona fide offer from a third party to purchase some or all of the Technology Rights, we will have the right, exercisable at any time within 30 days after the receipt of such an offer, to purchase the Technology Rights from M&R for a purchase price equal to 110% of the price offered by such third party less the sum of all royalties paid to M&R on or before the date we give notice of our election to purchase the Technology Rights.

In conjunction with the 10% Convertible Preferred Stock financing, on April 27, 2012, we again amended the Exclusive Patent License Agreement 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 zero. During the fiscal years ended September 30, 2012 and 2011, we incurred license fees to M&R of \$120,404 and \$173,637, respectively.

#### Product Warranty Costs

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

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

	September 30, 2012	September 30, 2011
Warranty accrual at the beginning of the period	\$27,620	\$6,188
Charged to costs and expenses relating to new sales	23,814	25,720
Costs of product warranty claims	(33,128	) (4,288
Warranty accrual at the end of period	\$18,306	\$27,620

#### 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

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ASU 2011-11, Balance Sheet  
(Topic 210): Disclosures about  
Offsetting Assets and Liabilities

This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. The requirements are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is currently evaluating the prospective effects, if any, of adopting this guidance.

ASU 2012-02,  
Intangibles-Goodwill and Other  
(Topic 350): Testing  
Indefinite-Lived Intangible Assets  
for Impairment

This ASU gives an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets other than goodwill. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. The Company is currently evaluating the prospective effects, if any, of adopting this guidance.

ASU 2012-04, Technical  
Corrections and Improvements

This ASU makes certain incremental improvements to U.S. GAAP, including, among other revisions, conforming amendments that identify when the use of fair value should be linked to the definition of fair value in ASC 820. The majority of the amendments in ASU 2012-04 were effective upon issuance on October 1, 2012, for both public entities and nonpublic entities. For public entities, the more substantive amendments that are subject to transition guidance are effective for fiscal periods beginning after December 15, 2012. The Company is currently evaluating the prospective effects, if any, of adopting this guidance.

#### Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 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 and the deemed-dividend from the beneficial conversion feature recorded by the weighted average number of common shares outstanding during the period. The beneficial conversion feature recorded resulted from the issuance of 10% Convertible Preferred Stock, warrants and an additional investment right with conversion prices less than the fair value of the as-converted common shares. The beneficial conversion feature is the difference between the conversion prices of the 10% Convertible Preferred Stock, warrants and additional investment right and the fair value of the common stock into which they are convertible (as calculated under the Black-Scholes pricing model), multiplied by the number of common shares they are convertible into. The result has no impact on our cash, net loss or total stockholders' equity. However, it does increase the net loss per common share for purposes of presenting net loss

per share. 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 loss per share are the same for the years ended September 30, 2012 and 2011 since the effect of the inclusion of 10% Convertible Preferred Stock, outstanding options and warrants and would be anti-dilutive. The calculation of additional exercisable options and warrants above excludes 26,831,223 and 4,922,618 options and warrants that are outstanding at September 30, 2011 and 2010 respectively and 18,982,500 shares issuable upon conversion of Preferred Stock at September 30, 2012. 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.

## 2. Discontinued Operations

On August 1, 2011, we completed the sale of substantially all of the assets of Green Tech Products to Irish Knight Holdings, L.L.C., a company co-owned by two of Green Tech Products' senior managers, and recorded a loss on disposal of approximately \$59,000. The consideration for the purchase of the assets was (i) the assumption of substantially all of Green Tech Products' liabilities, which were approximately \$1.2 million; (ii) a \$50,000 stock inventory credit toward the purchase of products and

services from the buyer, which credit may be applied during the first nine months after completion of the sale; and (iii) a promissory note in the principal amount of \$100,000, which is payable in increasing monthly installments over a period of 60 months.

In March 2012, Irish Knight Holdings agreed, in consideration of a \$25,000 reduction in the stock inventory credit and a 38,000 reduction in the then outstanding balance of the promissory note, to pay us a total of \$80,000 by December 31, 2012 in full satisfaction of the inventory credit and note. As a result, we recorded an additional loss on disposal of discontinued assets of \$63,000 during the twelve months ended September 30, 2012. As of September 30, 2012 the balance due under the note was \$30,000. The note was paid off in December 2012.

Net sales and loss from our discontinued molded rubber products operations for the twelve months ended September 30 were as follows:

	September 30, 2012		September 30, 2011
Net sales from discontinued operations	\$—		\$2,150,806
Loss on disposal of discontinued operations, net of taxes	\$(63,085	)	\$(59,526
Loss from discontinued operations, net of taxes	\$—		\$(1,116,413

### 3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2012		September 30, 2011	Estimated Useful Lives
Machinery and equipment	\$719,474		\$657,155	3 – 7 years
Less accumulated depreciation	(380,552	)	(273,615	
Machinery and equipment, net	\$338,922		\$383,540	

### 4. Contracts in Progress

Contracts in progress consist of the following:

	September 30, 2012		September 30, 2011
Costs incurred on uncompleted contracts	\$419,396		\$549,319
Estimated earnings on contracts in progress	126,564		83,991
	545,960		633,310
Less billings on contracts in progress	485,101		532,247
	\$60,859		\$101,063
Costs and estimated earnings in excess of billings	\$62,667		\$143,770
Billings in excess of costs and estimated earnings	1,808		42,707
	\$60,859		\$101,063

### 5. 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 \$800,000. The note bears interest at the rate of 5.5% per annum and was based on the difference between the assets acquired and the consideration given. Per our agreement, 25% of any royalties due periodically to M&R under a technology license agreement will be applied against outstanding interest and principal due under the terms of the note rather than be paid to M&R. In conjunction with the 10% Convertible Preferred Stock financing, on April 27, 2012, we amended the note to extend the maturity of the note from July 2013 to February 2015 and defer all

interest and principal payments due under the note during calendar 2012. Thereafter, the aggregate principal amount due under the note will be paid in eight equal quarterly payments plus interest. Based on the fiscal year 2013 plan, we have classified \$164,038 of the balance as the current portion. We consider this a related party note as one of the former owners of American Power Group is now an employee of ours.

6. Long Term Deposits

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In December 2007, we made a \$149,600 deposit to a third party to secure the exclusive supply and distribution rights in the United States to a technology being developed in China that was intended to transform recycled scrap tires into renewable by-products. Based on significant delays in the development and commercialization of the technology and the third party's inability to secure additional funding to complete the development, management has determined the realizability of the deposit to be impaired and therefore has recorded an impairment charge of \$149,600 during the year ended September 30, 2011.

