

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0 - 21810

**AMERIGON INCORPORATED**

(Exact name of registrant as specified in its charter)

**Michigan**

(State or other jurisdiction of  
incorporation or organization)

**95-4318554**

(I.R.S. Employer Identification No.)

**21680 Haggerty Road, Ste. 101, Northville, MI**

(Address of principal executive offices)

**48167**

(Zip Code)

Registrant's telephone number, including area code: (248) 504-0500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At October 26, 2006, the registrant had 21,326,541 shares of Common Stock, no par value, issued and outstanding.

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AMERIGON INCORPORATED

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**AMERIGON INCORPORATED**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(In thousands, except share data)

	September 30, 2006 (unaudited)	December 31, 2005
<b>ASSETS</b>		
Current Assets:		
Cash & cash equivalents	\$ 1,219	\$ 1,364
Short-term investments	9,050	9,975
Accounts receivable, less allowance of \$369 and \$295, respectively	11,913	7,891
Inventory:		
Raw materials	919	1,894
Finished goods	4,017	818
Inventory	4,936	2,712
Deferred income tax assets	2,654	1,447
Prepaid expenses and other assets	106	7
Total current assets	29,878	23,396
Property and equipment, net	1,756	1,177
Long-term investments	659	—
Deferred financing costs	13	16
Patent costs, net of accumulated amortization of \$15 and \$11, respectively	784	533
Deferred income tax assets	9,486	12,131
Total assets	<u>\$ 42,576</u>	<u>\$ 37,253</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 7,628	\$ 5,323
Accrued liabilities	2,445	2,227
Deferred manufacturing agreement – current portion	200	200
Total current liabilities	10,273	7,750
Deferred manufacturing agreement – long term portion	700	850
Total liabilities	10,973	8,600
Shareholders' equity:		
Convertible Preferred Stock:		
Series A – no par value; convertible; 9,000 shares authorized, no shares issued and outstanding on September 30, 2006 and 9,000 shares issued and outstanding at December 31, 2005 liquidation preference of \$11,520 at December 31, 2005	—	8,267
Common Stock:		
No par value; 30,000,000 shares authorized, 21,324,541 and 15,874,557 issued and outstanding at September 30, 2006 and December 31, 2005, respectively	61,572	53,142
Paid-in capital	20,519	20,202
Accumulated other comprehensive income – foreign currency	(14)	—
Accumulated deficit	(50,474)	(52,958)
Total shareholders' equity	31,603	28,653
Total liabilities and shareholders' equity	<u>\$ 42,576</u>	<u>\$ 37,253</u>

See accompanying notes to the consolidated condensed financial statements.

**AMERIGON INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
**(In thousands, except per share data)**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Product revenues	\$12,729	\$ 8,256	\$35,579	\$25,775
Cost of sales	8,570	5,611	24,229	18,208
Gross margin	4,159	2,645	11,350	7,567
Operating costs and expenses:				
Research and development	1,811	1,488	4,973	4,500
Research and development reimbursements	(815)	(858)	(2,451)	(2,583)
Net research and development expenses	996	630	2,522	1,917
Selling, general and administrative	1,869	1,267	5,311	4,197
Total operating costs and expenses	2,865	1,897	7,833	6,114
Operating income	1,294	748	3,517	1,453
Interest income	135	79	365	190
Other income	21	51	121	151
Earnings before income tax	1,450	878	4,003	1,794
Income tax expense	550	—	1,519	—
Net income	<u>\$ 900</u>	<u>\$ 878</u>	<u>\$ 2,484</u>	<u>\$ 1,794</u>
Basic earnings per share:				
Common Stock	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.12</u>	<u>\$ 0.09</u>
Convertible Preferred Stock		<u>\$ 0.04</u>	<u>\$ 0.12</u>	<u>\$ 0.09</u>
Diluted earnings per common share	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.11</u>	<u>\$ 0.08</u>
Weighted average number of shares – basic				
Common Stock	<u>21,282</u>	<u>15,691</u>	<u>19,387</u>	<u>15,375</u>
Convertible Preferred Stock (as converted)		<u>5,373</u>	<u>1,875</u>	<u>5,373</u>
Weighted average number of shares – diluted	<u>22,141</u>	<u>16,215</u>	<u>20,193</u>	<u>15,842</u>

See accompanying notes to the consolidated condensed financial statements.

**AMERIGON INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2006	2005
<b>Operating Activities:</b>		
Net income	\$ 2,484	\$ 1,794
Adjustments to reconcile net income to cash provided by operating activities:		
Deferred tax provision	1,438	—
Stock option compensation	317	—
Depreciation and amortization	371	338
Loss on disposal of property and equipment	33	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,023)	(2,407)
Inventory	(2,223)	(314)
Prepaid expenses and other assets	(100)	(23)
Accounts payable	2,306	667
Accrued liabilities	217	587
Net cash provided by operating activities	<u>820</u>	<u>642</u>
<b>Investing Activities:</b>		
Purchases of short-term investments	(11,400)	(15,200)
Sales of short-term investments	12,325	13,400
Purchase of long-term investments	(659)	—
Purchase of property and equipment	(1,129)	(193)
Proceeds from property and equipment sales	2	—
Patent costs	(255)	(154)
Net cash used in investing activities	<u>(1,116)</u>	<u>(2,147)</u>
<b>Financing Activities:</b>		
Proceeds from the exercise of warrants and options	165	1,806
Net cash provided by financing activities	<u>165</u>	<u>1,806</u>
Foreign currency effect	(14)	—
Net increase in cash and cash equivalents	(145)	301
Cash and cash equivalents at beginning of period	1,364	1,078
Cash and cash equivalents at end of period	<u>\$ 1,219</u>	<u>\$ 1,379</u>

See accompanying notes to consolidated condensed financial statements.

## AMERIGON INCORPORATED

## CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Preferred Stock	Common Stock		Paid-in Capital	Accumulated Deficit	Currency Translation Adjustment	Total
		Shares	Amount				
Balance at December 31, 2005	\$ 8,267	15,875	\$53,142	\$20,202	\$ (52,958)	\$ —	\$28,653
Conversion of Series A Convertible Preferred shares to Common Stock	(8,267)	5,373	8,222	—	—	—	(45)
Exercise of Common Stock options for cash	—	77	208	—	—	—	208
Stock option compensation	—	—	—	317	—	—	317
Comprehensive income:							
Currency translation	—	—	—	—	—	(14)	—
Net income	—	—	—	—	2,484	—	—
Total comprehensive income							2,470
Balance at September 30, 2006	<u>\$ —</u>	<u>21,325</u>	<u>\$61,572</u>	<u>\$20,519</u>	<u>\$ (50,474)</u>	<u>\$ (14)</u>	<u>\$31,603</u>

See accompanying notes to condensed consolidated financial statements.

**AMERIGON INCORPORATED**  
**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**Note 1 – The Company**

Amerigon Incorporated (the “Company”) designs, develops and markets proprietary, high- technology electronic components and systems for sale to car and truck original equipment manufacturers (“OEMs”). The Company’s primary product is the Climate Control Seat (“CCS™”), which provides year-round comfort to passengers of automobiles by providing both heating and cooling to seat occupants. Since 2000, the Company has shipped approximately 2,375,000 units of its CCS product through September, 2006.

In 2003, the Company launched a newly designed and more efficient version of its CCS that incorporates its new Micro Thermal Module™ technology. This new generation CCS system, which is based on the Company’s proprietary thermoelectric technology device, is smaller, lighter, quieter and more versatile than its predecessor.

The Company has an 85% interest in BSST LLC (“BSST”). BSST is engaged in a program to improve the efficiency of thermoelectric devices and to develop, market and distribute new products based on this technology.

