

AMERICAS POWER PARTNERS INC  
Form 10QSB  
January 21, 2005

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**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: March 31, 2004

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)

**36-4288975**  
(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

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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 7,238,100 shares as of March 31, 2004.

Transitional Small Business Disclosure Format: YES  NO

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**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 forward-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 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.

AMERICAS POWER PARTNERS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

March 31, 2004 and June 30, 2003

	<u>March 31, 2004</u>	<u>June 30, 2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 909,403	\$ 52,360
Accounts receivable:		
Trade	961,137	32,060
Current portion of net investment in finance leases	130,209	148,892
Other receivables		272,736
Prepaid expenses and other current assets	162,700	30,771
<b>TOTAL CURRENT ASSETS</b>	<u>2,163,449</u>	<u>536,819</u>
<b>FIXED ASSETS</b>		
Leased equipment	7,202,671	
Office equipment	96,624	96,624
Accumulated depreciation	(682,026)	(55,937)
<b>TOTAL FIXED ASSETS</b>	<u>6,617,269</u>	<u>40,687</u>
<b>EQUITY INVESTMENT IN UNCONSOLIDATED LIMITED LIABILITY COMPANY</b>		<u>199,650</u>
<b>OTHER ASSETS</b>		
Net investment in finance leases less current portion	1,113,674	84,867
Deposits and deferred costs net of amortization	390,683	43,729
<b>TOTAL OTHER ASSETS</b>	<u>1,504,357</u>	<u>128,596</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,285,075</u>	<u>\$ 905,752</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.



## AMERICAS POWER PARTNERS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

March 31, 2004 and June 30, 2003

	<u>March 31, 2004</u>	<u>June 30, 2003</u>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,317,630	\$ 288,485
Due to related parties	2,790,603	628,723
Notes payable Related Parties	921,029	1,531,029
Current maturities of long-term debt and capital leases	830,310	140,883
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,859,572</b>	<b>2,589,120</b>
<b>LONG-TERM DEBT:</b>		
Capital leases	6,509,174	
Bank debt		140,124
<b>TOTAL LONG-TERM DEBT</b>	<b>6,509,174</b>	<b>140,124</b>
<b>TOTAL LIABILITIES</b>	<b>12,368,746</b>	<b>2,729,244</b>
<b>OTHER MEMBER S INTEREST IN LIMITED LIABILITY COMPANY</b>	<b>302,314</b>	
<b>STOCKHOLDERS DEFICIT:</b>		
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	3,952,250
Series B: authorized - 3,000,000 shares		
Issued and outstanding - 3,000,000 shares	704,763	704,763
Common Stock, no par value,		
Authorized - 40,000,000 shares;		
Issued and outstanding - 7,138,100 shares	1,983,249	1,983,249
<b>Accumulated deficit:</b>		
Balance at beginning of period	(8,463,754)	(7,562,074)

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Net loss for the nine months ended March 31, 2004	(562,493)	
Net loss for the year ended June 30, 2003		(901,680)
	<u>                    </u>	<u>                    </u>
Balance at end of period	(9,026,247)	(8,463,754)
	<u>                    </u>	<u>                    </u>
TOTAL STOCKHOLDERS DEFICIT	(2,385,985)	(1,823,492)
	<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 10,285,075	\$ 905,752
	<u>                    </u>	<u>                    </u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

