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

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

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________________ to ______________________

Commission File Number: 1-13776

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

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

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

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

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

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

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

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

As of August 13, 2014 there were 50,544,573 shares of the registrant's Common Stock outstanding.

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We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 as originally filed with the Securities and Exchange Commission on August 15, 2014 (the "Original Form 10-Q"): (i) Item 1 of Part I "Financial Information," (ii) Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations," (iii) Item 4 of Part I, "Controls and Procedures," and (iv) Item 6 of Part II, "Exhibits", and we have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the explanation and restatement described below. Concurrently with the filing of this Form 10-Q/A, we are also filing Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended September 30, 2014, as originally filed with the SEC on December 22, 2014 (the "Original Form 10-K"), to provide similar updates.

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

As a result of the foregoing, we have determined that our previously reported results for the three and nine months ended June 30, 2014 should no longer be relied upon and need to be updated to reflect the retroactive correction of this accounting error and correctly reflect the accounting for the value of the warrants containing anti-dilution protections pursuant to the guidance provided by ASU 2012-04. The condensed consolidated balance sheets, the condensed consolidated statements of operations, the condensed consolidated statement of changes in stockholders (deficit) equity and the condensed consolidated statements of cash flows for the three and nine months ended June 30, 2014 included in this Form 10-Q/A, have been restated to include the effects of the correction of this accounting error. In addition, we have made necessary conforming changes in "Management's Discussion and Analysis of Financial Condition and Results of Operations" resulting from the correction of this error. Our condensed consolidated financial statements (including audit reports), other financial information and related disclosures included in the Original Form 10-K and the Original Form 10-Q, as well as press releases, investor presentations or other communications issued prior to the date hereof that relate to the periods covered by the Original Form 10-K and Original Form 10-Q should not be relied upon and are superseded in their entirety by this Form 10-Q/A and the Form 10-K/A being filed concurrently herewith.

American Power Group Corporation

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American Power Group Corporation
Condensed Consolidated Balance Sheets

	June 30, 2014 (Unaudited)	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$1,237,854	$1,684,169
Certificates of deposit, restricted	300,000	300,000
Accounts receivable, trade, less allowance for doubtful accounts of $80,589 and $120,393 as of June 30, 2014 and September 30, 2013, respectively	1,672,840	1,612,280
Inventory	770,355	908,059
Prepaid expenses	170,989	150,816
Other current assets	40,185	48,472
Assets related to discontinued operations	—	66,922
Total current assets	4,192,223	4,770,718
Property, plant and equipment, net	784,248	929,821
Other assets:		
Seller’s note, related party	797,387	797,387
Long term contracts, net	254,167	291,667
Purchased technology, net	254,167	291,667
Software development costs, net	3,135,333	3,180,804
Other	165,547	134,469
Total other assets	4,606,601	4,695,994
	$9,583,072	$10,396,533
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$974,502	$1,086,347
Accrued expenses	1,029,718	914,023
Billings in excess of cost	—	7,533
Notes payable, current	2,610,291	106,972
Notes payable, related parties	443,500	473,500
Obligations due under lease settlement, current	68,518	68,518
Total current liabilities	5,126,529	2,656,893
Notes payable, non-current	43,914	1,490,160
Warrant liability	9,628,858	—
Obligations due under lease settlement, non-current	505,540	505,540
Total liabilities	15,304,841	4,652,593
Stockholders' (deficit) equity:		
Preferred stock, $1.00 par value, 998,854 shares authorized, 0 shares issued and outstanding	—	—
10% Convertible Preferred stock, $1.00 par value, 1,146 shares authorized, 941 shares and 942 shares issued and outstanding at June 30, 2014 and September 30, 2013	941	942
Common stock, $.01 par value, 150 million shares authorized, 50,515,805 shares and 48,375,316 shares issued and outstanding at June 30, 2014 and September 30, 2013	505,159	483,753

Additional paid-in capital	58,111,181	66,570,909
Accumulated deficit	(64,339,050)	(61,311,664)
Total stockholders’ (deficit) equity	(5,721,769)	5,743,940
	$9,583,072	$10,396,533