## 7. Notes Payable/Credit Facilities

### Credit Facilities

American Power Group has a \$2,250,000 credit facility with Iowa State Bank of which \$1,200,000 is considered our working capital line under which we may borrow up to 50% of the value of eligible inventory and 75% of eligible accounts receivable. We have collateralized the obligations by: (i) granting to the lender a security interest in a \$300,000 certificate of deposit and certain additional collateral and (ii) issuing to the lender, as additional collateral, 2,000,000 shares of our Common Stock. The shares, which could not be sold unless we are in default, were valued at \$20,000 at November 9, 2010, representing their par value and are treated as a contra equity amount on the balance sheet at September 30, 2011. In December 2011, the lender agreed to return the 2,000,000 shares in return for our pledge to issue in the future up to 2,000,000 shares in the event of a default. This pledge agreement will be terminated at such time as all obligations under the credit facility have been satisfied and the lender has no further obligations to make advances under the credit facility. During June 2011, Iowa State Bank agreed to advance an additional \$250,000 under the credit facility under the condition it was repaid by July 31, 2011 (subsequently extended to December 31, 2013). In addition, two directors and two members of management have each pledged 125,000 shares of our Common Stock as additional collateral for this \$250,000 advance. At September 30, 2012 and 2011, we had \$1,560,110 and \$1,530,110 outstanding under the credit facility, respectively. In conjunction with the completion of our 10% Convertible Preferred Stock financing on April 30, 2012, Iowa State Bank extended the maturity of our credit facility to April 25, 2013 and increased our borrowing limits to \$2,250,000. In December 2012, Iowa State Bank agreed to extend the maturity of the credit facility to December 31, 2013.

### Short Term Promissory Notes (including Related Party)

In September 2010, we commenced a private offering of 12% unsecured, six-month promissory notes payable in an effort to raise up to \$850,000 in gross proceeds. In addition, we agreed to issue 0.5 shares of unregistered Common Stock for each \$1 invested in the offering. In September and October 2010, we issued our 12% unsecured, six-month promissory notes for gross proceeds of \$573,500, including notes with aggregate gross proceeds of \$323,500 issued to a director and an officer of our company. In connection with the issuance of a note for \$250,000, two directors and a member of management each pledged 125,000 shares of our Common Stock as additional collateral. In addition, we issued 0.5 shares of unregistered Common Stock for each dollar invested in the offering, or 311,750 shares of Common Stock, including an aggregate of 161,750 shares of Common Stock to the director and officer. We also issued 25,000 shares of Common Stock as a placement fee. In March 2011, the note holders agreed to extend the maturity date of the notes for an additional six additional months after the original maturity date of the notes. In consideration of these extensions, we issued 0.5 additional shares of unregistered Common Stock for each dollar invested in the offering, or 161,750 additional shares of Common Stock.

In February and March 2011, we issued additional six-month promissory notes for gross proceeds of \$270,000, including a note with gross proceeds of \$20,000 issued to a director of our company. In connection with the issuance of the \$250,000 note, two directors and member of management have each pledged 125,000 shares of our Common Stock as additional collateral for this \$250,000 note. In addition, we issued an aggregate of 135,000 shares of

Common Stock, including 10,000 shares of Common Stock to the director. We paid a placement fee of \$30,000 in connection with the issuance of these notes.

In October 2011, the holder of a note in the principal amount of \$250,000 agreed to extend the maturity date of such note to February 8, 2012 and the remaining holders agreed to extend the maturity of their notes to March 31, 2012. In consideration of these extensions, we issued 0.5 additional shares of unregistered Common Stock for each dollar invested, or 421,750 additional shares of Common Stock. In conjunction with 10% Convertible Preferred Stock financing, we repaid an aggregate of \$495,000 in principal due several note holders including \$20,000 due to a related party. All parties agreed to waive any default in conjunction with these payments.

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Notes payable consists of the following at:	September 30, 2012	September 30, 2011
Term notes payable, Iowa State Bank, secured by a \$300,000 certificate of deposit and 2 million shares of common stock, with rates ranging from 5.5% to 7% and principal due December 31, 2013	\$ 1,560,110	\$ 1,530,110
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 with due dates ranging from August 2014 to March 2015	84,705	121,819
Term note payable, investor, secured by a 375,000 share stock pledge, requiring monthly interest payments at 12% and with principal due February 8, 2012	—	250,000
Term note payable, investor, secured by a 375,000 share stock pledge, requiring monthly interest payments at 12% and with principal due March 31, 2012	—	250,000
Other unsecured term note payable with interest rate at 5.7%, requiring monthly payments of principal and interest with a due date of February 27, 2013	50,706	100,051
	1,695,521	2,251,980
Less current portion	(90,484	) (2,167,285
Notes payable, non-current portion	\$ 1,605,037	\$ 84,695

The following is a summary of maturities of carrying values of all notes payable at September 30, 2012:

Years Ending September 30:

2013	\$ 90,484
2014	1,597,538
2015	7,499
	\$ 1,695,521

Note Payable-Related Party- Other

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

	September 30, 2012	September 30, 2011
Officer and director 8% promissory notes, due April 30, 2014	\$ 323,500	\$ 343,500
Officer 8% promissory note, due April 30, 2014	150,000	—
Other related party notes	—	26,638
	\$ 473,500	\$ 370,138

Convertible Notes Payable

In October 2010, we commenced a private offering of 10% convertible notes payable and raised \$500,000 in gross proceeds. The convertible notes were due 24 months after issuance and are convertible, after six months, into shares of Common Stock at a conversion price equal to 85% of the closing price of our Common Stock on the day the notes are issued. In conjunction with the issuance of these notes we recorded deferred financing costs of \$29,555, including \$2,905 associated with the issuance of placement agent warrants to purchase an aggregate of 15,000 shares of our Common Stock at exercise prices ranging from \$0.45 to \$0.61 per share. The warrants are immediately exercisable and have a term of two years from the date of grant. During the fiscal year ended September 30, 2012, the principal balance of \$500,000 and \$34,066 of interest were converted into 1,229,228 shares of our Common Stock.

Amortization of deferred financing costs was \$18,978 and \$10,578 during the fiscal years ended September 30, 2012 and 2011, respectively reflecting the amortization of all remaining amounts during fiscal year 2012. In addition, the notes contained a beneficial conversion feature of \$85,343 at issuance based on the intrinsic value of the shares into



which the notes are convertible. The beneficial conversion discount was recorded as paid-in-capital and was amortized to interest expense over the two-year term of the notes or ratably upon any partial conversion. Amortization of the beneficial conversion feature was \$55,037 and \$30,306 during the fiscal years ended September 30, 2012 and 2011, respectively

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reflecting the amortization of all remaining amount during fiscal year 2012. This offering was discontinued in March 2011.

In April 2011, we issued additional 10% unsecured convertible promissory notes for gross proceeds of \$1,150,000. The convertible notes are payable 24 months after issuance. Each note is convertible at any time, at the option of the holder, into shares of Common Stock at a conversion price equal to the lower of (i) 110% of the volume-weighted average price of the Common Stock as of April 22, 2011 (the date the first such notes were issued) or \$0.59 or (ii) in the event that we issue shares of our Common Stock in a financing on or before September 30, 2011, the gross proceeds of which, at a single closing, exceed \$5,000,000 (a "Qualified Financing"), 110% of the price per share of Common Stock paid by investors in such financing. Each note will be convertible at our option into shares of Common Stock at such conversion price if, at any time after the first anniversary of the issuance of the note and prior to the note's maturity, the average closing price of the Common Stock, as reflected on the principal stock exchange or trading market for the Common Stock, equals or exceeds \$1.60 per share (as such price may be equitably adjusted upon certain events such as stock dividends, distributions and splits) for 20 consecutive trading days. During June and July 2011, we received an additional \$575,000 from investors under the same terms as the initial investors. In addition, each investor received a warrant to purchase that number of shares of Common Stock which is equal to the number of shares of Common Stock into which the principal amount of the note subscribed for by the investor is convertible, multiplied by 0.3. Each warrant will be exercisable for a period of five years after the date the investor subscribed for his or her note, at a price equal to the lower of (i) 120% of the volume-weighted average price of the Common Stock on April 22, 2011 (the date the first such notes were issued), or (ii) in the event that we issue shares of our Common Stock in a Qualified Financing, 90% of the price per share of Common Stock paid by investors in such financing. This offering was discontinued in August 2011.