## AMERICAS POWER PARTNERS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

FOR THE NINE AND THREE MONTHS ENDED MARCH 31, 2004 AND 2003

	Nine Months Ended March 31,		Three Months Ended March 31,	
	2004	2003	2004	2003
Revenues provided by services	\$ 9,057,102	\$ 156,662	\$ 3,161,021	\$ 67,135
Costs of services	7,971,190	23,876	2,763,931	11,643
<b>GROSS PROFIT</b>	<b>1,085,912</b>	<b>132,786</b>	<b>397,090</b>	<b>55,492</b>
<b>Costs and Expenses:</b>				
Payroll and employee benefits	430,533	476,396	127,389	156,543
Professional fees	182,724	89,383	37,829	9,733
Insurance	58,393	54,341	21,056	21,245
Other general and administrative expenses	53,848	56,085	43,300	23,290
Recovery of doubtful accounts		(55,059)		
Depreciation and amortization expense	374,740	28,736	122,838	7,978
<b>TOTAL EXPENSES</b>	<b>1,100,238</b>	<b>649,882</b>	<b>352,412</b>	<b>218,789</b>
<b>(LOSS) PROFIT FROM OPERATIONS</b>	<b>(14,326)</b>	<b>(517,096)</b>	<b>44,678</b>	<b>(163,297)</b>
<b>Other items:</b>				
Loss on disposition of assets and other		(83,389)		(60,179)
Interest income	6,213	64	1,448	
Interest expense	(451,714)	(67,415)	(189,270)	(19,504)
<b>TOTAL OTHER EXPENSE</b>	<b>(445,501)</b>	<b>(150,740)</b>	<b>(187,822)</b>	<b>(79,683)</b>
<b>LOSS BEFORE MINORITY INTEREST</b>	<b>(459,827)</b>	<b>(667,836)</b>	<b>(143,144)</b>	<b>(242,980)</b>
Less minority member's interest in earnings of limited liability corporation	102,666		2,640	
Add income from earnings of limited liability company		254,774		110,524
<b>NET LOSS</b>	<b>(\$562,493)</b>	<b>(\$413,062)</b>	<b>(\$145,784)</b>	<b>(\$132,456)</b>
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.06)	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding	7,238,100	7,138,100	7,238,100	7,138,100



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See Accompanying Notes to Condensed Consolidated Financial Statements.

## AMERICAS POWER PARTNERS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Nine Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flow from operating activities:</b>		
Net loss	\$ (562,493)	\$ (413,062)
<b>Adjustments to reconcile net loss to net cash used in operations:</b>		
Revenue net of interest expense remitted by lessees for capital lease obligations	(410,325)	
Provision for depreciation and amortization	374,740	28,706
Recovery of provision for doubtful accounts		(55,059)
Loss on disposition of equipment		83,389
Minority interest's earnings from limited liability company	102,666	
Earnings from unconsolidated limited liability company, net of equity distributions		(4,774)
(Increase) decrease in accounts receivable	(128,414)	38,070
Decrease (increase) in other receivables	272,736	(7,260)
Decrease in inventory	38,320	
Increase in prepaid expenses and deferred items	(68,968)	(28,021)
(Decrease) increase in accounts payable and accrued expenses	(160,688)	71,024
Increase in accounts payable to related party	235,215	156,512
<b>Total adjustments</b>	<b>255,282</b>	<b>282,587</b>
<b>Net cash used in operations</b>	<b>(307,211)</b>	<b>(130,475)</b>
<b>Cash flow from investing activities:</b>		
Payments from lessees under finance leases, net of amortization of unearned income	114,577	61,190
Deposit on new plant purchase		(250,000)
<b>Net cash generated from (used in) investing activities</b>	<b>114,577</b>	<b>(188,810)</b>
<b>Cash flow from financing activities:</b>		
Proceeds from bank financings	1,739,284	
Repayment of debt obligations	(113,551)	(115,949)
Proceeds from related party borrowing		420,000
Repayment of interim construction debt to related party	(1,000,000)	
<b>Net cash generated from financing activities</b>	<b>625,733</b>	<b>304,051</b>
<b>Net increase (decrease) in cash</b>	<b>433,099</b>	<b>(15,234)</b>

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Cash at beginning of period	476,304	57,991
	<u>          </u>	<u>          </u>
Cash at end of period	\$ 909,403	\$ 42,757
	<u>          </u>	<u>          </u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

AMERICAS POWER PARTNERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Nature of the Business*

Americas Power Partners, Inc. ( APP or the Company ) was incorporated in April 1998. The Company is engaged in the business of developing, acquiring, owning and arranging for the management of the operation of energy systems under long-term contracts. 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 the design, development and operation 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. All of the Company's customers are in the United States. The Company generates revenue from fees produced from structuring and financing these energy projects.

*Principles of Consolidation-Financial Statements as of and for the periods ended March 31, 2003*

All of the consolidated financial statements as of and for the periods ended March 31, 2003 include the accounts of the Company and its 100%-owned limited liability corporation, APP Optimization-I, LLC ( OPT ). OPT owns the Company's interests in assets relating to a power plant system project. All material inter-company accounts and transactions are eliminated in consolidation.