**Note 2 – Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair presentation have been included. The balance sheet as of December 31, 2005 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2005 included in our Form 10-K.

[Table of Contents](#)**Note 3 –Earnings per Share**

Basic earnings per common share are computed in accordance with Statement of Financial Accounting Standard No. 128, “Earnings Per Share”, and Emerging Issues Task Force (“EITF”) Issue 03-06 *Participating Securities and the Two-Class Method under FASB Statement No. 128*, by dividing income available to each class of outstanding stock by the weighted average number of shares of stock outstanding. The income available to Common Stock is derived as follows:

	Three Months Ended September 30, (in Thousands)		Nine Months Ended September 30, (in Thousands)	
	2006	2005	2006	2005
	Net income	\$ 900	\$ 878	\$ 2,484
Amount allocated to participating Convertible Preferred Stock	—	(224)	(219)	(464)
Income available to Common Stock	<u>\$ 900</u>	<u>\$ 654</u>	<u>\$ 2,265</u>	<u>\$ 1,330</u>

On January 31, 2006 the holders of the Series A Convertible Preferred Stock converted 4,500 of their outstanding shares to 2,686,568 Common Shares. During June 2006, the remaining outstanding 4,500 Series A Convertible Preferred Stock converted to 2,686,566 Common Shares. As a result of these conversions no Series A Convertible Preferred Stock was outstanding as of or during the three month period ended September 30, 2006. Accordingly no income was allocated to the Preferred Stock during this period.

The Company’s diluted earnings per common share give effect to all potential shares of Common Stock outstanding during a period that are not anti-dilutive. In computing the diluted earnings per share, the treasury stock method is used in determining the number of shares assumed to be purchased from the conversion of Common Stock equivalents. The following summarizes the shares included in the dilutive shares as disclosed on the face of the consolidated condensed statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Weighted average number of shares for calculation of basic EPS – Common Stock	21,282,476	15,691,327	19,386,816	15,375,014
Impact of stock options outstanding under the 1993 and 1997 Stock Option Plans	733,544	479,771	695,427	428,715
Impact of warrants outstanding for the purchase of Common Stock	125,309	44,108	110,485	38,397
Weighted average number of shares for calculation of diluted EPS	<u>22,141,329</u>	<u>16,215,206</u>	<u>20,192,728</u>	<u>15,842,126</u>

The accompanying table represents Common Stock issuable upon the exercise of certain stock options and warrants, and Common Stock issuable upon the conversion of Series A Convertible Preferred Stock that have been excluded from the diluted shares calculation because the effect of their inclusion would be anti-dilutive.



**Note 3 – Earnings per Share (Continued)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Stock options outstanding under the 1993 and 1997 Stock Option Plans	18,500	318,500	22,100	399,500
Shares of Common Stock issuable upon the exercise of warrants	—	216,690	—	216,690
Shares of Common Stock issuable upon the conversion of Series A Convertible Preferred Stock	—	5,373,134	1,874,692	5,373,134
Total	<u>18,500</u>	<u>5,908,324</u>	<u>1,896,792</u>	<u>5,989,324</u>

The Company's Series A Convertible Preferred Stock was a participating security, but did not participate in a net loss.

**Note 4 – Accounting for Stock-Based Compensation**

On January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement 123R, *Share-Based Payment* ("SFAS 123R"). This statement focuses primarily on accounting for transactions in which an entity provides stock based compensation to its employees, such as the options issued under the Company's Stock Option Plans. The statement provides for, and the Company has elected to adopt the standard using the modified prospective application under which compensation cost is recognized on or after the required effective date for the fair value of all share based award grants after the effective date and the portion of outstanding awards at the date of adoption of this statement for which the requisite service has not been rendered. The Company's stock option compensation expense and related deferred tax benefit was \$105,000 and \$14,000, respectively, for the three month period ended September 30, 2006 and \$317,000 and \$39,000, respectively, for the nine month period then ended.

Prior to January 1, 2006, the Company accounted for its stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

**Note 4 – Accounting for Stock-Based Compensation (Continued)**

On May 18, 2006, the shareholders of the Company approved the Amerigon Incorporated 2006 Equity Incentive Plan (the “2006 Option Plan”) covering 1,800,000 shares of common stock. The 2006 Option Plan permits the granting of various awards including stock options (including both nonqualified options and incentive options), stock appreciation rights, restricted stock and restricted stock units, performance shares and certain other awards to key employees, outside directors and consultants and advisors of the company. No awards have been granted under this new plan as of September 30, 2006.

The application of SFAS 123R had the following effect on the reported amounts for the three and nine month periods ended September 30, 2006 relative to amounts that would have been reported using the intrinsic value method under previous accounting:

	Three Months Ended September 30, 2006		
	Using Previous Accounting	SFAS 123R Adjustments	As Reported
Operating income	\$1,399,000	\$ 105,000	\$1,294,000
Earnings before income tax	1,555,000	105,000	1,450,000
Net income	991,000	91,000	900,000
Basic earnings per share:			
Common Stock	\$ 0.05	\$ 0.01	\$ 0.04
Diluted earnings per common share	\$ 0.04	\$ —	\$ 0.04
	Nine Months Ended September 30, 2006		
	Using Previous Accounting	SFAS 123R Adjustments	As Reported
Operating income	\$3,834,000	\$ 317,000	\$3,517,000
Earnings before income tax	4,320,000	317,000	4,003,000
Net income	2,762,000	278,000	2,484,000
Basic earnings per share:			
Common Stock	\$ 0.13	\$ 0.01	\$ 0.12
Convertible Preferred Stock	\$ 0.13	\$ 0.01	\$ 0.12
Diluted earnings per common share	\$ 0.12	\$ 0.01	\$ 0.11

[Table of Contents](#)**Note 4 – Accounting for Stock-Based Compensation (Continued)**

Stock-based compensation for the three and nine month periods ended September 30, 2005 was determined using the intrinsic value method. The following table provides supplemental information for that period as if stock-based compensation had been computed under SFAS 123R:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	\$ 878	\$ 1,794
Value of stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	(87)	(346)
Pro forma net income	<u>\$ 791</u>	<u>\$ 1,448</u>
Earnings per share:		
Basic – Common Stock – as reported	\$ 0.04	\$ 0.09
Basic – Common Stock – pro forma	\$ 0.04	\$ 0.07
Basic – Convertible Preferred Stock – as reported	\$ 0.04	\$ 0.09
Basic – Convertible Preferred Stock – pro forma	\$ 0.04	\$ 0.07
Diluted – as reported	\$ 0.04	\$ 0.08
Diluted – pro forma	\$ 0.04	\$ 0.07

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. This model incorporates certain assumptions for inputs including a risk-free market interest rate, expected dividend yield of the underlying common stock, expected option life and expected volatility in the market value of the underlying common stock. We used the following assumptions for options issued in the following periods:

	<u>2006</u>	<u>2005</u>
Expected volatility	55%	68%
Expected lives	5 yrs.	5 yrs.
Risk-free interest rate	4.30%	4.48%
Expected dividend yield	none	none

Expected volatilities are based on the historical volatility of the Company's common stock and that of an index of companies in our industry group. Since the Company has little historical data to help evaluate the expected lives of options, we considered several other factors in developing this assumption including the average holding period of outstanding options, their remaining terms and the cycle of our long range business plan. The risk free interest rate is based upon quoted market yields for United States Treasury debt securities. The expected dividend yield is based upon the Company's history of having never issued a dividend and management's current expectation of future action surrounding dividends.