During the fiscal year ended September 30, 2012, notes in the principal amount of \$1,725,000 plus accrued interest of \$157,521 were converted into 4,083,604 shares of our Common Stock. In recognition of the agreement of certain investors to convert early, we agreed to reduce the conversion price on \$1.6 million of notes from \$0.59 to \$0.45. We recorded a non-cash incentive conversion expense of \$582,143 during the fiscal year ended September 30, 2012 associated with this repricing. In conjunction with this offering, we granted warrants to purchase an aggregate of 877,119 shares of our Common Stock at an exercise price of \$0.65 per share. We also incurred deferred financing cost of \$51,750 associated with placement agent fees. Amortization of deferred financing costs was \$42,091 and \$9,659 during the fiscal years ended September 30, 2012 and 2011, respectively reflecting the amortization of all remaining amounts during fiscal year 2012. We recorded a debt discount associated with the issuance of the warrants of \$187,011. In addition, the notes contained a beneficial conversion feature of \$318,367 at issuance based on the intrinsic value of the shares into which the notes are convertible. The debt discount value and the beneficial conversion feature were recorded as paid-in-capital and were amortized to interest expense over the two year term of the notes or ratably upon any partial conversion. Amortization of the debt discount value and beneficial conversion feature was \$430,502 and \$74,876 during the fiscal years ended September 30, 2012 and 2011, respectively reflecting the amortization of all remaining amounts during fiscal year 2012.

In November 2011, we commenced a new private offering of 10% convertible notes payable in an effort to raise up to \$1.5 million in gross proceeds. The convertible notes are payable 24 months after issuance. Each note is convertible at any time, at the option of the holder, into shares of Common Stock at a conversion price equal to 85% of the closing bid price of the Common Stock on the day the notes were issued. Each note will be convertible at our option into shares of Common Stock at such conversion price if, at any time after the first anniversary of the issuance of the note and prior to the note's maturity, the average closing price of the Common Stock, as reflected on the principal stock exchange or trading market for the Common Stock, equals or exceeds \$1.60 per share (as such price may be equitably adjusted upon certain events such as stock dividends, distributions and splits) for 20 consecutive trading days. In addition, each investor received a warrant to purchase that number of shares of Common Stock which is equal to the number of shares of Common Stock into which the principal amount of the note subscribed for by the investor is

convertible, multiplied by 0.3. Each warrant will be exercisable for a period of five years after the date the investor subscribed for his or her note, at a price equal to 95% of the closing bid price of the Common Stock on the day the notes were issued.

During the period of November and December 2011, we issued \$507,000 of convertible notes and granted warrants to purchase an aggregate of 341,405 shares of our Common Stock at exercise prices ranging from \$0.46 to \$0.64 per share. During January and February 2012, we received an additional \$678,000 from investors under the same terms as the initial investors and granted warrants to purchase an aggregate of 433,700 shares of our Common Stock at exercise prices ranging from \$0.42 to \$0.61 per share. In April 2012, as required by the 10% Convertible Preferred Stock investors, all notes in the principal amount of \$1,185,000 plus accrued interest of \$30,940 were converted into 2,650,322 shares of our Common Stock. We incurred deferred financing cost of \$34,450 associated with placement agent fees. Amortization of deferred financing costs was \$34,450 for the fiscal year ended September 30, 2012 reflecting the amortization of all remaining amounts during fiscal year 2012. We recorded a debt discount associated with the issuance of the warrants of \$122,834. In addition, the notes contained a beneficial conversion feature of \$325,949 at issuance based on the intrinsic value of the shares into which the notes are convertible. The debt discount value and the beneficial conversion feature were recorded as paid-in-capital and were amortized to interest expense over the

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two year term of the notes or ratably upon any partial conversion. Amortization of the debt discount value and beneficial conversion feature was \$448,783 during the fiscal year ended September 30, 2012 reflecting the amortization of all remaining amounts during fiscal year 2012.

## 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.

### Related Party Consulting Agreement

We had a month-to-month consulting agreement at a rate of \$7,500 per month with a company owned by one of our directors who also serves as the Chairman of our Compensation committee. The consulting firm is currently providing assistance in the areas of due diligence support as well as market opportunity identification and evaluation, Board of Director candidate identification and evaluation and other services as our Board may determine. The agreement was terminated in December 2012.

### 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, 2012 and 2011, 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. On October 1, 2010, we signed a one-year lease with M&R with monthly rental payments of \$8,914 on a triple net basis. On October 1, 2011, we executed a new 2 year lease agreement requiring monthly rental payments of \$10,000 on a triple net basis. In conjunction with the 10% Convertible Preferred Stock financing, on May 1, 2012, we executed a new 3 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. We have the option to renew this lease for an additional two year term at a mutually agreed upon rate.

For the fiscal years ended September 30, 2012 and 2011, total related party rental expense in connection with non-cancellable real estate leases amounted to \$143,248 and \$145,460, respectively.

The total future minimum rental commitment at September 30, 2012 under the above related party office and warehousing space operating lease is as follows:

Years Ending September 30,	
2013	\$ 120,000
2014	120,000
2015	70,000
	\$ 310,000

### Lease Settlement Obligations

In 2006 we received notice from the Georgia landlord indicating that our former Georgia subsidiary was in default under the lease due to its insolvent financial condition. The landlord agreed to waive the default but required that all current and future rights and obligations under the lease be assigned to GreenMan Technologies, Inc. pursuant to a March 2001 guaranty agreement. 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) three 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. We currently sublease a portion of the property to two entities with one paying \$4,250 per month under a lease agreement expiring in February 2013 and the other paying \$7,500 per month on a tenant-at-will basis. During fiscal years 2012 and 2011, we had rental income of \$141,000 and \$126,000, respectively, associated with the Georgia property and rental expense of \$260,375 and \$304,555 respectively.

The total future minimum rental obligations at September 30, 2012 under the above real estate operating lease is as follows:

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Years Ending September 30,	
2013	\$ 68,518
2014	195,401
2015	214,338
2016	95,801
	\$ 574,058

#### Litigation

We received notice on January 26, 2011 that the Orland Unified School District, Orland, California had filed a complaint in the Glen County Superior Court in the State of California against Green Tech Products and its subsidiaries, GreenMan Technologies and several other unrelated parties seeking general monetary damages, exemplary damages, other statutory damages, attorneys' fees and costs and other equitable remedies relating to their dissatisfaction with the installation of several playground equipment and tile projects during 2008. We believe the case was without merit and that we had substantial defenses against the plaintiff's claims. To avoid further expenses of litigation, however, on August 5, 2011, we entered into a settlement agreement with the plaintiff. Under this agreement, the plaintiff agreed to dismiss its lawsuit and to release all of its claims against all of the defendants, in exchange for our agreement to pay the plaintiff \$100,000, of which \$50,000 was paid within seven days of the execution of the agreement and \$25,000 is payable on each of the first and second anniversaries of the execution of the agreement. As of September 30, 2012 and 2011, the remaining balance due was \$25,000 and \$50,000, respectively.