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net sales	$1,782,269	$2,151,454	$4,883,279	$4,878,568
Cost of sales	1,267,322	1,141,250	3,119,749	2,851,461
Gross profit	514,947	1,010,204	1,763,530	2,027,107
Operating expenses:				
Selling, general and administrative	1,133,522	1,086,918	3,057,613	3,235,543
Operating loss from continuing operations	(618,575)	(76,714)	(1,294,083)	(1,208,436)
Non operating income (expense)				
Interest and financing costs	(48,444)	(39,462)	(139,448)	(126,831)
Interest income	11,026	11,579	33,321	35,094
Revaluation of warrants	8,559,943	—	(801,809)	—
Other, net	(27,669)	(35,136)	(102,552)	(89,856)
Non operating income (expense), net	8,494,856	(63,019)	(1,010,488)	(181,593)
Net income (loss)	7,876,281	(139,733)	(2,304,571)	(1,390,029)
10% Convertible Preferred dividends	(242,329)	(244,464)	(722,815)	(644,560)
Net income (loss) available to Common stockholders	$7,633,952	$(384,197)	$(3,027,386)	$(2,034,589)
Income (loss) from continuing operations per share	$0.16	$—	$(0.05)	$(0.03)
Net income (loss) per Common share - 10% Preferred dividend	(0.01)	(0.01)	(0.02)	(0.01)
Net income (loss) attributable to Common stockholders per share	$0.15	$(0.01)	$(0.07)	$(0.04)
Net income (loss) per common share attributable to Common stockholders:				
Basic	$0.15	$(0.01)	$(0.07)	$(0.04)
Diluted	$0.10	$(0.01)	$(0.07)	$(0.04)
Weighted average shares outstanding:				
Basic	50,364,666	46,869,240	49,268,170	46,269,996
Diluted	75,330,693	46,869,240	49,268,170	46,269,996

See accompanying notes to unaudited condensed interim consolidated financial statements.

American Power Group Corporation
Condensed Consolidated Statement of Changes in Stockholders' (Deficit) Equity
For the Nine Months Ended June 30, 2014
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, October 1, 2013	942	$942	48,375,316	$483,753	$66,570,909	$(61,311,664)	$5,743,940
Cumulative effect of a change in accounting principle - adoption of ASU 2012-04	—	—	—	—	(10,652,540)	—	(10,652,540)
Compensation expense associated with stock options	—	—	—	—	60,117	—	60,117
Common stock issued upon option and warrant exercise	—	—	1,773,364	17,734	37,233	—	54,967
Common stock issued upon Preferred stock conversion	(1)	(1)	8,870	89	(88)	—	—
Additional fees related to issuance of 10% Convertible Preferred Stock	—	—	—	—	(27,665)	—	(27,665)
Fair value of warrant liability reclassified as additional paid in capital	—	—	—	—	1,825,491	—	1,825,491
Common stock issued for 10% Convertible Preferred stock dividend	—	—	358,255	3,583	297,724	(301,307)	—
10% Convertible Preferred stock dividend paid in cash	—	—	—	—	—	(421,508)	(421,508)
Net loss for the nine months ended June 30, 2014	—	—	—	—	—	(2,304,571)	(2,304,571)
Balance, June 30, 2014	941	$941	50,515,805	$505,159	$58,111,181	$(64,339,050)	$(5,721,769)

