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AMERICAS POWER PARTNERS INC
Form 10QSB
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2002

Commission file Number: 0-24989

AMERICAS POWER PARTNERS, INC.

(Exact Name of Registrant as Specified in its Charter)

Colorado

(State or Other Jurisdiction of Incorporation)

05-0499526

(I.R.S. Employer Identification Number)

710 North York Road, Hinsdale, IL

(Address of Principal Executive Offices)

60521

(Zip code)

(630) 325-9101

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: Common Stock, no par value - 7,138,100 shares as of September 30, 2002.

Transitional Small Business Disclosure Format: YES ☐ NO ☒

PART I - FINANCIAL INFORMATION

Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-QSB includes historical information as well as statements regarding the Company's future expectations which may constitute "forwarding-looking statements" within the meaning of the Securities Act of 1933 and the Securities Act of 1934, as amended. Important factors that could cause actual results to differ materially from those discussed in forward-looking

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statements include: supply/demand for products, competitive pricing pressures, availability of capital on acceptable terms, continuing relationships with strategic partners, dependence on key personnel, changes in industry laws and regulations, competitive technology, and failure to achieve cost reduction targets or complete construction projects on schedule. The Company believes in good faith that the forward-looking statements in this Quarterly Report have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, but such forward-looking statements are not guarantees of future performance and actual results may differ materially from any results expressed or implied by such forward-looking statements.

ITEM 1 - FINANCIAL STATEMENTS

AMERICAS POWER PARTNERS, INC.

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

September 30, 2002

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 401,947
Accounts receivable:	
Trade	1,058,072
Retainer held by bank	576,060
Current portion of net investment in finance leases	360,808
Reserve for doubtful accounts	(254,337)
Inventory	95,273
Prepaid expenses and other current assets	24,896

TOTAL CURRENT ASSETS	2,262,719
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FIXED ASSETS

Leased equipment	3,929,169
Office equipment and leasehold improvements	119,390

	4,048,559
Accumulated depreciation	(170,078)

TOTAL FIXED ASSETS	3,878,481
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OTHER ASSETS

Construction in process	60,821
Net investment in finance leases less current portion	2,317,888
Deposits and deferred costs net of amortization	673,306

TOTAL OTHER ASSETS	3,052,015

TOTAL ASSETS	\$ 9,193,215
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See accompanying Notes to Consolidated Financial Statements.

AMERICAS POWER PARTNERS, INC.

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

September 30, 2002

LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY

CURRENT LIABILITIES

Accounts payable	\$1,240,837
Due to related parties	1,447,523
Accrued expenses:	
Related party	64,114
Other	49,996
Notes payable:	
Interim construction loan	2,047,868
Related party	960,500
Current maturities of long-term debt and capital leases	391,363

TOTAL CURRENT LIABILITIES 6,202,201

LONG-TERM OBLIGATIONS

Debt	243,345
Capital lease	3,440,115

TOTAL LONG-TERM OBLIGATIONS 3,683,460

TOTAL LIABILITIES 9,885,661

MINORITY INTEREST

326,630

STOCKHOLDERS' (DEFICIT) EQUITY

Convertible Preferred Stock, no par value, 10,000,000 shares authorized:	
Series A: authorized - 2,725,000 shares	
Issued and outstanding - 2,709,519 shares	3,952,250
Series B: authorized - 3,000,000 shares	
Issued and outstanding - 3,000,000 shares	704,763
Common Stock, no par value,	
Authorized - 40,000,000 shares;	
Issued and outstanding - 7,138,100 shares	1,983,249
Accumulated deficit	(7,659,338)

TOTAL STOCKHOLDERS' (DEFICIT) EQUITY (1,019,076)

TOTAL LIABILITIES AND
STOCKHOLDERS' (DEFICIT) EQUITY \$9,193,215

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See accompanying Notes to Consolidated Financial Statements.