#### 9. Stockholders' Equity

##### Authorized Shares

On July 29, 2011, our shareholders approved an amendment to our Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 60 million to 100 million and then on July 23, 2012 approved an additional increase to 150 million shares.

##### Common Stock

In October 2011, holders of \$843,500 in notes payable (including \$343,500 due to related parties) agreed to extend the maturity of \$250,000 of the notes to February 8, 2012 and the remaining balance to March 31, 2012. In consideration of these extensions, we issued 0.5 additional shares of unregistered Common Stock for each dollar invested in the offering or 421,750 additional shares of Common Stock to the holders in aggregate.

In November 2011, certain convertible note holders agreed to accept 153,241 shares of unregistered Common Stock (valued at \$90,411) in lieu of cash for interest payments due the note holders.

In December 2011, we issued 100,000 shares of unregistered Common Stock (valued at \$48,000) to Ardour Capital for services to be rendered pursuant to the Strategic Financial Advisor Agreement as of that date.

In January 2012, an employee exercised options to purchase an aggregate of 40,000 shares of Common Stock utilizing a cashless exercise feature resulting in the net issuance of 22,222 shares of Common Stock.

During the twelve months ended September 30, 2012, two directors and an officer agreed to accept 80,000 shares of unregistered Common Stock (valued at \$39,000) in lieu of cash for certain director's fees and wages due the individuals.

During the twelve months ended September 30, 2012, several third parties agreed to accept 83,757 shares of unregistered Common Stock (valued at \$41,899) in lieu of cash for consulting fees due.

On May 1, 2012 we issued 25,000 shares of our unregistered Common Stock as a restricted stock award to a new director as a future incentive. We recorded a \$15,000 expense (the assigned fair value based on the closing bid price) associated with the issuance of these shares during the three months ended June 30, 2012.

During May and June 2012, two former directors exercised options to purchase an aggregate of 79,000 shares of Common Stock at exercise prices ranging from \$0.23 to \$0.51 per share.

On June 30, 2012 and September 30, 2012, certain 10% Convertible Preferred Stock holders agreed to accept 158,448 and 239,746 shares of Common Stock (valued at \$111,500 and \$153,710), respectively, in lieu of cash for dividend payments due the holders.

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. We incurred cash fees associated with the

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placement of approximately \$676,000 and issued 100,000 shares of Common Stock valued at \$48,000. In conjunction with the private placement we issued the placement agent a five-year warrant to purchase 450,000 shares of our Common Stock at an exercise price of \$0.40 per share (valued at \$173,000). We used approximately \$495,000 of the net proceeds to retire short term debt and intend to use the balance to advance our dual fuel technologies business. 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. In connection with the exercise of that right, Dr. Allen Kahn and Thomas Galvin resigned from the Board of Directors following the completion of the private placement and the Board of Directors appointed Neil Braverman, Dr. Aviel Faliks and Jamie Weston as 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.

During the fiscal year ended September 30, 2012, 62.3 shares of 10% Convertible Preferred Stock were converted into 1,557,705 shares of Common Stock. As of September 30, 2012, there were approximately 759.3 shares of 10% Convertible Preferred Stock outstanding which are convertible into 18,982,500 shares of Common Stock which had a fair value of approximately \$12,149,000 based on the closing price of our Common Stock on September 30, 2012.

During the fiscal year ended September 30, 2012, we recorded dividends associated with the 10% Convertible Preferred Stock of \$358,460. We paid cash dividends of \$93,250 and issued 398,194 shares of Common Stock valued at \$265,210 in lieu of cash for dividend payments.

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 \$2.7 million to buy additional units under the same terms described above. We determined the initial value of the 10% Convertible Preferred Stock to be \$4,629,873, the investor warrants to be \$2,219,758 and the additional investment right to be \$1,366,369 using models we consider to be appropriate. In addition, we determined a beneficial conversion feature of \$9,748,127 based on the intrinsic value of the shares of



Common Stock to be issued pursuant to these three rights. The value of the beneficial conversion feature is considered a “deemed dividend” and has been recorded as a charge to retained earnings at September 30, 2012.

In connection with the private placement, we entered into a registration rights agreement with the holders of the 10% Convertible Preferred Stock. Pursuant to the registration rights agreement, we filed a registration statement with the Securities and Exchange Commission on May 30, 2012, to register for resale certain shares of Common Stock issuable upon the payment of dividends on the 10% Convertible Preferred Stock, the conversion of the 10% Convertible Preferred Stock and upon the exercise

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of the warrants. On July 25, 2012 our registration statement relating to the potential resale of up to 11,553,282 shares of Common Stock was declared effective.

In connection with the private placement, we entered into a voting agreement with the holders of the 10% Convertible Preferred Stock. Pursuant to the voting agreement, the investors have agreed to vote their shares of 10% Convertible Preferred Stock to elect: (a) two individuals to the Board of Directors designated by Spring Mountain Capital, for as long as Spring Mountain Capital or its affiliates owns shares of 10% Convertible Preferred Stock; and (b) one individual to the Board of Directors designated by Associated Private Equity LLC, for as long as Associated Private Equity LLC or its affiliates owns shares of 10% Convertible Preferred Stock.

#### 1993 Stock Option Plan

The 1993 Stock Option Plan was established to provide stock options to our employees, officers, directors and consultants. This plan expired in June 2004 as it relates to new grants.

Stock options and activity under the plan is summarized as follows:

	Year Ended September 30, 2012		Year Ended September 30, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	22.5	\$ 1.80	72.5	\$ 0.83
Granted	—	—	—	—
Forfeited or expired	(22.5 )	1.80	—	—
Exercised	—	—	(50 )	0.40
Outstanding at end of period	—	—	22.5	1.80
Exercisable at end of period	—	—	22.5	1.80
Reserved for future grants at end of period	—	—	—	—
Aggregate intrinsic value of exercisable options	\$—	—	\$—	—
Weighted average fair value of options granted during the period		\$—		\$—

#### 2005 Stock Option Plans

The 2005 Stock Option Plan (the "2005 Plan") was approved by our stockholders on June 16, 2005. The options granted under the 2005 Stock Option 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 2011, we granted options to several directors and employees to purchase an aggregate of 280,000 shares of our common stock at an exercise prices ranging from \$.45 to \$.80 per share, which represented the closing price of our stock on the date of each respective grant. The options granted have a ten-year term and vested immediately upon the date of grant. The fair value of the options at the date of grant in aggregate was \$81,295 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 rates ranging from .68% to 1.05%; expected volatility based on historical trading information ranging from 74% to 81% and expected terms ranging from 2 to 3 years.