As of March 31, 2003, the Company also had a 50% voting and membership interest in Armstrong-Americas I, LLC (the LLC ). The Company accounts for this investment using the equity method of accounting in the financial statements as of and for the periods ended March 31, 2003. The LLC owns the Company's interests in assets relating to power plant system projects in place 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.

Under the equity method of accounting, the Company's investment in the LLC increases by its share of the LLC's earnings and decreases by its share of the LLC's losses and distributions. The following summarizes certain key income statement data with regard to the LLC for the nine and three months ended March 31, 2003:

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	<b>9 Months Ended March 31, 2003</b>	<b>3 Months Ended March 31, 2003</b>
Revenues	\$ 9,865,724	\$ 3,703,086
Gross profit	\$ 1,013,678	\$ 375,755
Profit from operations	\$ 702,748	\$ 254,123
Net profit	\$ 509,548	\$ 221,049

*Principles of Consolidation-Financial Statements as of and for the periods ended March 31, 2004*

On March 15, 2004, the Operating Agreement, under which the LLC conducts its business, was amended. Pursuant to this amendment, APP acquired an additional 1% voting interest in the LLC. This acquisition made the total voting interest equal to 51%. Consequently, the financial statements as of and for the periods ended March 31, 2004 include the accounts of the Company and the LLC as well as OPT. The Company paid no consideration for the additional interest. The Company has applied the purchase accounting rules promulgated under Statement of Financial Accounting Standards No. 141 (Business Combinations). The effect of this transaction is not material to the accompanying condensed consolidated financial statements.

All material intercompany accounts and transactions are eliminated in the consolidated financial statements as of and for the periods ended March 31, 2004 and 2003.

*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 accounting principles generally accepted in the United States of America 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 condensed consolidated financial statements reflects all adjustments which are, in the opinion of management, necessary to present the consolidated financial position of the Company as of March 31, 2004 and the results of its operations and its cash flows for the nine and 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, 2003.

*Restatement of Financial Statements*

The Statements of Operations for the nine and three months ended March 31, 2003 have been restated from those statements previously filed. In prior filings, the Company had consolidated the accounts of both the LLC and OPT. The accompanying consolidated financial statements contained in this filing now include OPT as well as the Company's interest in the LLC accounted for under the equity method of accounting. There was no effect on the Company's overall net loss as reported on the condensed consolidated

income statement for the nine and three months ended March 31, 2003 as a result of this restatement.

In addition, on the balance sheet, there was a reclassification adjustment made between investment in finance leases and fixed assets to reflect a change in a lease classification. There was no other impact on the Company's balance sheet or its statements of operation and changes in accumulated deficit as of March 31, 2003 and for the nine and three months then ended.

The following tables summarize the changes made to the income statements as a result of this restatement:

Income Statement for the Nine Months Ended March 31, 2003:

	<u>Previously Stated</u>	<u>Currently Reported</u>
Revenues provided by services	\$ 9,973,386	\$ 156,662
Cost of services	\$ 8,875,921	\$ 23,876
Gross profit	\$ 1,097,465	\$ 132,786
Costs and expenses	\$ 911,812	\$ 649,882
Loss on disposition of assets	\$ 39,954	\$ 83,389
Interest income	\$ 24,332	\$ 64
Interest expense	\$ 328,319	\$ 67,415
Loss before minority interest	\$ (158,288)	\$ (667,836)
Less minority shareholder's Earnings from LLC	\$ 254,774	N/A
Add income from earnings of LLC	N/A	\$ 254,774
Net loss	\$ (413,062)	\$ (413,062)

The following table summarizes the changes made to the income statement as a result of this restatement:

Income Statement for the Three Months Ended March 31, 2003:

	<u>Previously Stated</u>	<u>Currently Reported</u>
Revenues provided by services	\$ 3,770,222	\$ 67,135
Cost of services	\$ 3,338,973	\$ 11,643
Gross profit	\$ 431,249	\$ 55,492
Costs and expenses	\$ 340,423	\$ 218,789
Loss on disposition of assets	\$ 17,591	\$ 60,179
Interest income	\$ 7,265	\$

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Interest expense	\$ 102,432	\$ 19,504
Loss before minority interest	\$ (21,932)	\$ (242,980)
Less minority shareholder's Earnings from LLC	\$ 110,524	N/A
Add income from earnings of LLC	N/A	\$ 110,524
Net loss	\$ (132,456)	\$ (132,456)



*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.