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Nine Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(2,304,571)	$(1,390,029)
Adjustments to reconcile net loss to net cash used in operating activities:		
Revaluation of warrants	801,809	—
Shares issued for services rendered	—	424,549
(Gain) loss on disposal of property and equipment	(12,743)	682
Depreciation expense	250,755	189,860
Amortization of deferred financing costs	10,244	—
Stock compensation expense	60,117	97,396
Provision for bad debts	20,839	—
Amortization of software costs	338,785	167,307
Amortization of long term contracts	37,500	37,499
Amortization of purchased technology	37,500	37,499
(Increase) decrease in assets:		
Accounts receivable	(56,999)	(593,064)
Inventory	137,704	(398,323)
Costs in excess of billings	—	30,411
Prepaid and other current assets	(12,130)	(126,328)
Other assets	(31,078)	(900)
Assets related to discontinued operations	66,922	—
(Decrease) increase in liabilities:		
Accounts payable	(144,065)	(238,275)
Billings in excess of costs	(7,533)	—
Accrued expenses	105,695	57,913
Net cash used in operating activities	(701,249)	(1,703,803)
Cash flows from investing activities:		
Purchase of property and equipment	(111,632)	(824,499)
Software development costs	(266,301)	(1,407,377)
Net cash used in investing activities	(377,933)	(2,231,876)
Cash flows from financing activities:		
Proceeds from notes payable	1,220,860	179,945
Repayment of notes payable	(163,787)	(619,250)
Repayment of notes payable, related party	(30,000)	—
Proceeds from sale of 10% Convertible Preferred stock, net of fees	—	2,646,279
Proceeds from exercise of stock options	54,967	22,979
Payment made for fees related to 10% Convertible Preferred stock	(27,665)	—
Payment of cash dividend on 10% Convertible Preferred stock	(421,508)	(281,735)
Net cash provided by financing activities	632,867	1,948,218
Net decrease in cash and cash equivalents	(446,315)	(1,987,461)
Cash and cash equivalents at beginning of year	1,684,169	4,423,485
Cash and cash equivalents at end of period	$1,237,854	$2,436,024

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

-Continued-

	Nine Months Ended June 30,	
	2014	2013
Supplemental disclosure of cash flow information:		
Interest paid	$118,899	$130,491
Taxes paid	—	2,248
Supplemental disclosure of non-cash investing and financing activities:		
Reclassification of the estimated fair value of warrants exercised during the period to additional paid in capital	$1,825,491	$—
Shares issued for preferred stock dividend	301,307	362,825
Software development costs included in accounts payable and accrued expenses	27,013	520,047
Property and equipment included in accounts payable	5,207	—
Inventory transferred to equipment and capitalized software	—	5,093

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

1. Nature of Operations, Risks, and Uncertainties

Effective August 1, 2012, GreenMan Technologies, Inc. (the “Company”) changed its name to American Power Group Corporation ("APG"). In connection with the corporate name change, the Company’s stock trading symbol on the OTCQB has changed from “GMTI” to “APGI”. APG (together with its subsidiaries “we”, “us” or “our”) was originally founded in 1992 and has operated as a Delaware corporation since 1995.

Recent Developments

In April 2014, we notified M&R Development, LLC, our Iowa landlord, of our intent to exercise our option to renew our existing lease for an additional 2 year term through May 2017. In December 2013, Iowa State Bank agreed to extend the maturity of our $2.25 million credit facility from December 31, 2013 to April 1, 2015, increase our borrowing limit to $2.5 million and expand our collateral base to include certain fixed assets which will provide more working capital availability under the credit facility.

Nature of Operations, Risks, and Uncertainties

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

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

Our proprietary technology seamlessly displaces up to 75% (average displacement ranges from 40% to 65%) of the normal diesel fuel consumption with various forms of natural gas. Installation requires no engine modification, unlike the more expensive fuel injected alternative fuel systems in the market.

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

- Reduce fuel and operating costs by 15% to 35%;
- Reduce toxic emissions such as nitrogen oxide (NOX), carbon monoxide (CO) and fine particulate emissions; and
- Enhance the engine’s operating life, since natural gas is a cleaner burning fuel source.

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

As of June 30, 2014, we had $1,537,854 cash, cash equivalents and restricted certificates of deposit and working capital deficiency of $934,306. As of June 30, 2014, we had drawn down on the maximum under our $2.5 million credit facility with Iowa State Bank and no additional funds were available to us under that line of credit. Subsequent to June 30, 2014, we repaid Iowa State Bank $550,000 of the outstanding balance and as of August 14, 2014, we have a maximum borrowing availability of $235,000, subject to adequate collateral. The credit facility with Iowa State Bank matures on April 1, 2015.