During fiscal year 2012, we granted options to a director and several employees to purchase an aggregate of 500,000 shares of our common stock at an exercise prices ranging from \$.48 to \$.60 per share, which represented the closing price of our stock on the date of each respective grant. The options granted have a ten-year term with 285,000 options vesting equally over a five-year period from the date of grant 215,000 options vesting immediately on date of grant.

The fair value of the options at the date of grant in aggregate was \$117,226 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 67% and expected terms ranging from 2 to 5 years.

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	Year Ended September 30, 2012		Year Ended September 30, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,861,000	\$.34	3,693,000	\$.31
Granted	500,000	.49	280,000	.68
Forfeited or expired	(182,000 )	.36	—	—
Exercised	(117,000 )	.29	(112,000 )	.34
Outstanding at end of period	4,062,000	.36	3,861,000	.34
Exercisable at end of period	3,020,000	.36	2,427,800	.36
Reserved for future grants	1,675,000		1,993,000	
Aggregate intrinsic value of exercisable options	871,090		\$1,073,130	
Aggregate intrinsic value of all options	1,115,810		\$1,774,830	
Weighted average fair value of options granted during the period		\$.23		\$.29

Information pertaining to options outstanding under the plan at September 30, 2012 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	4,062,000	6.4 years	\$.36	3,020,000	6.0 years	\$.36

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

	Year Ended September 30, 2012	
	Shares	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	1,433.2	\$.21
Granted	500	.23
Vested	(891.2 )	.20
Non-vested at end of period	1,042	.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, 2012, options to purchase 12,000 shares of our Common Stock are outstanding and exercisable at prices ranging from \$0.51 to \$1.95 and had a weighted average exercise price of \$1.19 per share and a weighted average contractual life of 1.6. During the fiscal year ended September 30, 2012, options to purchase 2,000 shares of Common Stock at \$.51 per share were exercised and options to purchase 8,000 shares of Common Stock at prices ranging from \$1.10 to \$1.95

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expired unexercised.

#### Warrants and Other Stock Options

During fiscal year 2011, we granted options to a consultant to purchase 100,000 shares of our common stock at an exercise price of \$.41 per share, which represented the closing price of our stock on the date of each respective grant. The options granted have a four year term and vest 25% immediately on the date of grant with the balance vesting equally over a three year period. The fair value of the options at the date of grant in aggregate was \$22,703 which was determined on the date of grant using the Black Scholes option pricing model with the following assumptions; dividend yield of 0%; risk-free interest rate of .05%; expected volatility based on historical trading information of 81% and expected term of 3 years.

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

	Year Ended September 30, 2012		Year Ended September 30, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,017,118	\$.65	175,000	\$.56
Granted	21,765,105	.50	992,118	.62
Forfeited, expired, repurchased	(25,000 )	.25	—	—
Exercised	(14,634 )	.45	(150,000 )	.40
Outstanding at end of period	22,742,589	.50	1,017,118	.65
Exercisable at end of period	22,692,589	.50	1,017,118	.65
Aggregate intrinsic value of exercisable options /warrants	\$3,094,224		\$173,688	
Aggregate intrinsic value of all options/warrants	\$3,105,724		\$173,688	
Weighted average fair value of options granted during the period		\$.34		\$.21

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 - \$1.51	22,742,589	5 years	\$.50	22,692,589	5 years	\$.50

#### Common Stock Reserved

We have reserved common stock at September 30, 2012 as follows:

Stock option plans	4,074,000
Other stock options	100,000
Other warrants	22,642,589
Shares issuable upon conversion of preferred stock	18,982,500
	45,799,089

#### 10. 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, 2012 and 2011, respectively.



## 11. Concentrations

During the fiscal year ended September 30, 2012 there was one customer who accounted for 54% of consolidated net sales. During the fiscal year ended September 30, 2011 there were four dual fuel customers who accounted for 72% of consolidated net sales with no one individual customer representing more than 35% of the total.

We are dependent on a third-party firm for providing engineering services relating to our EPA testing and approval activities. At September 30, 2012 and 2011, the supplier accounted for 48% and 38% of the American Power Group, Inc's accounts payable. We believe that our relationship with this supplier is satisfactory.

## 12. Fair Value of Financial Instruments

At September 30, 2012 and 2011, 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. The fair value of the underlying Common Stock to be issued upon conversion of the 759.3 shares of the 10% Convertible Preferred Stock is approximately \$12,149,000 at September 30, 2012 based upon the intrinsic value of the conversion feature on that date (see Note 9).

## 13. Income Taxes

The (benefit) for income taxes was comprised of the following amounts for the years ended:

	September 30, 2012	September 30, 2011	
Current:			
Federal	\$—	\$(316,706	)
State	—	(4,813	)
	—	321,519	
Deferred:			
Federal	—	—	
State	—	—	
	—	—	
Change in valuation reserve	—	—	
Total (benefit) for income taxes included in discontinued operations	\$—	\$321,519	

In the course of preparing our September 30, 2010 (2009 Tax Year) income tax returns, it was determined that, pursuant to the provisions of The Worker, Homeownership, and Business Assistance Act of 2009 (“WHBAA”), we were eligible for a refund of \$316,706 relating to federal taxes paid in the prior year. The WHBAA is a very specific and narrowly focused act which provided for a net operating loss (“NOL”) carryback of up to five years for NOLs (including Alternative Minimum Tax NOLs) incurred in taxable years beginning or ending in either 2008 or 2009 (but not both). Use of the Alternative Minimum Tax NOL is limited to 90% of the alternative minimum taxable income, however the WHBAA legislation suspended the 90% limitation on the use of any AMT NOL for the carryback period. The entire refund relates entirely to federal Alternative Minimum Tax paid in prior years and has been recorded as an income tax benefit along with \$4,813 of state refundable income taxes in the accompanying financial statements for the fiscal year ended September 30, 2011.

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, 2012		September 30, 2011	
Net operating loss carry forwards	\$9,862,779		\$8,556,302	
Differences in fixed asset basis	(51,483	)	(69,199	)
Alternative Minimum Tax amounts	14,923		14,923	
State NOL amounts	922,599		892,250	
Capitalized development costs	(472,766	)	—	
Other, net	273,449		57,770	
	10,549,501		9,452,046	
Valuation reserve	(10,549,501	)	(9,452,046	)
Net deferred tax asset	\$—		\$—	
The following differences between the U.S. Federal statutory income tax rate and our effective tax rate are:				
	September 30, 2012		September 30, 2011	
Statutory U.S. tax rate	34.0	%	34.0	%
State taxes, net of federal benefit	2.1		0.1	
Amortization	(0.4	)	0.7	
All others, net	(0.8	)	3.9	
U.S. business credits	1.2		(0.5	)
Convertible debt discount	(12.0	)	—	
Valuation allowance	(24.1	)	(33.7	)
Effective Tax Rate	—	%	4.5	%

As of September 30, 2012, we had net operating loss carry forwards of approximately \$29.0 million. The net operating loss carry forwards expire beginning in 2021 through 2032. In addition, we have Federal tax credit carry forwards of approximately \$141,000 available to reduce future tax liabilities. The Federal tax credit carry forwards expire beginning in 2030 through 2032. These carry forwards maybe subject to limitations under Sections 382 and 383 of the Internal Revenue Code if significant ownership changes have been determined to have occurred.