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**Note 4 – Accounting for Stock-Based Compensation (Continued)**

The following table summarizes stock option activity during the nine month period ended September 30, 2006:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	1,481,431	\$ 3.24		
Granted	91,000	6.17		
Exercised	(76,850)	2.73		
Forfeited	(10,500)	5.38		
Outstanding at September 30, 2006	<u>1,485,081</u>	<u>\$ 3.43</u>	<u>5.68</u>	<u>\$7,701,000</u>
Exercisable at September 30, 2006	<u>1,289,031</u>	<u>\$ 3.18</u>	<u>5.25</u>	<u>\$7,038,000</u>

The weighted-average grant-date fair value of options granted during the nine month period ended September 30, 2006 and 2005 was \$3.20 and \$2.52 respectively. The total intrinsic value of options exercised during the nine month period ended September 30, 2006 and 2005 was \$425,000 and \$57,000, respectively.

A summary of the status of the Company's nonvested options as of September 30, 2006, and changes during the nine month period then ended is presented below:

Nonvested Options	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2005	199,700	\$ 2.75
Granted	91,000	3.20
Vested	(84,650)	2.94
Forfeited	(10,000)	\$ 2.85
Nonvested at September 30, 2006	<u>196,050</u>	<u>\$ 2.87</u>

As of September 30, 2006, there was \$340,000 of total unrecognized compensation cost related to nonvested options granted under all of the Company's option plans. That cost is expected to be recognized over a weighted average period of 1.3 years. The total fair value of shares vested during the nine month period ended September 30, 2006 and 2005 was \$317,000 and \$346,000, respectively.

[Table of Contents](#)**Note 5 – Segment Reporting**

The tables below present segment information about the reported product revenues and operating income of the Company for the three and nine month periods ended September 30, 2006 and 2005. Asset information by reportable segment is not reported since the Company does not manage assets at a segment level.

<u>Three Months Ended September, 30</u>	<u>CCS</u>	<u>BSST</u> <sup>(1)</sup>	<u>Reconciling Items</u>	<u>Total</u>
			(in Thousands)	
2006				
Product revenues	\$12,729	\$ —	\$ —	\$12,729
Operating income	3,507	(344)	(1,869) <sup>(2)</sup>	1,294
2005				
Product revenues	\$ 8,256	\$ —	\$ —	\$ 8,256
Operating income	2,057	(42)	(1,267) <sup>(2)</sup>	748

<sup>(1)</sup> BSST's operating loss for the three months ended September 30, 2006 and 2005, is net of \$815,000 and \$858,000, respectively, of reimbursed research and development costs.

<sup>(2)</sup> Represents selling, general and administrative costs and includes depreciation expense of \$42,000 and \$30,000, for the three months ended September 30, 2006 and 2005, respectively.

<u>Nine Months Ended September, 30</u>	<u>CCS</u>	<u>BSST</u> <sup>(1)</sup>	<u>Reconciling Items</u>	<u>Total</u>
			(in Thousands)	
2006				
Product revenues	\$35,579	\$ —	\$ —	\$35,579
Operating income	9,424	(596)	(5,311) <sup>(2)</sup>	3,517
2005				
Product revenues	\$25,775	\$ —	\$ —	\$25,775
Operating income	5,740	(90)	(4,197) <sup>(2)</sup>	1,453

<sup>(1)</sup> BSST's operating loss for the nine months ended September 30, 2006 and 2005, is net of \$2,451,000 and \$2,583,000, respectively, of reimbursed research and development costs.

<sup>(2)</sup> Represents selling, general and administrative costs and includes depreciation expense of \$108,000 and \$106,000, for the nine months ended September 30, 2006 and 2005, respectively.

[Table of Contents](#)**Note 5 – Segment Reporting (Continued)**

Product revenues information by geographic area:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(in Thousands)		(in Thousands)	
North America	\$ 7,611	\$ 5,083	\$24,553	\$15,731
Asia	4,585	3,173	10,493	10,044
Europe	533	—	533	—
Total product revenues	<u>\$ 12,729</u>	<u>\$ 8,256</u>	<u>\$35,579</u>	<u>\$25,775</u>

Product revenues information by geographic area, as a percent of total product revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
North America	60%	62%	69%	61%
Asia	36%	38%	29%	39%
Europe	4%	—	2%	—
Total product revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Note 6 – Related Party Transactions**

The Company has outsourced some of the production of the CCS product for its North American and Asian customers to Millennium Plastics Technologies, LLC (“Millennium”) in Chihuahua, Mexico. Millennium is controlled by TMW Enterprises, Inc., the general partner of W III H Partners, L.P (“W III H”). W III H was one of the Company’s major shareholders prior to selling its shares during the current year. In addition to assembly labor, the Company purchases various components from Millennium. The components held at this supplier’s plant are reported as raw material inventory. Completed CCS systems held at the supplier’s plant before shipment to the customer are reported as finished goods inventory. For the three and nine months ended September 30, 2006, purchases from this supplier totaled \$270,000 and \$1,769,000, respectively, and totaled \$838,000 and \$2,889,000, respectively, for the three and nine months ended September 30, 2005. The accounts payable balance with Millennium was \$136,000 as of September 30, 2006 and \$463,000 as of December 31, 2005.

The Company has also outsourced production of the second generation of the CCS product to a contract manufacturer, Ferrotec Corporation (“Ferrotec”), a Japanese company with operations located in Hangzhou, China. In addition, the Company purchases thermoelectric devices from Ferrotec. Ferrotec owned 600,000 shares of the Company’s Common Stock as of September 30, 2006. For the three and nine months ended September 30, 2006, purchases from this supplier totaled \$6,636,000 and \$14,941,000, respectively, and totaled \$2,313,000 and \$6,255,000, respectively, for the three and nine month periods ended September 30, 2005. The Company had an accounts payable balance with Ferrotec of \$4,396,000 as of September 30, 2006 and \$2,638,000 as of December 31, 2005.

**Note 7 – Long-Term Investments**

During 2006 the company diversified its investment portfolio and purchased \$659,000 of US Government Agency Bonds. The Bonds have yields ranging from 5.0% to 5.07% and mature during the fourth quarter of 2007. The bonds have been classified as long-term investments in the accompanying Consolidated Condensed Balance Sheet as of September 30, 2006.

**Note 8 – New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is assessing FIN 48 and has not determined the impact that the adoption of FIN 48 will have on its results of operations or financial condition, if any.

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

**General**

Amerigon Incorporated ("we," the "Company" or the "registrant") designs, develops and markets products based on our advanced, proprietary, efficient thermoelectric device ("TED") technologies for a wide range of global markets and heating and cooling applications. Our current principal product is our proprietary Climate Control Seat™ ("CCS™" or "CCS") which we sell to automobile and truck original equipment manufacturers or their tier one suppliers. The CCS provides year-round comfort to automotive seat occupants by producing both active heating and cooling. As of September 2006, we have shipped nearly 2.4 million units of our CCS product to customers since 2000. Our CCS product is currently offered as an optional feature on 21 automobile models produced by Ford Motor Company, General Motors, Toyota Motor Corporation, Nissan, and Hyundai.

In 2003, the Company launched a newly-designed and more efficient version of its CCS that incorporates our new Micro Thermal Module™ ("MTM™" or "MTM") technology. This new generation CCS system, which is based on the Company's proprietary TED technology, is smaller, lighter, quieter and more versatile than its predecessor. Over the past year, we began producing MTM's for several new automobile models which incorporate a number of improvements representing our third generation of CCS development in less than five years.