Based on our fiscal 2014 operating budget, cash on hand at June 30, 2014, anticipated availability under our bank working capital line and the successful renewal of our credit facility beyond April 1, 2015, we believe we will be able to satisfy our cash requirements through at least the second quarter of calendar 2015 without the need to materially modify our operating plan. We are currently in discussions with Iowa State Bank regarding potential revisions to our credit facility to extend the term as well as gain access to additional availability. We are also evaluating other financing alternatives should we determine the need to supplement existing cash flows from operations in order to fund operations or accelerate certain revenue related initiatives. We understand our continued existence is dependent on our ability to generate positive operating cash flow, achieve profitability on a sustained basis and generate improved performance. If we are unable to achieve and sustain profitability and we are unable to obtain additional financing to supplement our cash position, our ability to maintain our current level of operations could be materially and adversely affected. There is no guarantee we will be able to restructure our credit facility, obtain other financing, or achieve profitability.

2. Basis of Presentation

The consolidated financial statements include the accounts of APG and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim financial statements at June 30, 2014 are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2013 included in our Annual Report on Form 10-K. The balance sheet at September 30, 2013 has been derived from the audited financial statements as of that date; certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations, although we believe the disclosures which have been made herein are adequate to ensure that the information presented is not misleading. The results of operations for the interim periods reported are not necessarily indicative of those that may be reported for a full year. In our opinion, all adjustments which are necessary for a fair statement of our financial position as of June 30, 2014 and the operating results for the interim periods ended June 30, 2014 and 2013 have been included.

3. Correction of an Accounting Error

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

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2014			Nine Months Ended June 30, 2014		
	Originally Reported	Adjustments	Adjusted	Originally Reported	Adjustments	Adjusted
Non operating income (expense):						
Revaluation of warrants	$—	$8,559,943	$8,559,943	$—	$(801,809)	$(801,809)
Non operating income (expense), net	(65,087)	8,559,943	8,494,856	(208,679)	(801,809)	(1,010,488)
Net income (loss)	(683,662)	8,559,943	7,876,281	(1,502,762)	(801,809)	(2,304,571)
Net income (loss) available to Common Stockholders	$(925,991)	$8,559,943	$7,633,952	$(2,225,577)	$(801,809)	$(3,027,386)
Income (loss) from continuing operations per share	$(0.01)	$0.17	$0.16	$(0.03)	$(0.02)	$(0.05)
Net income (loss) per common share attributable to Common stockholders:						
Basic	$(0.01)	$0.16	$0.15	$(0.03)	$(0.04)	$(0.07)
Diluted	(0.01)	0.11	$0.10	(0.03)	(0.04)	(0.07)

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Condensed Consolidated Balance Sheets

	As of June 30, 2014		
	Originally Reported	Adjustments	Adjusted
Liabilities:			
Warrant liability	$—	$9,628,858	$9,628,858
Total liabilities	5,675,983	9,628,858	15,304,841
Stockholders' (deficit) equity:			
Additional paid-in capital	66,938,230	(8,827,049)	58,111,181
Accumulated deficit	(63,537,241)	(801,809)	(64,339,050)
Total stockholders' (deficit) equity	3,907,089	(9,628,858)	(5,721,769)
	$9,583,072	$—	$9,583,072

Condensed Consolidated Statement of Stockholders' (Deficit) Equity

	Preferred Stock		Common Stock		Additional Paid In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Originally Reported: Balance, June 30, 2014	941	$941	50,515,805	$505,159	$66,938,230	$(63,537,241)	$3,907,089
Adjustments	—	—	—	—	(8,827,049)	(801,809)	(9,628,858)
Adjusted: Balance, June 30, 2014	941	$941	50,515,805	$505,159	$58,111,181	$(64,339,050)	$(5,721,769)

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30, 2014		
	Originally Reported	Adjustments	Adjusted
Cash flows from operating activities:			
Net loss	$(1,502,762)	$(801,809)	$(2,304,571)
Revaluation of warrants	—	801,809	801,809
Net cash used in operating activities	(701,249)	—	(701,249)

4. Certificates of Deposit

All certificate of deposit investments have an original maturity of more than three months but less than three years and are stated at original purchase price which approximates fair value. As of June 30, 2014 and September 30, 2013, we have pledged a $300,000 certificate of deposit as collateral for outstanding loans with Iowa State Bank.