#### 14. Subsequent Events

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

In addition, we issued WheelTime a warrant to purchase 1,540,000 shares of our Common Stock at an exercise price of \$.55 per share. The warrant is immediately exercisable with respect to 100,000 shares of Common Stock with the remaining shares becoming exercisable in increments of 50,000 shares upon the execution of a certified installer and service agreement by each of the 18 members during the first year after the original issue date of the Warrant. The Warrant will expire on December 31, 2017.

During the three months ended December 31, 2012, approximately 40 shares of 10% Convertible Preferred Stock were converted into 992,295 shares of Common Stock.

AMERICAN POWER GROUP CORPORATION

11,553,282 SHARES OF COMMON STOCK

PROSPECTUS

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR THAT WE HAVE REFERRED YOU TO. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS PROSPECTUS IS NOT AN OFFER TO SELL COMMON STOCK AND IS NOT SOLICITING AN OFFER TO BUY COMMON STOCK IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

The Date of this Prospectus is \_\_\_\_\_, 2013

PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Expenses of the Registrant in connection with the issuance and distribution of the securities being registered are estimated as follows:

SEC Registration Fee	\$3,682.55	*
Printing and Engraving Expenses	\$15,000.00	
Legal Fees and Expenses	\$40,000.00	
Accountants' Fees and Expenses	\$25,000.00	
Miscellaneous Costs	\$5,000.00	
Total	\$88,682.55	

\*Previously paid.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation law empowers a Delaware corporation to indemnify its officers and directors and certain other persons to the extent and under the circumstances set forth therein.

The Registrant's Restated Certificate of Incorporation, as amended, and By-Laws, as amended, provide for indemnification of our officers and directors and certain other persons against liabilities and expenses incurred by any of them in certain stated proceedings and under certain stated conditions.

The above discussion of the Registrant's Restated Certificate of Incorporation, as amended, By-Laws, as amended, and Section 145 of the Delaware General Corporation Law is not intended to be exhaustive and is qualified in its entirety by such Restated Certificate of Incorporation, By-Laws and statute.

Item 15: Recent Sales of Unregistered Securities

During the three months ended March 31, 2013, the Company issued 375,000 shares of Common Stock upon conversion of 15 shares of the 10% Convertible Preferred Stock.

On December 31, 2012, the Registrant issued 245,575 shares of Common Stock to certain holders of the 10% Convertible Preferred Stock in lieu of payment of cash dividends.

During the three months ended December 31, 2012, the Company issued 992,295 shares of Common Stock upon conversion of 39.7 shares of 10% Convertible Preferred Stock.

During the period beginning December 2012 and ending March 31 2013 the Company issued a total of 273.9 shares of 10% Convertible Preferred Stock and warrants to purchase 6,846,660 shares of Common Stock to investors for an aggregate investment of \$\$2.7 million pursuant to the exercise of additional investment rights granted in connection with the Company's April 2012 financing.

On September 30, 2012, the Registrant issued 239,746 shares of Common Stock to certain holders of the 10% Convertible Preferred Stock in lieu of payment of cash dividends.

During the three months ended June 30, 2012, the Registrant issued 5,469 shares of our unregistered Common Stock to a consultant for services rendered.

During the three months ended June 30, 2012, the Registrant issued 6,840,953 shares of unregistered Common Stock to holders of certain convertible debentures upon the conversion of principal and accrued interest under the debentures.

On June 30, 2012, the Registrant issued 158,448 shares of Common Stock to certain holders of the 10% Convertible Preferred Stock in lieu of payment of cash dividends.

During May and June 2012, the Registrant issued 79,000 shares of our unregistered Common Stock to two former directors upon exercise of stock options.

On May 1, 2012, the Registrant issued 25,000 shares of unregistered Common Stock as restricted stock awards to a new director.

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In April 2012 the Registrant issued 821.6 shares of 10% Convertible Preferred Stock to several institutional investors for gross proceeds of approximately \$8.2 million. The preferred stock is convertible into Common Stock at an initial conversion price of \$0.40 per share and the investors also received five-year warrants to purchase a number of shares of Common Stock equal to the number of shares into which the preferred stock is convertible, exercisable at \$0.50 per share. The investors have the right, exercisable at any time before March 31, 2013, to invest up to \$2.7 million to buy additional shares of preferred stock and warrants under the same terms.

During the three months ended March 31, 2012, the Registrant issued 21,321 shares of unregistered Common Stock valued at \$15,000 to consultants and an employee for services rendered.

During the three months ended March 31, 2012, the Registrant issued 10% promissory notes for gross proceeds of \$678,000. The principal amount of such notes is convertible into 1,445,666 shares of Common Stock. In connection with the issuance of such notes, the Registrant also issued warrants to purchase additional shares of Common Stock.

In January 2012, the Registrant issued 22,222 shares of unregistered Common Stock valued at \$6,222 to an employee upon exercise of stock options.

In January 2012, the Registrant issued 20,000 shares of its Common Stock, valued at \$9,000, to an officer in consideration of services rendered.

During the three months ended December 31, 2011, the Registrant issued 166,967 shares of unregistered Common Stock valued at \$80,399 to consultants and a strategic financial advisor for services rendered.

During the three months ended December 30, 2011, the Registrant issued 10% promissory notes for gross proceeds of \$507,000. The principal amount of such notes is convertible into 1,138,016 shares of Common Stock. In connection with the issuance of such notes, the Registrant also issued warrants to purchase additional shares of Common Stock.

On November 3, 2011, the Registrant issued 153,241 shares unregistered Common Stock valued at \$90,411 to holders of certain convertible notes payable in lieu of cash for interest payments due the note holders.

In October 2011, the Registrant issued 421,750 shares of unregistered Common Stock valued at \$210,857 to holders of \$843,500 in notes payable (including \$343,500 due related parties) in consideration for their agreement to extend the maturity of those notes.

In October 2011, the Registrant issued 60,000 shares of its Common Stock, valued at \$30,000, to two directors in consideration of services rendered.

During the three months ended June 30, 2011, the Registrant issued 140,888 shares of unregistered Common Stock valued at \$32,500 to a consultant and employee upon exercise of stock options and warrants.

During the three months ended June 30, 2011, the Registrant issued 10% promissory notes for gross proceeds of \$1,350,000. The principal amount of such notes is convertible into 2,288,136 shares of our Common Stock. In connection with the issuance of such notes, the Registrant also issued warrants to purchase additional shares of Common Stock.

In February and March 2011, the Registrant issued its 12% unsecured, six-month promissory notes for gross proceeds of \$270,000 to several accredited investors, including a director of the Registrant. The Registrant also issued 135,000 shares of its Common Stock to purchasers of such notes.

Between October 2010 and March 2011, the Registrant issued its 10% unsecured convertible promissory notes for gross proceeds of \$500,000 to several accredited investors. The notes are payable 24 months after issuance and are convertible, at any time after six months from issuance, into shares of the Registrant's Common Stock at a conversion price of 85% of the closing price of the Common Stock on the day the notes were issued.

In February 2011, the Registrant issued 41,668 shares of its Common Stock, valued at \$16,667, to two directors in consideration of services rendered.