NOTE B OTHER RECEIVABLES

During the quarter ended March 31, 2004, the Company collected a \$272,736 receivable from an ex-partner that had defaulted on a planned participation in a transaction that the Company had expected to consummate in November 2002. In addition, the ex-partner paid an additional \$52,264 to cover certain incremental costs that the Company had incurred as a result of the default by the ex-partner. The extra \$52,264 is included in revenues in the accompanying condensed consolidated statements of operations as of March 31, 2004.

NOTE C NOTES PAYABLE

As of March 31, 2004, the Company has financed the majority of its power plant equipment projects with the leasing subsidiary of a major bank. Under the terms of these transactions, assets with an original cost of approximately \$8,500,000 were financed under four true leases. As such, the lessor owns the assets for tax purposes and is entitled to claim the tax benefits. The leases are net leases as all of the costs associated with the assets such as maintenance, insurance and property taxes are for the account of the Company. Under each of these transactions, the Company can elect to purchase the assets from the lessor at the end of a fixed term. These terms range from 47 to 92 months. The purchase option prices range from 20% to 27.6% of the original cost of the equipment. The weighted average interest rate implicit in the leases is approximately 6.3% per annum. The Company has accounted for its repayment obligations under these transactions as capital lease obligations. The assets are included in leased equipment and net investment in finance leases and the aggregate net present value of the capital lease obligation of \$7,172,028 is included in long-term and short-term capital obligations in the accompanying condensed consolidated balance sheet of the Company.

The Company has borrowed \$921,029 for working capital purposes from Armstrong pursuant to a debt restructuring which occurred in June 2003. To evidence this indebtedness, the Company executed a Secured Promissory Note and an Omnibus Assignment of Intangible Interests, Documents and Properties in which the Company assigned all of its rights, title and interest in all of its personal property including its investment in the LLC. The note is due on demand and it bears interest at prime plus 2%. As of March 31, 2004, no such demand had been made. For the nine months ended March 31, 2004, the Company recorded interest expense of \$41,484.

The Company has a loan from a bank with a principal balance of \$167,456 as of March 31, 2004. This loan is being used to finance an optimization project. The interest rate is 5.75% per annum. During the quarter ended March 31, 2004, this loan was restructured. Monthly payments were increased to \$15,672. There are 10 monthly payments remaining.

#### NOTE D LIQUIDITY

Since its inception in April 1998, the Company has incurred aggregate net losses of approximately \$9,026,000. As of March 31, 2004, the Company has a working capital deficiency of approximately \$3,696,000. But \$3,712,000 (approximately 63% of the Company's current liabilities) is due to related parties that are also significant investors in the Company's stock.

As a result, the Company has been forced to rely in part on loans from Armstrong and distributions and loans 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 has been adequate to induce lenders to finance the Company's projects on a relatively long-term basis. The Company has actively been searching for and has identified certain potential strategic partners. These investors have indicated a willingness to invest in the Company's projects on a transaction by transaction basis. Toward that end, the Company is attempting to execute an asset acquisition strategy to increase further outside investment and to improve 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.

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

NOTE E THE EFFECT OF STOCK OPTIONS ON EARNINGS PER SHARE ( EPS )

Employee stock options to purchase 1,227,600 shares of common stock were outstanding as of March 31, 2004 and 2003. Such stock options, if exercised could potentially dilute basic EPS in the future, but were excluded from the computation of diluted earnings per share due to being anti-dilutive.