5. Receivables

Accounts Receivable

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

Seller’s Note Receivable, Related Party

In conjunction with the July 2009 acquisition of substantially all the American Power Group operating assets, including the name American Power Group (excluding its dual fuel patent), we acquired a promissory note from the previous owners of American

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Power Group (renamed M&R Development, Inc.), payable to us, in the principal amount of $797,387. The note bears interest at the rate of 5.5% per annum and was based on the difference between the assets acquired and the consideration given.
In conjunction with our 10% Convertible Preferred Stock financing in April 2012, we amended the note to increase the amount of royalties payable under a technology license (see Note 6) that can be applied to the outstanding principal and interest payments to 50% and defer all interest and principal payments due under the note during calendar 2012 and 2013. Thereafter, the aggregate principal amount due under the note was to be paid in eight equal quarterly payments plus interest. In addition, M&R will not be required to make any payments under the note until such time as we begin to make royalty payments and then, those payments will be limited to a maximum of 50% of any royalty payment due M&R on a quarterly basis. No payments have been made under the amended note as of June 30, 2014. We have classified 100% of the balance as long term. We consider this a related party note as one of the former owners of American Power Group is now an employee of ours.

6. Inventory

Raw material inventory primarily consists of dual fuel conversion components. Work in progress includes materials, labor and direct overhead associated with incomplete dual fuel conversion projects. As of June 30, 2014 and September 30, 2013, we recorded an inventory valuation allowance of $42,206 and $44,073, respectively.
All inventory is valued at the lower of cost or market on the first-in first-out (FIFO) method. Inventory consists of the following:

	June 30, 2014	September 30, 2013
Raw materials	$757,104	$895,905
Work in progress	12,125	11,423
Finished goods	1,126	731
Total inventory	$770,355	$908,059

7. Intangible Assets

We review intangibles for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of our intangible assets below their carrying value.
In conjunction with the American Power Group acquisition and license agreement, we recorded intangible assets of $500,000 associated with the execution of a long term technology license agreement and $500,000 associated with the purchase of the dual fuel conversion technology. Both values are being amortized on a straight line basis over an estimated useful life of 120 months. Amortization expenses associated with the long term technology license agreement and the purchased dual fuel conversion technology amounted to $25,000 and $75,000 for the three months and nine months ended June 30, 2014 and 2013, respectively. Accumulated amortization was $491,666 at June 30, 2014 and $416,666 at September 30, 2013.
In conjunction with the 10% Convertible Preferred Stock financing in April 2012, we amended the M&R technology license agreement to modify the calculation and the timing of the royalty payments. Under the provisions of this amendment, effective April 27, 2012, the monthly royalty due is the lesser of 10% of net sales or 30% of pre-royalty EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). No royalties will be earned and due until such time as our cumulative EBITDA commencing April 1, 2012 is positive on a cumulative basis. During the three months and nine months ended June 30, 2014 and 2013, we incurred $0 royalties to M&R.
A critical component of our dual fuel aftermarket conversion solution is the internally developed software component of our electronic control unit. The software allows us to seamlessly and constantly monitor and control the various gaseous fuels to maximize performance and emission reduction while remaining within all original OEM diesel engine performance parameters. We have developed a base software application and EPA's testing protocol for both our Outside Useful Life ("OUL") and Intermediate Useful Life ("IUL") engine applications, which will be customized for each engine family approved in order to maximize the performance of the respective engine family.
As of June 30, 2014, we have capitalized $3,791,001 of software development costs associated with our OUL ($1,801,506) and IUL ($1,989,495) 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 and nine months ended June 30, 2014 and 2013 were $119,807 and $338,785 and $68,314 and $167,308, respectively.

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

Twelve months ending June 30:	Contracts	Technology	Software Development	Total
2014	$50,000	$50,000	$596,948	$696,948
2015	50,000	50,000	644,515	744,515
2016	50,000	50,000	636,811	736,811
2017	50,000	50,000	507,572	607,572
2018	50,000	50,000	289,550	389,550