In January 2011, the Registrant issued an aggregate of 108,667 shares of its Common Stock, valued at \$36,900, to an officer and several directors upon the exercise of stock options.

In November 2010, pursuant to credit agreements entered into effective November 9, 2010, the Registrant issued to a bank, as additional collateral under the credit agreements, 2,000,000 shares of its Common Stock.

In September and October 2010, the Registrant issued its 12% unsecured, six-month promissory notes for gross proceeds of \$573,500 to several accredited investors, including a director and an officer of the Registrant. The Registrant also issued 286,750 shares of its Common Stock to purchasers of such notes and 25,000 additional shares

as a placement fee. In consideration of

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amendments to those notes, in March 2011, the Registrant issued 286,750 additional shares of Common Stock to the holders of such notes.

In September 2010, the Registrant issued 25,000 shares of its Common Stock, valued at \$12,500, to a director in consideration of services rendered.

In March 2010, the Registrant issued 36,000 shares of its Common Stock, valued at \$12,300, to a director upon the exercise of stock options.

The Registrant grants options to purchase shares of its Common Stock from time to time to its directors, officers and employees under its 1996 Non-Employee Director Stock Option Plan and its 2005 Stock Option Plan.

All of the above-described issuances were exempt from registration pursuant to Section 4(2) of the Securities Act, as transactions not involving a public offering.

#### Item 16. Exhibits

The following is a list of exhibits filed as a part of this registration statement:

- |           |   |  |
|-----------|---|--|
| 2.1 (1)   | — | Asset Purchase Agreement dated as of June 13, 2011, between Green Tech Products, Inc. and Irish Knight Holdings, L.L.C.  |
| 2.2 (2)   | — | Promissory Note dated August 1, 2011, issued by Irish Knight Holdings, L.L.C.  |
| 2.3 (2)   | — | Indemnification Agreement dated August 1, 2011, between GreenMan Technologies, Inc. and Timothy Mahoney  |
| 2.4 (3)   | — | 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.)  |
| 2.5 (4)   | — | 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.)  |
| 2.6 (5)   | — | 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.)   |
| 2.7 (6)   | — | 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.)          |
| 2.8 (5)   | — | 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.) |
| 3.1 (7)   | — | Restated Certificate of Incorporation of GreenMan Technologies, Inc., as amended   |
| 3.2 (6)   | — | By-laws of GreenMan Technologies, Inc.   |
| 4.1 (8)   | — | Specimen certificate for Common Stock of GreenMan Technologies, Inc.   |
| 5.1 (23)  | — | Opinion of Morse, Barnes-Brown & Pendleton, P.C.   |
| 10.1 (9)  | — | Employment Agreement dated April 1, 2003, between GreenMan Technologies, Inc. and Maurice E. Needham ***   |
| 10.2 (10) | — | Employment Agreement dated April 12, 2006, between GreenMan Technologies, Inc. and Lyle E. Jensen ***  |

- 10.3 (11) — Addendum dated January 30, 2008, to the Employment Agreement dated April 12, 2006, between GreenMan Technologies, Inc. and Lyle E. Jensen \*\*\*
- 10.4 (12) — Employment Agreement dated June 1, 1999, between GreenMan Technologies, Inc. and Charles E. Coppa \*\*\*
- 10.5 (11) — Addendum dated January 30, 2008, to the Employment Agreement dated June 1, 1999, between GreenMan Technologies, Inc. and Charles E. Coppa \*\*\*
- 10.6 (13) — Consulting Agreement dated November 18, 2008, between Coastal International, Inc. and GreenMan Technologies, Inc.
- 10.7 (8) — 1993 Stock Option Plan\*\*\*
- 10.8 (14) — 2005 Stock Option Plan, as amended\*\*\*
- 10.9 (8) — Form of confidentiality and non-disclosure agreement for executive employees
- 10.10 (15) — Lease Agreement dated April 2, 2001, between WTN Realty Trust and GreenMan Technologies of Georgia, Inc.
- 10.11 (16) — Commercial Loan Agreement dated as of November 9, 2010, between American Power Group, Inc. and Iowa State Bank
- 10.12 (16) — Asset Based Financing Agreement dated as of November 9, 2010, between American Power Group, Inc. and Iowa State Bank
- 10.13 (16) — Promissory Note dated as of November 9, 2010, issued by American Power Group, Inc. in favor of Iowa State Bank
- 10.14 (16) — Commercial Security Agreement dated as of November 9, 2010, between American Power Group, Inc. and Iowa State Bank
- 10.15 (16) — Guaranty dated as of November 9, 2010, issued by GreenMan Technologies, Inc., in favor of Iowa State Bank
- 10.16 (16) — Assignment of Deposit or Share Account dated as of November 9, 2010, issued by GreenMan Technologies, Inc., in favor of Iowa State Bank
- 10.17 (17) — Change in Terms Agreement, dated as of December 19, 2011, between American Power Group, Inc. and Iowa State Bank with regard to a \$2,000,000 line of credit
- 10.18 (17) — Change in Terms Agreement, dated as of December 19, 2011, between American Power Group, Inc. and Iowa State Bank with regard to a \$250,000 promissory note
- 10.19 (18) — Stock Transfer Agreement, dated as of December 19, 2011, between GreenMan Technologies, Inc. and Iowa State Bank
- 10.20 (19) — Change in Terms Agreement, dated April 3, 2012, between American Power Group, Inc. and Iowa State Bank with regard to a \$2,000,000 line of credit
- 10.21 (19) — Change in Terms Agreement, dated April 3, 2012, between American Power Group, Inc. and Iowa State Bank with regard to a \$250,000 promissory note
- 10.22 (5) — Business Loan Agreement, dated as of April 25, 2012, between American Power Group, Inc. and Iowa State Bank with regard to a \$2,250,000 line of credit



10.23 (5)	—	Promissory Note dated as of April 25, 2012, issued by American Power Group, Inc. in favor of Iowa State Bank
10.24 (20)	—	Subscription Agreement dated September 17, 2010, between Dr. Allen Kahn and GreenMan Technologies, Inc.
10.25 (20)	—	Unsecured Promissory Note dated as of September 17, 2010, issued by GreenMan Technologies, Inc. in favor of Dr. Allen Kahn
10.26 (21)	—	Extension Agreement dated March 11, 2011, between GreenMan Technologies, Inc. and Dr. Allen Kahn, with respect to an unsecured promissory note
10.27 (18)	—	Extension Agreement dated October 27, 2011, between GreenMan Technologies, Inc. and Dr. Allen Kahn, with respect to an unsecured promissory note
10.28 (5)	—	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
10.29 (20)	—	Subscription Agreement dated September 17, 2010, between Charles E. Coppa and GreenMan Technologies, Inc.
10.30 (20)	—	Unsecured Promissory Note dated as of September 17, 2010, issued by GreenMan Technologies, Inc. in favor of Charles E. Coppa
10.31 (21)	—	Extension Agreement dated March 11, 2011, between GreenMan Technologies, Inc. and Charles Coppa, with respect to an unsecured promissory note
10.32 (18)	—	Extension Agreement dated October 27, 2011, between GreenMan Technologies, Inc. and Charles Coppa, with respect to an unsecured promissory note
10.33 (5)	—	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
10.34 (21)	—	Subscription Agreement dated February 11, 2011, between Lew Boyd and GreenMan Technologies, Inc.
10.35 (21)	—	Unsecured Promissory Note dated as of February 11, 2011, issued by GreenMan Technologies, Inc. in favor of Lew Boyd
10.36 (18)	—	Extension Agreement dated October 27, 2011, between GreenMan Technologies, Inc. and Lew Boyd, with respect to an unsecured promissory note
10.37 (18)	—	Promissory Note dated October 12, 2011 between American Power Group, Inc. and Lyle Jensen
10.38 (18)	—	Extension Agreement dated November 27, 2011 between American Power Group, Inc. and Lyle Jensen
10.39 (5)	—	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
10.40 (22)	—	Form of Subscription Agreement between GreenMan Technologies, Inc. and certain investors, with respect to convertible promissory notes and warrants issued in April 2011
10.41 (22)	—	Form of Convertible Promissory Note issued by GreenMan Technologies, Inc. in April 2011
10.42 (22)	—	Form of Common Stock Purchase Warrant issued by GreenMan Technologies, Inc. in April 2011