AMERICAS POWER PARTNERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,	
	2002	2001
	----	----
Revenues provided by services	\$3,023,618	\$1,171,424
Costs of services	2,682,840	1,065,740
	-----	-----
Gross Profit	340,778	105,684
Costs and Expenses:		
Payroll and employee benefits	171,716	177,646
General and administrative	17,427	183,102
Depreciation expense	63,857	10,554
	-----	-----
Total Expenses	253,000	371,302
	-----	-----
PROFIT (LOSS) FROM OPERATIONS	87,778	(265,618)
Other items:		
(Loss) on disposition of assets and other	(22,363)	-
Interest income	7,661	11,212
Interest (expense)	(106,521)	(37,198)
	-----	-----
TOTAL OTHER (EXPENSE) INCOME	(121,223)	(25,986)
	-----	-----
LOSS BEFORE MINORITY INTEREST	(33,445)	(291,604)
Less minority shareholder's interest in earnings of limited liability corporation	63,818	35,326
	-----	-----
NET PROFIT (LOSS)	(\$97,263)	(\$326,930)
	=====	=====
Net loss per share - basic and diluted	(\$0.01)	(\$0.05)
Weighted average number of common shares outstanding	7,138,100	7,138,100

See accompanying Notes to Consolidated Financial Statements.

AMERICAS POWER PARTNERS, INC.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended September	
	2002	2001
	----	----
Cash flow from operating activities:		
Net loss	\$ (97,263)	\$ (326,930)
Adjustments to reconcile net loss to net cash used in operations:		
Provision for depreciation and amortization	63,857	34,321
Provision for doubtful accounts	(55,059)	-
Loss on disposition of equipment	22,363	-
Minority interest's profit	63,818	35,326
Change in accounts receivable and net investment in finance leases	39,499	78,009
Change in prepaid expenses and deferred items	(249,023)	(26,829)
Change in accounts payable	32,437	(132,494)
Change in accounts payable to related party	(278,222)	-
Change in accrued expenses	17,175	(62,039)
Change in deferred revenue	(56,443)	(21,946)
Other, net	(3,715)	-
	-----	-----
Total adjustments	(403,313)	(95,652)
	-----	-----
Net cash used in operations	(500,576)	(422,582)
Cash flow from investing activities:		
Purchase of fixed assets	(60,821)	(125,344)
Payments from lessees under finance leases	209,091	56,676
	-----	-----
Net cash generated (used) in investing activities	148,270	(68,668)
Cash flow from financing activities:		
Proceeds from bank financings	624,693	106,660
Proceeds from notes payable to related party	-	388,000
Repayment of obligation to related party	(305,841)	-
Repayment of debt obligations	(111,775)	(35,486)
Distribution to minority shareholder	(150,000)	-
	-----	-----
Net cash generated from financing activities	57,077	459,174
	-----	-----
Net decrease in cash	(295,229)	(32,076)
Cash at beginning of period	697,176	276,687
	-----	-----
Cash at end of period	\$ 401,947	\$ 244,611
	=====	=====

See accompanying Notes to Consolidated Financial Statements

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AMERICAS POWER PARTNERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

Americas Power Partners, Inc. (the "Company") was incorporated in April 1998 with a charter to provide on-site utilities for industrial, commercial and institutional customers. The Company intends to become a leading independent power producer engaged in the business of developing, acquiring, owning and managing the operation of energy systems, including existing facilities and cogeneration plants which produce electricity and thermal energy for sale under long-term contracts. These contracted projects, each anticipated to range from approximately 5 MW to 100 MW, may be dedicated to selling all of the electrical and thermal output to a single end-user, selling all of the output to one or more wholesale marketing organizations, or a combination thereof. The Company seeks long-term all-requirements contracts generally in the range of 12 to 25 years for energy and utility services.

The Company employs and partners with on-site utility specialists whose skills include design, operation and financing of combined heat and power generation, waste heat recovery, thermal and electrically based cooling/refrigeration, steam, electric, chilled water distribution, energy storage, measurement, automation, process water treatment, wastewater treatment and pollution control.