The Company has elected to account for stock-based compensation using the value method under Accounting Principles Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, no compensation expense was included in the determination of net loss for the nine and three months ended March 31, 2004 and 2003. Had compensation expense for the Company's stock options been recognized based on the fair value at the grant dates for awards under the stock option plan as defined in Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, the Company's net loss and net loss per share would have been as indicated in the following:

	<u>Nine Months Ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Net loss - as reported	\$ (562,491)	\$ (413,062)
Stock based compensation cost included in the determination of net income	0	0
Stock based compensation cost included in the determination of net income had the fair value based method been used	22,067	63,397
Net loss pro forma	\$ (584,558)	\$ (476,459)
Net loss per share as reported:		
Basic and diluted	\$ (0.08)	\$ (0.06)
Net loss per share pro forma:		
Basic and diluted	\$ (0.08)	\$ (0.07)
	<u>Three Months Ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Net loss - as reported	\$ (145,784)	\$ (132,456)
Stock based compensation cost included in the determination of net income	0	0
Stock based compensation cost included in the determination of net income had the fair value based method been used	7,355	21,983
Net loss pro forma	\$ (153,139)	\$ (154,439)
Net loss per share as reported:		
Basic and diluted	\$ (0.02)	\$ (0.02)
Net loss per share pro forma:		
Basic and diluted	\$ (0.02)	\$ (0.02)

NOTE F SUPPLEMENTAL DISCLOSURE

The following presents certain supplemental information concerning the Company's Condensed Consolidated Statements of Cash Flows:

	<b>Nine Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Cash paid for interest expense	\$ 10,254	\$ 20,486
Fixed asset purchases advanced by a third party	\$	\$ 2,143,948

**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. Certain numbers in the following discussion are expressed in thousands of dollars. All numbers that are expressed in thousands of dollars are approximate numbers.

During the nine and three months ended March 31, 2004, the Company incurred net losses of approximately \$562,000 and \$146,000, respectively, compared to net losses of \$413,000 and \$132,000 for the corresponding prior year periods in 2003.

As discussed in Note A to Notes to Condensed Consolidated Financial Statements, the accounts of the LLC have not been included in the 2003 financial statements. The accounts of the LLC have been included in the 2004 financial statements. The LLC represents a significant portion of the Company's revenues and expenses in 2004. Therefore the variances between the 2004 and the 2003 revenue and expense categories as shown in the statements of operations are most significant. The following discussion of the Company's results of operations compares the 2004 with the 2003 results as if the LLC's 2003 results had been consolidated.

**Revenues and Costs of Services:** Revenues in the nine and three months ended March 31, 2004 decreased approximately \$916,000 (9%) and \$609,000 (16%), respectively over the same period last year. Costs of services in the nine and three months ended March 31, 2004 decreased approximately \$905,000 (10%) and \$575,000 (17%), respectively over the same period last year. The net result is that the Company's gross profit decreased slightly from approximately \$1,097,000 to \$1,086,000 for the nine-month period while three-month period gross profit decreased 8% from \$431,000 to \$397,000. The decreases in the revenue and cost of services categories were due to operational and processing cutbacks resulting in a reduction in utilities usage and expense. Those reduced costs were passed on to the Company's customers in the form of a reduction in billings to the customers. Thus the overall gross profit was not affected significantly.

**Payroll and Employee Benefits Expense:** Payroll and employee benefit expenses declined approximately \$46,000 or 9.6% for the nine months ended March 31, 2004 compared to the corresponding period of the prior fiscal year. For the three months ended March 31, 2004, payroll and employee benefits declined by \$14,000. The decrease can be attributed to salary reductions offset in part by increases in health insurance.

**Professional Fees:** This category increased approximately \$61,000 from \$121,669 in the nine months ended March 31, 2003 to \$182,724 for the nine months ended March 31, 2004. For the three months ended March 31, 2004 this category amounted to \$37,829 compared to \$10,615 in the corresponding period in 2003. The nine-month increase was attributable primarily to higher legal and auditing fees offset in part by lower staff recruitment fees and the forgiveness of a \$27,470 consulting debt that had been owed to a stockholder of the Company. The three-month increase was due to higher auditing firm

fees offset in part by the aforementioned forgiveness of a \$27,470 consulting debt that had been owed to a stockholder of the Company.

**Insurance Expense:** This category decreased from \$95,230 in the nine months ended March 31, 2003 to \$58,393 in the nine months ended March 31, 2004. For the three months ended March 31 the category decreased from \$62,134 to \$21,056. The decrease in the three month period was due to recording a nine month insurance accrual in the quarter ended March 31, 2003. The overall decrease for the nine month period was due to an overall premium reduction.