**Results of Operations**

Third Quarter 2006 Compared with Third Quarter 2005

*Product Revenues.* Product revenues for the three months ended September 30, 2006 ("Third Quarter 2006"), were \$12,729,000 compared with revenues of \$8,256,000 for the three months ended September 30, 2005 ("Third Quarter 2005"), an increase of \$4,473,000, or 54%. Higher sales were primarily the result of new model introductions and higher volumes on redesigned models. These increases were partially offset by lower sales for four models for which the production life ended after the Third Quarter 2005 but prior to the Third Quarter 2006, lower average unit prices and lower volumes on existing programs. Unit shipments increased to 179,000 units for the Third Quarter 2006 compared with 113,000 units for the Third Quarter 2005. New products equipped with CCS and launched since the Third Quarter 2005 included the Lincoln MKX and the redesigned Cadillac Escalade, Cadillac Escalade ESV and Cadillac Escalade EXT. Additionally, two models, the Lincoln MKZ (f.k.a the Lincoln Zephyr) and Buick Lucerne, were introduced during the Third Quarter 2005 but did not reach full volume levels until the fourth quarter of 2005. Lower average prices per unit were the result of a change in the mix of products sold being weighted more to CCS systems having lower Amerigon content during the Third Quarter 2006 compared with that of the Third Quarter 2005. Content varies between programs based upon differing customer sourcing patterns of certain components that complement the CCS system. The four vehicles which ended their production life after the Third Quarter 2005 but prior to the Third Quarter 2006 were the Cadillac Escalade ESV Platinum, Lincoln Aviator, Lincoln LS and Mercury Monterey. No immediate replacements for these models have yet been introduced by our customers. We began shipping product for two vehicles currently offering CCS that were totally redesigned since the Third Quarter 2005, the Lincoln Navigator, Ford Expedition and Lexus LS460.

*Cost of Sales.* Cost of sales increased to \$8,570,000 in the Third Quarter 2006 (67%, as a percentage of sales) from \$5,611,000 in the Third Quarter 2005 (68%, as a percentage of sales). This increase of \$2,959,000, or 53%, is attributable to higher production volumes offset partially by a



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favorable change in the mix of products sold, better coverage of fixed costs and by our continued cost reduction efforts.

*Net Research and Development Expenses.* Net research and development expenses increased to \$996,000 in the Third Quarter 2006 from \$630,000 in the Third Quarter 2005. This \$366,000, or 58%, increase was primarily due to increased research activities associated with our advanced TED program. We expect that our net research and development expenses will increase in the remainder of 2006 as we continue to increase our development activities surrounding the advanced TED technology.

We classify development and prototype costs and related reimbursements in research and development. This is consistent with accounting standards applied in the automotive industry. Depreciation costs for tooling are included in cost of sales.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased to \$1,869,000 in the Third Quarter 2006 compared with \$1,267,000 in the Third Quarter 2005. This \$602,000, or 48%, increase reflects stock option compensation of \$105,000 recorded in conjunction with the adoption of Financial Accounting Standards Board Statement (“SFAS”) 123R *Share based Payments*, higher costs associated with our program to implement Rule 404 of the Sarbanes-Oxley Act and a customer reimbursement in the Third Quarter 2005 of expenses associated with our European office. There was no such customer reimbursement in the Third Quarter 2006 and no such stock option cost in the Third Quarter 2005.

*Interest Income.* We had interest income of \$135,000 for the Third Quarter 2006 compared with \$79,000 for the Third Quarter 2005. The increase of \$56,000 resulted from higher cash reserves during the Third Quarter 2006 compared with the Third Quarter 2005 and higher average yields on our cash investments (see “Liquidity and Capital Resources”).

*Income Tax Expense.* We recorded an income tax expense totaling \$550,000 representing an estimated effective tax rate of 38% for the Third Quarter 2006. This expense is primarily a deferred tax expense, and any current income tax payable is expected to be substantially offset by our net operating loss carryforwards. Therefore, we do not expect to have a significant cash outlay for income taxes in the current year. No income tax expense was recorded during the Third Quarter 2005 since a valuation allowance had been fully provided against all our deferred tax assets. During the fourth quarter of 2005 we reassessed and reversed a significant amount of this valuation allowance based upon the Company’s recent earnings record and its improved future prospects.

### Nine Months Ending September 30, 2006 Compared with Nine Months Ended September 30, 2005

*Product Revenues.* Product revenues for the nine months ended September 30, 2006 (“YTD 2006”), were \$35,579,000 compared with revenues of \$25,775,000 for the nine months ended September 30, 2005 (“YTD 2005”), an increase of \$9,804,000, or 38%. Higher sales were primarily the result of new model introductions and higher average unit prices and were partially offset by lower sales for four North American models for which the production life ended prior to or during YTD 2006. Unit shipments increased to 494,000 units for YTD 2006 compared with 368,000 units for YTD 2005. New products equipped with CCS and launched since the YTD 2005 were the Lincoln MKX and the redesigned Cadillac Escalade, Cadillac Escalade ESV and Cadillac Escalade EXT. Additionally, two models, the Lincoln MKZ (f.k.a the Lincoln Zephyr) and Buick Lucerne, were introduced during the Third Quarter 2005 but did not reach full volume levels until the fourth quarter of 2005. Higher average prices per unit were the result of a change in the mix of products sold being weighted more to CCS systems having higher Amerigon content, including the newly launched programs, during YTD 2006 compared with that of YTD 2005. Content varies between programs based upon differing customer

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sourcing patterns of certain components that complement the CCS system. The four vehicles which ended their production life prior to or during YTD 2006 were the Cadillac Escalade ESV Platinum, Lincoln Aviator, Lincoln LS and Mercury Monterey. No immediate replacements for these models have yet been introduced by our customers. We began shipping product for two vehicles currently offering CCS that were totally redesigned during the period, the Lincoln Navigator, Ford Expedition and Lexus LS460.

*Cost of Sales.* Cost of sales increased to \$24,229,000 in YTD 2006 (68%, as a percentage of sales) from \$18,208,000 in YTD 2005 (71%, as a percentage of sales). This increase of \$6,021,000, or 33%, is attributable to higher production volumes offset partially by a favorable change in the mix of products sold, better coverage of fixed costs and by our continued cost reduction efforts.

*Net Research and Development Expenses.* Net research and development expenses increased to \$2,522,000 in YTD 2006 from \$1,917,000 in YTD 2005. This \$605,000, or 32%, increase was primarily due to increased research activities associated with our advanced TED program and lower research and development reimbursements. We expect that our net research and development expenses will increase in the remainder of 2006 as we continue to increase our development activities surrounding the advanced TED technology.

We classify development and prototype costs and related reimbursements in research and development. This is consistent with accounting standards applied in the automotive industry. Depreciation costs for tooling are included in cost of sales.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased to \$5,311,000 in YTD 2006 compared with \$4,197,000 in YTD 2005. This \$1,114,000, or 27%, increase reflects stock option compensation of \$317,000 recorded in conjunction with the adoption of Financial Accounting Standards Board Statement (“SFAS”) 123R *Share based Payments* and higher costs associated with our program to implement Rule 404 of the Sarbanes-Oxley Act and a customer reimbursement in the Third Quarter 2005 of expenses associated with our European office. There was no such customer reimbursement in the Third Quarter 2006 and no such stock option cost in the Third Quarter 2005.

*Interest Income.* We had interest income of \$365,000 for YTD 2006 compared with \$190,000 for YTD 2005. The increase of \$175,000 resulted from higher cash reserves during YTD 2006 compared with YTD 2005 and higher average yields on our cash investments (see “Liquidity and Capital Resources”).