10.43 (22)	—	Form of Registration Rights Agreement between GreenMan Technologies, Inc. and the purchasers of certain convertible promissory note and warrants
10.44 (18)	—	Form of Convertible Promissory Note issued by GreenMan Technologies, Inc. in November 2011
10.45 (18)	—	Form of Common Stock Purchase Warrant issued by GreenMan Technologies, Inc. in November 2011
10.46 (18)	—	Form of Registration Rights Agreement between GreenMan Technologies, Inc. and the purchasers of certain convertible promissory note and warrants
10.47 (23)	—	Securities Purchase Agreement between GreenMan Technologies, Inc. and the investors named therein, dated April 30, 2012
10.48 (5)	—	Form of Warrant issued to investors named in the Securities Purchase Agreement, dated April 30, 2012
10.49 (5)	—	Form of Additional Investment Right, dated April 30, 2012
10.50 (23)	—	Registration Rights Agreement between GreenMan Technologies, Inc. and the investors named therein, dated April 30, 2012
10.51 (23)	—	Voting Agreement between GreenMan Technologies, Inc. and the investors named therein, dated April 30, 2012
10.52 (23)	—	Form of Warrant issued to the placement agent in connection with the private placement of April 30, 2012
10.53 (24)	—	National Distributor and Master Marketing Agreement between American Power Group, Inc. and WheelTime Network LLC, dated as of November 27, 2012
10.54 (24)	—	Common Stock Purchase Warrant issued to WheelTime Network LLC, dated November 27, 2012
10.55 (25)	—	Lease - Business Property dated May 1, 2012, between M & R Development, Inc. and American Power Group, Inc.
10.56 (26)	—	Change in Terms Agreement, dated December 12, 2012, between American Power Group, Inc. and Iowa State Bank with regard to a \$2,250,000 line of credit
21.1 (6)	—	List of All Subsidiaries
23.1*	—	Consent of Schechter, Dokken, Kanter, Andrews & Selcer, Ltd.
23.2(23)	—	Consent of Morse, Barnes-Brown & Pendleton, P.C. (included in Exhibit 5.1)
24.1	—	Power of Attorney (Included in the signature page of the initial filing)
101**	—	The following financial information from the Annual Financial Report on Form 10-K of American Power Group Corporation for the fiscal year ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of September 30, 2012 and September 30, 2011; (2) Consolidated Statements of Operations for fiscal years ended September 30, 2012 and September 30, 2011; (3) Consolidated Statements of Changes in Stockholders' (Deficit) Equity for the fiscal years ended September 30, 2012 and 2011; (4) Consolidated Statements of Cash Flows for the twelve months ended September 30, 2012 and September 30, 2011; and (5) Notes to Consolidated Financial Statements

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- (1) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated June 13, 2011 and filed June 15, 2011, and incorporated herein by reference.
  - (2) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated July 29, 2011 and filed August 4, 2011, and incorporated herein by reference.
  - (3) 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.
  - (4) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated June 30, 2011 and filed June July 7, 2011, and incorporated herein by reference.
  - (5) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated April 25, 2011 and filed May 2, 2012, and incorporated herein by reference.
  - (6) 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.
  - (7) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended March 31, 2012 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-KSB for the Fiscal Year Ended September 30, 2003 and incorporated herein by reference.
  - (10) 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.
  - (11) 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.
  - (12) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-QSB for the Quarter Ended December 31, 2000 and incorporated herein by reference.
  - (13) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended December 31, 2008 and incorporated herein by reference.
  - (14) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended March 31, 2010 and incorporated herein by reference.
  - (15) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-QSB for the Quarter Ended June 30, 2001 and incorporated herein by reference.
  - (16) 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.
  - (17) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated December 19, 2011 and filed December 23, 2011, and incorporated herein by reference.
  - (18) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter Ended December 31, 2011 and incorporated herein by reference.
  - (19) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 8-K dated April 3, 2012 and filed April 5, 2012, and incorporated herein by reference.
  - (20) Filed as an Exhibit to GreenMan Technology's Annual Report on Form 10-K for the fiscal year ended September 30, 2010, and incorporated herein by reference.
  - (21) Filed as an Exhibit to GreenMan Technologies, Inc.'s Registration Statement on Form S-1, No. 333-173264, and incorporated herein by reference.
  - (22) Filed as an Exhibit to GreenMan Technologies, Inc.'s Form 10-Q for the Quarter ended March 31, 2011.
  - (23) 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.

(24) Filed as an Exhibit to American Power Group Corporation's Form 8-K dated November 27, 2012 and filed November 29, 2012, and incorporated herein by reference.

(25) Filed as an Exhibit to American Power Group Corporation's Form 10-K for the Year ended September 30, 2012.

(26) Filed as an Exhibit to American Power Group Corporation's Form 8-K dated December 12, 2012 and filed December 17, 2012, and incorporated herein by reference.

\* Filed herewith

† To be filed by amendment.

\*\* In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this registration statement 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.

\*\*\* Indicates a management contract or compensatory plan or arrangement.

#### Item 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(ii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment (2) shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser: each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, (4) however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any

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action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lynnfield, Commonwealth of Massachusetts, on this 12<sup>th</sup> day of April, 2013.

AMERICAN POWER GROUP CORPORATION

Date: April 12, 2013

By: /s/ Charles E. Coppa  
Charles E. Coppa  
Chief Financial Officer

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Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Date: April 12, 2013

By: \*  
Maurice Needham  
Chairman of Board of Directors

Date: April 12, 2013

By: \*  
Lyle Jensen  
Director, Chief Executive Officer, President  
(Principal Executive Officer)

Date: April 12, 2013

By: /s/ Charles E. Coppa  
Charles E. Coppa  
Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)

Date: April 12, 2013

By: \*  
Lew F. Boyd  
Director

Date: April 12, 2013

By: \*  
Neil Braverman  
Director

Date: April 12, 2013

By: \*  
Aviel Faliks  
Director

Date: April 12, 2013

By: \*  
Jamie Weston  
Director

\* By: /s/ Charles E. Coppa  
Charles E. Coppa  
Attorney-in-Fact