**Other General and Administrative Expenses:** This category increased approximately \$8,000 during the nine months ended March 31, 2004 compared to the nine months ended March 31, 2003. The increase was due to increased repairs and maintenance expenditures by the LLC offset by a number of cost reductions in a variety of other categories.

In the three months ended March 31, 2004 general and administrative expenses decreased by approximately \$11,000 compared to the corresponding period in 2003 due to a concerted effort to reduce costs.

**Recovery of Doubtful Accounts:** This category increased approximately \$55,000 during the nine months ended March 31, 2004 compared to the corresponding nine months in 2003. This increase was due to a credit in the first quarter 2002 to the provision for doubtful accounts of approximately \$55,000. The credit was needed because the provision had been overstated in a prior accounting period.

**Depreciation Expense:** Depreciation increased \$147,000 and \$40,000 during the nine and three months ended March 31, 2004 compared to the same periods in 2003. The Company's depreciable assets increased from approximately \$4,589,000 as of March 31, 2003 to \$7,300,000 as of March 31, 2004.

**Loss on Disposition of Assets:** During the nine months ended March 31, 2003, the Company recorded losses of \$40,000 from the dispositions of certain leased equipment assets. No such losses occurred in 2004.

**Interest Income:** Interest income decreased \$18,000 in the nine months period ended March 31, 2004 over the corresponding prior year period and decreased approximately \$6,000 in the three months ended March 31, 2004 vs. the corresponding 2003 period. Both declines were the result of lower average balances available for investment.

**Interest Expense:** Interest expense for the nine months ended March 31, 2004 increased \$123,000 compared to the nine months ended March 31, 2003. Interest expense for the three months ended March 31, 2004 increased approximately \$87,000 compared to the three months ended March 31, 2003. Both increases were a result of increased average debt outstanding during the respective accounting periods.

**Minority Member's Interest in Earnings of Limited Liability Company.** The earnings of the LLC declined from \$509,000 in the nine months ended March 31, 2003 to \$205,000 in the nine months ended March 31, 2004. While gross profit remained essentially equal, the decline was due to an increase in depreciation and amortization expenses of \$158,000 and an increase in interest expense of \$138,000. Since the profits of the LLC were lower, the allocation of those profits to the minority member were correspondingly less. The same was true in the three month period ended March 31, 2004 compared to the three months ended March 31, 2003. During those periods the LLC's profits amounted to \$5,000 and \$221,000, respectively.

### ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our chief executive officer and controller, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 within 90 days of the filing date of this quarterly report. Based upon their evaluation, our chief executive officer and controller have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

#### *Critical Accounting Policies*

The Company has identified significant accounting policies that, as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved, could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. The Company's most critical accounting policies are related to the following areas: consolidation, revenue recognition, long-lived assets, deposits, concentrations of customers and the underlying credit risk and deferred taxes. As stated in Note A, in the accompanying condensed consolidated financial statements the Company has consolidated the accounts of the LLC in those statements dated March 31, 2004. In the condensed consolidated financial statements dated March 31, 2003, the accounts of the LLC have not been consolidated. Other than this change in consolidation policy there have been no other material changes to the Company's critical accounting policies that impact the Company's financial condition or results of operations for the quarter ended March 31, 2004.

#### *Recent Accounting Pronouncements*

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. Its purpose is to improve financial reporting for variable interest entities, off-balance sheet structures that often have highly complex arrangements. The implementation date is the fourth quarter of calendar 2003. The Company has not yet determined what effect, if any, the implementation of this interpretation will have on its financial statements.



EXHIBIT INDEX

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
11	Statement re: Computation of per share earnings
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32.1	Written Statement of the Chief Executive Officer
32.2	Written Statement of the Chief Financial Officer

**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 from January 1, 2004 through March 31, 2004, 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 6a. Exhibits and Reports on Form 10-QSB

Part I Exhibits:

11. Statement re: Computation of Per-Share Earnings.
- 31.1 Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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- 32.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

ITEM 6b. Exhibits and 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.

January 19, 2005

/s/ Mark A. Margason  
Mark A. Margason  
Chief Executive Officer

January 19, 2005

/s/ Jerome P. Frett  
Jerome P. Frett  
Controller