*Income Tax Expense.* We recorded an income tax expense totaling \$1,519,000 representing an estimated effective tax rate of 38% for YTD 2006. This expense is primarily a deferred tax expense, and any current income tax payable is expected to be substantially offset by our net operating loss carryforwards. Therefore, we do not expect to have a significant cash outlay for income taxes in the current year. No income tax expense was recorded during YTD 2005 since a valuation allowance had been fully provided against all our deferred tax assets. During the fourth quarter of 2005 we reassessed and reversed a significant amount of this valuation allowance based upon the Company’s recent earnings record and its improved future prospects.

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### Liquidity and Capital Resources

The following table represents our cash and cash equivalents and short-term investments:

	September 30, 2006	December 31, 2005
Cash and cash equivalents	\$ 1,219,000	\$ 1,364,000
Short-term investments	9,050,000	9,975,000
	<u>\$ 10,269,000</u>	<u>\$ 11,339,000</u>

We manage our cash, cash equivalents and short-term investments in order to fund operating requirements. Cash and cash equivalents decreased by \$145,000 to \$1,219,000 in YTD 2006. Short-term investments decreased \$925,000 to \$9,050,000 during the same period. Our short-term investments are comprised of Auction Rate Securities (“ARS”). ARS are pools of highly rated corporate debt instruments with a long-term nominal maturity for which the interest rate is set through a “Dutch Auction” process. We invest in ARS that have auctions held every seven days.

In order to protect the yield on our investment portfolio, we purchased \$659,000 of US Government Agency Bonds during YTD 2006. The Bonds have yields ranging from 5.0% to 5.07% and mature during the fourth quarter of 2007. The bonds have been classified as long-term investments in the accompanying Consolidated Condensed Balance Sheet as of September 30, 2006.

Cash provided by operating activities during YTD 2006 was \$820,000 and was attributable to net income, net of non cash adjustments including; deferred taxes of \$1,438,000, stock option compensation of \$317,000, depreciation and amortization of \$371,000, offset by an increase in net operating assets and liabilities of \$3,823,000. The higher net operating assets and liabilities were primarily due to higher accounts receivable, inventory and prepaid expenses and other assets as of September 30, 2006, compared with December 31, 2005, offset partially by higher accounts payable and accrued liabilities during that period.

As of September 30, 2006 working capital was \$19,605,000 and was \$15,646,000 at December 31, 2005 representing an increase of \$3,959,000, or 25%. This increase was due to an increase in accounts receivable of \$4,023,000, current deferred income tax assets of \$1,207,000, inventory of \$2,223,000 and prepaid expenses and other assets of \$100,000. These were offset partially by a net reduction in cash and cash equivalents and short-term investments of \$1,070,000, an increase in accounts payable of \$2,306,000 and an increase in accrued liabilities of \$217,000. Accounts receivable increased as a result of the higher sales during the period compared with sales in the fourth quarter of 2005. Our levels of inventory and accounts payable tend to fluctuate as a result of sourcing products from China and due to long payment terms with certain suppliers. The increase in the current deferred income tax assets was due to a reclassification of a portion of our net operating losses as current assets in accordance with current estimates of taxable income over the next twelve month period.

Cash used in investing activities was \$1,116,000 during YTD 2006, reflecting purchases of short-term investments of \$11,400,000, purchases of tooling and equipment totaling \$1,129,000, purchase of long-term investments of \$659,000 and the cost of new patent application filings of \$255,000 partially offset by sales of short-term investments of \$12,325,000. Purchases of tooling and equipment for the period are primarily related to new equipment purchases related to newly launched production programs.

### **Related Party Transactions**

We have outsourced production of our CCS product for our North American and Asian customers to Millennium Plastics Technologies, LLC (“Millennium”) in Chihuahua, Mexico. Millennium is controlled by TMW Enterprises, Inc., the general partner of W III H Partners, L.P. (“W III H”). W III H was one of the Company’s major shareholders prior to selling its shares during the current year. In addition to the assembly labor, we purchase various components from Millennium. Purchases of labor services and components were \$1,769,000 for YTD 2006.

We purchase thermoelectric devices from and have outsourced a portion of our production to Ferrotec Corporation (“Ferrotec”). Ferrotec owns 600,000 shares of our Common Stock as of September 30, 2006. Purchases of labor and services and components from Ferrotec were \$14,941,000 for YTD 2006.

### **Recent Accounting Pronouncements**

On January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement 123R, *Share-Based Payment* (“SFAS 123R”). This statement establishes standards surrounding the accounting for transactions in which an entity exchanges its equity instruments for goods or services. The statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, such as the options issued under the Company’s Stock Option Plans. The statement provides for, and the Company has elected to adopt the standard using the modified prospective application under which compensation cost is recognized on or after the required effective date for the fair value of all future share based award grants and the portion of outstanding awards at the date of adoption of this statement for which the requisite service has not been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for pro forma disclosures. The Company’s stock option compensation expense was \$317,000 for YTD 2006 and the Company recorded a related \$39,000 deferred tax benefit.

Prior to January 1, 2006, the Company accounted for its stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is assessing FIN 48 and has not determined the impact that the adoption of FIN 48 will have on its results of operations or financial condition, if any.

### **Critical Accounting Policies**

Critical accounting policies are those accounting policies that management believes are important to the portrayal of our financial condition and results and require management’s most difficult, subjective or complex judgments, as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our 2005 annual report on Form 10-K includes a description of certain critical

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accounting policies, including those with respect to warranty reserves, allowances for doubtful accounts, deferred tax asset valuation allowance and inventory reserves.

As discussed above, we have adopted SFAS 123R as of January 1, 2006. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements as compensation expense based upon the fair value on the date of grant. We determine fair value of such awards using the Black-Scholes option pricing model. The Black-Scholes option pricing model incorporates certain assumptions, such as risk-free interest rate, expected volatility, expected dividend yield, and expected life of options, in order to arrive at a fair value estimate. We believe that the assumptions selected by management are reasonable; however, significant changes could materially impact the results of the calculation of fair value.

### **FORWARD LOOKING STATEMENTS**

Certain matters discussed or referenced in this report, including expectations of increased revenues and continuing losses, our financing requirements, our capital expenditures and our prospects for the development of platforms with major automotive manufacturers, are forward-looking statements. Other forward-looking statements may be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “believe”, “estimate”, “anticipate”, “intend”, “continue”, or similar terms, variations of such terms or the negative of such terms. All forward-looking statements speak only as of the date of this report, and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this report to reflect any change in our expectations with regard to such statements or any change in events, conditions or circumstances on which any such statement is based. Although such statements are based upon our current expectations, and we believe such expectations are reasonable, such expectations, and the forward-looking statements based on them, are subject to a number of factors, risks and uncertainties that could cause our actual results to differ materially from those described in the forward-looking statements, including those described below and in our other filings with the Securities and Exchange Commission.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our debt obligations under our revolving line of credit.

We place our investments in debt instruments of the U.S. government and in high-quality corporate issuers or ARS that hold these types of investments. As stated in our policy, we seek to ensure the safety and preservation of our invested funds by limiting default risk and market risk. We have no investments denominated in foreign country currencies and therefore are not presently subject to foreign exchange risk.

Borrowings under our revolving line of credit bear interest at Comerica Bank’s prime rate (8.25% at September 30, 2006). As of September 30, 2006, there were no borrowings outstanding under our line of credit.

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The table below presents the carrying value and related weighted average interest rates for our investment portfolio. The Company considers all highly liquid investments purchased with original maturities of less than 90 days to be cash equivalents; consequently, all of the cash equivalents shown in the table below are expected to mature during the next 12 months. Our short-term investments consist of ARS which have stated maturities beyond three months but are priced and traded as short-term instruments due to the liquidity provided through the auction mechanism of seven days. Our long-term investments consist of United States Government Agency Bonds that mature during the fourth quarter of 2007. The carrying value approximates fair value at September 30, 2006.