The Company has formed strategic alliances with recognized energy companies in the areas of power plant optimization, operations and maintenance, fuel supply and electric power marketing. The Company's strategic partners bring key skill sets to the development process and have provided the Company with project opportunities from their established customer bases. All of the Company's customers are in the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 50%-owned limited liability corporation, Armstrong-Americas I, LLC (the "LLC"). The LLC owns the Company's interests in assets relating to power plant system projects in place or in progress for the Company's largest customer. The other member of the LLC is Armstrong Service Inc. ("ASI"), a wholly owned subsidiary of Armstrong International ("Armstrong"), an investor in the Company's Preferred Stock. The limited liability corporation agreement provides that the Company has management control over the operations of the LLC. All material intercompany accounts and transactions are eliminated in consolidation.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading.

The interim financial information presented in the accompanying consolidated financial statements reflects all adjustments which are, in the opinion of

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management, necessary to present the consolidated financial position of the Company as of September 30, 2002 and the results of its operations and cash flows for the three months then ended. Results shown for interim periods are not necessarily indicative of the results for a full fiscal year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report of Form 10-KSB for the fiscal year ended June 30, 2002.

Change in Accounting Treatment

Beginning in April 2002, the Company began to account for certain billings for operations and maintenance costs and utilities costs differently than it had prior to that time. The Company has elected to reclassify those billings to its customers as revenue and to expense costs incurred for those services as costs of services. Prior to April 2002, it had been the Company's policy to net these revenues and costs with the resultant amount, if any, included as revenue or expense as the case may be. The Company believes that this method of recognizing revenue and expense more accurately reflects the operations of the business. As a result of this prior year reclassification, the Statement of Operations for the three months ended September 30, 2001 has been restated. Both revenues and costs of services have been increased by \$983,309 (which includes approximately \$110,000 for operations and maintenance costs and approximately \$873,000 for utilities costs) to give effect to this change. The net loss reported for September 30, 2001 has not been affected by this change.

Revenue Recognition

Most of the revenue recognized by the Company is earned pursuant to energy service and utility requirement agreements as well as operations and maintenance agreements that the Company executes with its customers. The Company evaluates the terms of these agreements individually to determine the applicable accounting treatment. Utilities and operations and maintenance revenue are recognized as they are earned. To the extent that these agreements provide for fixed minimum payments and terms, they are accounted for as leases. To the extent that an agreement provides for fixed minimum payments and terms that qualify as a capital lease as defined in Statement of Financial Accounting Standards No. 13, Accounting for Leases (SFAS 13"), the net investment in the contract

is recorded on the balance sheet and unearned income is amortized over the term of the agreement using the interest method. Revenue from agreements that qualify as operating leases under SFAS 13 is recorded on a straight-line basis over the term of the contract. The Company grants credit to all of its customers.

Per Share of Common Stock

Income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. When dilutive, stock options, warrants and convertible Preferred Stock are included as share equivalents using the treasury stock method in the calculation of diluted earnings per share. For the three months ended September 30, 2002 and 2001, the diluted loss per share computation was anti-dilutive; therefore, the amount reported for basic and diluted loss per share is the same.

NOTE B - NOTES PAYABLE

In June 2002, the Company entered into a "sale and leaseback" of one of its power plant equipment projects with a bank. The assets were sold for \$3,800,000 resulting in a loss of approximately \$17,000. This loss has been deferred and is being amortized over the life of the lease. No cash was realized from the sale as the initial purchase of the assets by the Company had previously been financed in the same amount by the same bank using interim notes. As of September 30, 2002, 92 monthly rent payments of \$44,290 remained with a balloon

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payment of \$1,140,000 due after the last payment. The Company has accounted for the leaseback portion of the transaction as a capital lease obligation. The interest rate implicit in the lease is 7.7% per annum. The assets are included in Leased Equipment and the capital lease obligation is included in Long-term obligations on the Condensed Consolidated Balance Sheet of the Company.

The LLC has signed interim promissory notes with a bank, totaling \$2,047,868, which provide for the eventual sale to the bank of the equipment previously purchased from a customer along with certain improvements being made to the facilities where this equipment is located. The notes provide for monthly interest only payments computed at the bank's prime rate. The LLC has received 72% of the value of the notes and expects to continue to finance approximately \$1.95 million more in additional planned improvements using similar interim note financing.