<u>Marketable Securities</u>	<u>Carrying Value</u>	<u>Average Rate of Return at September 30, 2006 (Annualized)</u>
Cash equivalents	\$ 895,000	4.90%
Short-term investments	\$ 9,050,000	5.16%
Long-term investments	\$ 659,000	5.05%

#### ITEM 4. CONTROLS AND PROCEDURES

Management, including the Company's President & Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the period ended September 30, 2006. Based upon, and as of the date of that evaluation, the President & Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at September 30, 2006.

There was no change in our internal control over financial reporting during our fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1A. RISK FACTORS

There were no material changes to the risk factors previously disclosed in the Company's Form 10-K for the period ended December 31, 2005. Below are the risk factors applicable to the Company:

#### **Risks Relating to our Business**

***We have only one commercially successful product in one industry segment and we may not be able to commercialize and market additional products to other industries***

We are currently developing advanced designs of TEDs to be used in a wide range of potential products in a number of industries, but to date we have only one commercially successful product. Although we have made significant improvements in TED technology and we believe that a number of new products have become practical at our current stage of TED advancement, additional improvements are necessary to make TED based products commercially attractive in comparison with other technologies for the major markets in which we are targeting. These advancements are dependent on many variables including but not limited to new advanced materials becoming available and efficient and cost effective manufacturing processes for advanced TEDs and the related materials to be developed.

***We have incurred substantial operating losses since our inception***

Although we have reported operating income of \$2,570,000 in 2005 and \$786,000 in 2004, prior to that we incurred substantial operating losses since our inception. We had operating losses of \$1,554,000 in 2003, \$6,168,000 in 2002, and \$7,537,000 in 2001. As of September 30, 2006, we had accumulated deficits since inception of \$50,474,000. Our accumulated deficits are attributable to the historical costs of developmental and other start-up activities, including the industrial design, development and marketing of discontinued products and a significant loss incurred on a major electric vehicle development contract. Approximately \$33,000,000 of our accumulated deficit arose from past efforts in electric vehicles, integrated voice technology or radar, all discontinued products as of December 31, 2000.

We have funded our financial needs from inception primarily through net proceeds received through our initial public offering as well as other equity and debt financing. At September 30, 2006, we had cash and cash equivalents of \$1,219,000, short-term investments of \$9,050,000 and long-term investments of \$659,000. Based on our current operating plan, we believe cash at September 30, 2006, along with the proceeds from future revenues and borrowings from our \$10,000,000 revolving line of credit will be sufficient to meet operating needs for the foreseeable future.

***Our ability to market our products successfully depends on acceptance of our product by original equipment manufactures and consumers***

We are engaged in a lengthy development process of our advanced TEDs which involves developing prototypes for proof of concept and then adapting the basic systems to actual products produced by existing manufactures of products that may use TEDs. While we currently have active development programs with Visteon Corporation and United Technologies Corporation, no assurance can be given that our advanced TEDs will be implemented in any related products. To date, CCS is our sole commercialized product, and there is no assurance that we will be successful in marketing any additional products using TEDs.

***The disruption or loss of relationships with vendors and suppliers for the components for our products could materially adversely affect our business***

Our ability to manufacture and market our products successfully is dependent on relationships with both third party vendors and suppliers. We rely on various vendors and suppliers for the components of our products and procure these components through purchase orders, with no guaranteed supply arrangements. Certain components, including thermoelectric devices and the specially designed fans used in our CCS product, are only available from a limited number of suppliers. The loss of any significant supplier, in the absence of a timely and satisfactory alternative arrangement, or an inability to obtain essential components on reasonable terms or at all, could materially adversely affect our business, operations and cash flows. Our business and operations could also be materially adversely affected by delays in deliveries from suppliers.

***The outsourcing of production to other countries entails risks of production interruption and unexpected costs***

We outsource production of our CCS product to lower cost countries in order to be price competitive and expand our market beyond the luxury vehicle segment. Such production is currently completed by suppliers located in Chihuahua, Mexico and Hangzhou, China. Our use of suppliers located outside of the United States entails risk of production interruption and unexpected costs due to the extended logistics.

Automobile manufacturers demand on-time delivery of quality products, and some have required the payment of substantial financial penalties for failure to deliver components to their plants on a timely basis. Such penalties, as well as costs to avoid them, such as overtime costs and overnight air freighting of parts that normally are shipped by other less expensive means of transportation, could have a material adverse effect on our business and financial condition. Moreover, the inability to meet demand for our products on a timely basis would materially adversely affect our reputation and prospects.

***We may not be able to persuade potential customers of the merits of our products and justify their costs to increase our sales***

Because of the sophisticated nature and early stage of development of our products, we have been, and will continue to be, required to educate potential customers and demonstrate that the merits of our products justify the costs associated with such products. We have relied on, and will continue to rely on, automobile manufacturers and manufacturers in other industries and their dealer networks to market our products. The success of any such relationship will depend in part on the other party's own competitive, marketing and strategic considerations, including the relative advantages of alternative products being developed and/or marketed by any such party. There can be no assurance that we will be able to continue to market our products successfully so as to generate meaningful product sales increases.

***The sales cycle for our products is lengthy and the lengthy cycle impedes growth in our sales***

The sales cycle in the automotive components industry is lengthy and can be as long as four years or more for products that must be designed into a vehicle, because some companies take that long to design and develop a vehicle. Even when selling parts that are neither safety-critical nor highly integrated into the vehicle, there are still many stages that an automotive supply company must go through before achieving commercial sales. The sales cycle is lengthy because an automobile manufacturer must develop a high degree of assurance that the products it buys will meet customer needs, interface as easily as possible with the other parts of a vehicle and with the automobile manufacturer's production and assembly process, and have minimal warranty, safety and service problems. As a result, from the time that a manufacturer develops a strong interest in our CCS product, it normally will take several years before our CCS product is available to consumers in that manufacturer's vehicles.



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In the automotive components industry, products typically proceed through five stages of research and development. Initial research on the product concept comes first, to assess its technical feasibility and economic costs and benefits. This stage often includes development of an internal prototype for the component supplier's own evaluation. If the product appears feasible, the component supplier manufactures a functioning prototype to demonstrate and test the product's features. These prototypes are then marketed and sold to automotive companies for testing and evaluation. If an automobile manufacturer shows interest in the product, it typically works with the component supplier to refine the product, then purchases second and subsequent generation engineering prototypes for further evaluation. Finally, the automobile manufacturer either decides to purchase the component for a production vehicle or terminates the program.

The time required to progress through these five stages to commercialization varies widely. Generally, the more a component must be integrated with other vehicle systems, the longer the process takes. Further, products that are installed by the factory usually require extra time for evaluation because other vehicle systems are affected, and a decision to introduce the product into the vehicle is not easily reversed. Because our CCS product affects other vehicle systems and is a factory-installed item, the process takes a significant amount of time to commercialization.

Other TED products that we develop are also likely to have a lengthy sales cycle. Because such technology is new and evolving, and because customers will likely require that any new product we develop pass certain feasibility and economic viability tests before committing to purchase, it is expected to take several years before any new products we develop are sold to customers.

### ***The automotive industry is subject to intense competition and our current products may be rendered obsolete by future technological developments in the industry***

The automotive component industry is subject to intense competition. Virtually all of our competitors are substantially larger in size, have substantially greater financial, marketing and other resources, and have more extensive experience and records of successful operations than we do. While we have the only actively-cooled seat available, competitors are introducing ventilated seats, which provide some of the cooled-seat attributes and are very price competitive with our CCS product. Additionally, heat only devices are readily available from our competitors. Competition extends to attracting and retaining qualified technical and marketing personnel. There can be no assurance that we will successfully differentiate our products from those of our competitors, that the marketplace will consider our current or proposed products to be superior or even comparable to those of our competitors, or that we can succeed in establishing relationships with automobile manufacturers. Furthermore, no assurance can be given that competitive pressures we face will not adversely affect our financial performance.

Due to the rapid pace of technological change, as with any technology-based product, our products may even be rendered obsolete by future developments in the industry. Our competitive position would be adversely affected if we were unable to anticipate such future developments and obtain access to the new technology.

### ***Any failure to protect our intellectual property could harm our business and competitive position***

As of December 31, 2005, we owned thirteen U.S. patents and had nine U.S. patents pending and our subsidiary BSST owned eight U.S. patents, and had four U.S. patents pending and sixteen foreign patents pending. We were also licensees of three patents and joint owners with Honda Motor Co. of two U.S. patents and five Japanese patents. We also owned thirty-two foreign patents and had six foreign patent applications pending. We believe that patents and proprietary rights have been and will continue to be very important in enabling us to compete. The first of the three licensed patents expires on November 17,

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2008. There can be no assurance that any new patents will be granted or that our or our licensors' patents and proprietary rights will not be challenged or circumvented or will provide us with meaningful competitive advantages or that pending patent applications will issue. Furthermore, there can be no assurance that others will not independently develop similar products or will not design around any patents that have been or may be issued to our licensors or us. Failure to obtain patents in certain foreign countries may materially adversely affect our ability to compete effectively in those international markets. We are aware that an unrelated party filed a patent application in Japan on March 30, 1992, with respect to technology similar to our CCS technology. This application has been rejected by the Japanese patent office in its present form, but the applicant has filed an appeal of the rejection. If a sufficiently broad patent were to be issued from this application, it could have a material adverse effect upon our intellectual property position in Japan. We hold current and future rights to licensed technology through licensing agreements requiring the payment of minimum royalties, totaling \$100,000 annually, and must continue to comply with those licensing agreements. Failure to do so or loss of such agreements could materially and adversely affect our business.

Because of rapid technological developments in the automotive industry and the competitive nature of the market, the patent position of any component manufacturer is subject to uncertainties and may involve complex legal and factual issues. Consequently, although we either own or have licenses to certain patents, and are currently processing several additional patent applications, it is possible that no patents will issue from any pending applications or that claims allowed in any existing or future patents issued or licensed to us will be challenged, invalidated, or circumvented, or that any rights granted thereunder will not provide us adequate protection. There is an additional risk that we may be required to participate in interference proceedings to determine the priority of inventions or may be required to commence litigation to protect our rights, which could result in substantial costs.

### ***Our products may conflict with patents that have been or may be granted to competitors or others***

Other persons could bring legal actions against us claiming damages and seeking to enjoin manufacturing and marketing of our products for allegedly conflicting with patents held by them. Any such litigation could result in substantial cost to us and diversion of effort by our management and technical personnel. If any such actions are successful, in addition to any potential liability for damages, we could be required to obtain a license in order to continue to manufacture or market the affected products. There can be no assurance that we would prevail in any such action or that any license required under any such patent would be made available on acceptable terms, if at all. Failure to obtain needed patents, licenses or proprietary information held by others may have a material adverse effect on our business. In addition, if we become involved in litigation, it could consume a substantial portion of our time and resources. We have not, however, received any notice that our products infringe on the proprietary rights of third parties.

### ***We rely on trade secret protection through confidentiality agreements and the agreements could be breached***

We also rely on trade secrets that we seek to protect, in part, through confidentiality and non-disclosure agreements with employees, customers and other parties. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any such breach or that our trade secrets will not otherwise become known to or independently developed by competitors. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to our proposed projects, disputes may arise as to the proprietary rights to such information that may not be resolved in our favor. We may be involved from time to time in litigation to determine the enforceability, scope and validity of proprietary rights. Any such litigation could result in substantial cost and diversion of effort by our management and technical personnel. Additionally, with respect to licensed technology, there can be no assurance that the licensor

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of the technology will have the resources, financial or otherwise, or desire to defend against any challenges to the rights of such licensor to its patents.

### ***Our customers typically reserve the right unilaterally to cancel contracts or reduce prices, and the exercise of such right could reduce or eliminate any financial benefit to us anticipated from such contract***

Automotive customers typically reserve the right unilaterally to cancel contracts completely or to require price reductions. Although they generally reimburse companies for actual out-of-pocket costs incurred with respect to the particular contract up to the point of cancellation, these reimbursements typically do not cover costs associated with acquiring general purpose assets such as facilities and capital equipment, and may be subject to negotiation and substantial delays in receipt by us. Any unilateral cancellation of, or price reduction with respect to, any contract that we may obtain could reduce or eliminate any financial benefits anticipated from such contract and could have a material adverse effect on our financial condition and results of operations. To date we have not experienced such a cancellation and no such costs have been reimbursed.

The third parties that contract with our subsidiary, BSST, for research and development purposes generally also reserve the right to unilaterally terminate those contracts. There can be no assurance that BSST will continue to receive the third party reimbursements it has received over the past several years.

### ***Our success will depend in large part on retaining key personnel***

Our success will depend to a large extent upon the continued contributions of key personnel in Amerigon and our research and development subsidiary, BSST. The loss of the services of Dr. Lon E. Bell, the President of BSST, could have a material adverse effect on the success of BSST.

Our success will also depend, in part, upon our ability to retain qualified engineering and other technical and marketing personnel. There is significant competition for technologically qualified personnel in our business, and we may not be successful in recruiting or retaining sufficient qualified personnel.

### ***Our reliance on outside major contractors may impair our ability to complete certain projects and manufacture products on a timely basis***

We have engaged outside contractors to perform product assembly and other production functions for us. We believe that there are other outside contractors that provide services of the kind that are used by us and that we may desire to use in the future. However, no assurance can be given that any such contractors would agree to work for us on terms acceptable to us or at all. Our inability to engage outside contractors on acceptable terms or at all would impair our ability to complete any development and/or manufacturing contracts for which outside contractors' services may be needed. Moreover, our reliance upon third party contractors for certain production functions reduces our control over the manufacture of our products and makes us dependent in part upon such third parties to deliver our products in a timely manner, with satisfactory quality controls and on a competitive basis.

### ***Our business exposes us to potential product liability risks***

Our business exposes us to potential product liability risks which are inherent in the manufacturing, marketing and sale of automotive components. In particular, there are substantial warranty and liability risks associated with our products. If available, product liability insurance generally is expensive. While we presently have product liability coverage and product recall coverage at amounts we currently consider adequate, there can be no assurance that we will be able to obtain or maintain such insurance on acceptable terms with respect to other products we may develop, or that any insurance will provide

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adequate protection against any potential liabilities. In the event of a successful claim against us, a lack or insufficiency of insurance coverage could have a material adverse effect on our business and operations.

### ***Because many of the largest automotive manufacturers are located in foreign countries, our business is subject to the risks associated with foreign sales***

Many of the world's largest automotive manufacturers are located in foreign countries. Accordingly, our business is subject to many of the risks of international operations, including governmental controls, tariff restrictions, foreign currency fluctuations and currency control regulations. However, historically, substantially all of our sales to foreign countries have been denominated in U.S. dollars. As such, our historical net exposure to foreign currency fluctuations has not been material. No assurance can be given that future contracts will be denominated in U.S. dollars or that existing contracts will be honored.