The Company has borrowed \$810,500 for working capital purposes from a company that is the investor in the Company's Preferred Stock. In addition, the LLC has borrowed \$150,000 from the same investor. Both loans are evidenced by notes that mature on December 15, 2002 and bear interest at prime plus 2%.

The Company has a loan from a bank with a principal balance of \$378,443 as of September 30, 2002. This loan is being used to finance an optimization project. During the third quarter the loan was re-financed and the interest rate was reduced from 10.5% p.a. to 5.75% p.a. Monthly payments of \$12,798 are due under this loan. There are 32 monthly payments remaining.

NOTE C - LIQUIDITY

Since its inception in April 1998, the Company has incurred aggregate net losses of \$7,659,338. At September 30, 2002, the Company has a working capital deficiency of approximately \$3,939,000. But \$2,472,000 (approximately 40% of current liabilities) of this deficit is attributable and due to related parties that are also significant investors in the Company's preferred stock. In addition, \$2,047,868 of interim construction notes are technically classified as current liabilities. These notes are not expected to be called by the Bank in the next year. Rather, the Company has definitive plans to re-finance and/or convert these notes into long-term obligations later in fiscal 2003.

Notwithstanding these mitigating factors, the Company, nevertheless, has been forced to rely in part on advances from a related party and distributions from the LLC to finance its operations and sales development activities. Future projects are anticipated to require debt financing and equity capital investment. Historically, the Company has not had difficulty finding bank financing for its projects as the cash flow coverage relative to the loans have been adequate to induce lenders to finance the Company's projects on a long term basis. The Company has actively been searching for and has identified certain potential strategic partners. In addition, the Company has made specific plans and is attempting to execute a thermal and electrical generation acquisition strategy to increase its future cash flow. In connection therewith, as of September 30, 2002, the Company has made a \$250,000 deposit on a co-generation facility that the Company expects to purchase by December, 2002. This transaction would likely generate considerable future cash flow for the Company. If this transaction fails to be consummated, the Company could lose this deposit under certain circumstances. The deposit is included in Deposits and deferred costs net or amortization in the accompanying Condensed Consolidated Balance Sheet

The Company is confident that it will be able to execute its plans and be able to attract and retain strategic and equity partners, but there can be no assurance that it will do so.

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The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company is expending its best efforts to consummate the raising of equity capital. But there can be no assurance that it will be successful in doing so. The aforementioned losses and deficit raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the historical financial information and the notes thereto included in Item 1 of this Quarterly Report.

During the three months ended September 30, 2002, the Company incurred a net loss of \$97,263 compared to a net loss of \$326,930 for the corresponding prior year period.

Revenues and Costs of Services: Revenues and costs of services in the three months ended September 30, 2002 increased approximately \$1,852,000 and \$1,617,000, respectively over the same period last year. This resulted in an approximate \$235,000 increase in gross profit from \$106,000 in the quarter ended September 30, 2001 to \$341,000 in the quarter ended September 30, 2002. This increase is due to the Company adding two more significant energy monetization contracts. One was added in October 2001 and the other was added in April 2002.

Payroll and employee benefits expense: Payroll and employee benefit expenses decreased approximately \$6,000 for the three months ended September, 2002 compared to the corresponding period of the prior fiscal year. The decrease can be attributed to a reduction in personnel

General and administrative expenses: This category decreased approximately \$166,000 during the quarter ended September 30, 2002 compared to the quarter ended September 30, 2001. Virtually every category of expense declined. However, the major decreases included a decrease in the provision for doubtful accounts of approximately \$55,000, a reduction of \$45,000 in investment banker fees, a reduction in travel expenses of approximately \$19,000 and a reduction in equipment rental of approximately \$12,000.