### ***Our use of contractors located in foreign countries will subject us to the risks of international operations***

We engage contractors located in foreign countries. Accordingly, we will be subject to all of the risks inherent in international operations, including work stoppages, transportation delays and interruptions, political instability, foreign currency fluctuations, economic disruptions, the imposition of tariffs and import and export controls, changes in governmental policies and other factors which could have an adverse effect on our business.

### **Risks Relating to Share Ownership**

#### ***Our quarterly results may fluctuate significantly, and our small public "float" adversely affects liquidity of our Common Stock and stock price***

Our quarterly operating results may fluctuate significantly in the future due to such factors as acceptance of our product by automotive manufacturers and consumers, timing of our product introductions, availability and pricing of components from third parties, competition, timing of orders, foreign currency exchange rates, technological changes and economic conditions generally. Broad market fluctuations in the stock markets can adversely affect the market price of our Common Stock. In addition, failure to meet or exceed analysts' expectations of financial performance may result in immediate and significant price and volume fluctuations in our Common Stock.

Without a significantly larger number of shares available for trading by the public, or public "float," our Common Stock is less liquid than stocks with broader public ownership, and as a result, trading prices of the Common Stock may significantly fluctuate and certain institutional investors may be unwilling to invest in such a thinly traded security.

#### ***We have anti-takeover defenses that could make it more difficult for a third party to acquire a majority of our outstanding voting stock.***

Our Board of Directors has the authority to issue up to 4,991,000 shares of Preferred Stock and to determine the price, rights (including conversion rights), preferences and privileges of those shares without any further vote or action by the shareholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any shares of Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

***We do not anticipate paying dividends on our Common Stock***

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

***Delisting from an active trading market may adversely affect the liquidity and trading price of our Common Stock***

Although our Common Stock is quoted on The Nasdaq SmallCap Market, there can be no assurance that we now, or in the future will be able to, meet all requirements for continued quotation thereon. One Nasdaq requirement is that we maintain a minimum stockholders' equity of \$2,500,000, or a market capitalization of \$35,000,000 of listed shares, or have had net income from continuing operations of at least \$500,000 in the last fiscal year (or two of the three most recently completed fiscal years).

If we fail to meet Nasdaq's requirements on an ongoing basis, our Common Stock would likely be delisted from The Nasdaq SmallCap Market. In the absence of an active trading market or if our Common Stock cannot be traded on The Nasdaq SmallCap Market, our Common Stock could instead be traded on secondary markets, such as the OTC Bulletin Board. In such event, the liquidity and trading price of our Common Stock in the secondary market may be adversely affected. In addition, if our Common Stock is delisted, broker-dealers have certain regulatory burdens imposed on them which may discourage broker-dealers from effecting transactions in our Common Stock, further limiting the liquidity thereof.

**PART II OTHER INFORMATION****ITEM 6. EXHIBITS**

Exhibits to this Report are as follows:

<b>Exhibit Number</b>	<b>Description</b>
3.1.1	Articles of Incorporation (1)
3.1.2	Plan of Merger dated March 23, 2005 by which the Articles of Incorporation were amended effective as of May 20, 2005(1)
3.2	Bylaws of the Company(1)
4.1.1	First Warrant issued to Ford Motor Company as of March 27, 2000 pursuant to the Value Participation Agreement dated March 27, 2000(2)
4.1.2	Second Warrant issued to Ford Motor Company as of March 27, 2000 pursuant to the Value Participation Agreement dated March 27, 2000 (10)
4.1.3	Third Warrant issued to Ford Motor Company as of February 4, 2004 pursuant to the Value Participation Agreement dated March 27, 2000 (10)
10.1*	1993 Stock Option Plan(4)
10.2.1*	Amended and Restated 1997 Stock Incentive Plan(5)
10.2.2*	First Amendment to Amended and Restated 1997 Stock Incentive Plan(1)
10.2.3*	Second Amendment to Amended and Restated 1997 Stock Incentive Plan(1)
10.3*	2006 Equity Incentive Plan(12)
10.4.1	Option and License Agreement dated as of November 2, 1992 between the Company and Feher Design, Inc.(4)
10.4.2	Amendment to Option and License Agreement between the Company and Feher Design dated September 1, 1997(6)
10.5	Manufacturing and Supply Agreement between the Company and Ferrotec Corporation dated March 28, 2001(7)
10.6	Purchase Agreement dated February 12, 2002 between the Company and Special Situation Funds (includes preemption rights in favor of Special Situation Funds)(3)
10.7	Purchase Agreement dated February 12, 2002 between the Company and MicroCapital Funds (includes preemption rights in favor of MicroCapital Funds)(3)
10.8.1	Investors Rights among the Company, Big Beaver Investments LLC and Westar Capital II LLC dated June 8, 1999(8)
10.8.2	First Amendment to Investors Rights Agreement among the Company, Big Beaver Investments LLC and Westar Capital II LLC dated March 16, 2000(3)
10.9	Value Participation Agreement between the Company and Ford Motor Company dated March 27, 2000(2)
10.10.1*	Assignment and Subscription Agreement between BSST LLC and Dr. Lon E. Bell dated September 4, 2000(9)
10.10.2*	First Amendment to Assignment and Subscription Agreement between BSST LLC and Dr. Lon E. Bell dated September 4, 2000(11)
10.12*	Employment Agreement between Dr. Lon E. Bell and BSST LLC dated May 30, 2001(9)
10.12*	Revenue Sharing Agreement between BSST LLC and Dr. Lon E. Bell dated September 4, 2000(9)
10.13.1	Amended and Restated Operating Agreement of BSST LLC dated May 30, 2001(8)
10.13.2	First Amendment dated November 13, 2001 to Amended and Restated Operating Agreement of BSST LLC (11)
10.13.3	Second Amendment dated June 1, 2005 to Amended and Restated Operating Agreement of BSST LLC (11)

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10.14	Cross License Agreement between the Company and BSST LLC dated November 19, 2002 (10)
31.1	Certification of Chief Executive Officer Required by Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Indicates management contract or compensatory plan or arrangement.

- (1) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed May 25, 2005 and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2000 and incorporated herein by reference.
- (3) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2001 and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2, as amended, File No. 33-61702-LA, and incorporated by reference.
- (5) Previously filed as an exhibit to the Company's Definitive Proxy Schedule on Schedule 14A with respect to the Company's 2001 Annual Meeting of Stockholders, File No. 000-21810, and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1997 and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2001 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed June 18, 1999 and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001 and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2004 and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed June 6, 2005 and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed May 19 2006 and incorporated herein by reference.

**SIGNATURES**

Pursuant to 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 thereunto duly authorized.

**Amerigon Incorporated**  
(Registrant)

/s/ DANIEL R. COKER  
Daniel R. Coker  
Chief Executive Officer  
(Duly Authorized Officer)

Date: October 26, 2006

/s/ BARRY G. STEELE  
Barry G. Steele  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Date: October 26, 2006



## CHIEF EXECUTIVE OFFICER'S CERTIFICATION

I, Daniel R. Coker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Amerigon Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2006

/s/ Daniel R. Coker

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Daniel R. Coker

President & Chief Executive Officer

## CHIEF FINANCIAL OFFICER'S CERTIFICATION

I, Barry G. Steele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Amerigon Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2006

/s/ Barry G. Steele

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Barry G. Steele  
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Amerigon Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel R. Coker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Daniel R. Coker

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Daniel R. Coker

President and Chief Executive Officer

October 26, 2006

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Amerigon Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry G. Steele, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Barry G. Steele

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Barry G. Steele  
Chief Financial Officer  
October 26, 2006