Depreciation expense: Depreciation increased approximately \$53,000 during the quarter ended September 30, 2002 versus the same period in 2001. During the quarter ended September 30, 2002, the Company depreciated a \$3.8 Million project that had been installed over a period from September 2000 to May 2002. During that time, costs attributable to this project had been recorded as construction in progress on the Company's balance sheet, however, no depreciation expense was recognized until the project was completed in June 2002.

Loss on Disposition of Assets: During the quarter ended September 30, 2002, the Company recorded a loss from a disposition of certain leased telephone equipment assets. Those assets were returned to the lessor and the remaining lease obligation repaid during the quarter.

Interest Income: Interest income decreased approximately \$3,500 in the three-month period ended September 30, 2002 over the corresponding prior year period as a result of the lower cash balances available in the current fiscal quarter.

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Interest Expense: Interest expense for the quarter ended September 30, 2002 period increased approximately \$69,000 as a result of increased borrowings. The Company's outstanding debt increased from approximately \$2.5 Million as of September 30, 2001 to \$7.1 Million as of September 30, 2002.

Liquidity and Capital Resources Since its inception in April 1998, the Company has incurred aggregate net losses of \$7,659,338. However, approximately \$6,610,000 of these losses occurred during the first 27 months of the Company's operations from April 1998 through June 2001. Only approximately \$1,049,000 of these losses have occurred in the last 15 months of the Company's operations.

At September 30, 2002, the Company has a working capital deficiency of approximately \$3,939,000. But \$2,472,000 (approximately 40% of current liabilities) of this deficit is attributable and due to related parties that are also significant investors in the Company's preferred stock. In addition, \$2,047,868 of interim construction notes are technically classified as current liabilities. But, these notes are not expected to be called by the bank in the next year. Rather, the Company has definitive plans to re-finance and/or convert these notes into long-term obligations later in fiscal 2003.

Notwithstanding these mitigating factors, the Company, nevertheless, has been forced to rely in part on advances from related parties to finance its operations and sales development activities. Future projects are anticipated to require debt financing and equity capital investment. Historically, the Company has not had difficulty finding bank financing for its projects as the cash flow coverage relative to the loans have been adequate to induce lenders to finance the Company's projects on a long term basis. The Company has actively been searching for and has identified certain potential strategic and equity partners. In addition, the Company has made specific plans and is attempting to execute a thermal and electrical generation acquisition strategy to increase its future cash flow. The Company is confident that it will be able to execute its plans and be able to attract and retain strategic and equity partners. But, there can be no assurance that it will do so.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities an amendment of SFAS No. 133," (SFAS No. 138), which was required to be adopted in years beginning after June 15, 2000. One of the primary amendments to SFAS No. 133 establishes a "normal purchases and normal sales" exception. This exception permits companies to exclude contracts, which provide for the purchase or sale of something other than a financial derivative instrument that will be delivered in quantities that are expected to be used or sold by the entity over a reasonable period of time in the normal course of business operations. The adoption of SFAS No.

133 as amended by SFAS No. 138 will not have an impact on the financial statements, as the Company does not currently hold any derivative instruments.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," effective for years beginning after December 15, 2001. Under the new rules, goodwill and certain intangible assets will no longer be amortized, but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. Adoption is required for fiscal years beginning after December 15, 2001. The company does not believe that the adoption of this SFAS will have an effect on

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its financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which is effective for years beginning after May 15, 2002. Under the new pronouncement, an inconsistency between the required accounting for sale-leaseback transactions was eliminated. The Company does not believe that the adoption of this SFAS will have an effect on its financial statements.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Neither the Registrant nor any of its affiliates are a party, nor is any of their property subject, to material pending legal proceedings or material proceedings known to be contemplated by governmental authorities.

ITEM 2. Changes in Securities

During the period of three months ended September 30, 2002, there were no changes in the Company's outstanding securities.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

a. Exhibits:

None

b. Reports on Form 8-K:

None

SIGNATURES

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

AMERICAS POWER PARTNERS, INC.

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November 14, 2002

/s/ Mark A. Margason

Mark A. Margason
Chief Executive Officer

November 14, 2002

/s/ Jerome P. Frett

Jerome P. Frett
Chief Accounting Officer