GREENMAN TECHNOLOGIES INC
Form 10-Q
February 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended **December 31, 2011**

or

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

For the transition period from ______________________________ to ______________________________

Commission File Number: **1-13776**

GreenMan Technologies, Inc.

(Exact name of registrant as specified in its charter)

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

**(781) 224-2411**

(Registrant's telephone number, including area code)

205 South Garfield, Carlisle, Iowa 50047

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

| | |
|---|---|
| q Large Accelerated Filer | q Accelerated Filer |
| q Non-accelerated Filer | x Smaller reporting company |

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

As of February 14, 2012, there were 35,620,510 shares of the registrant’s Common Stock outstanding.

1

**GreenMan Technologies, Inc.**

TABLE OF CONTENTS

2

**GreenMan Technologies, Inc.**

**Consolidated Balance Sheets**

**(Unaudited)**

| | December 31, 2011 | September 30, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $103,036 | $153,657 |
| Certificates of deposit, restricted | 300,000 | 300,000 |
| Accounts receivable, trade, less allowance for doubtful accounts of $151,840 as of December 31, 2011 and September 30, 2011 | 274,843 | 371,575 |
| Inventory | 388,206 | 348,179 |
| Costs in excess of billings | 86,650 | 143,770 |
| Seller’s note, related party, current portion | 275,000 | 275,000 |
| Prepaid expenses | 133,357 | 164,912 |
| Other current assets | 101,348 | 112,921 |
| Total current assets | 1,662,440 | 1,870,014 |
| Property, plant and equipment, net | 347,006 | 383,540 |
| Other assets: | | |
| Long term contracts, net | 379,168 | 391,672 |
| Seller’s note, related party, non-current | 525,000 | 525,000 |
| Purchased technology, net | 379,168 | 391,672 |
| Other | 388,375 | 224,898 |
| Total other assets | 1,671,711 | 1,533,242 |
| | $3,681,157 | $3,786,796 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | $938,876 | $969,424 |
| Accrued expenses | 968,835 | 917,984 |
| Billings in excess of cost | 24,948 | 42,707 |
| Notes payable, current | 2,064,502 | 2,167,285 |
| Obligations due under lease settlement, current | 68,518 | 68,518 |
| Notes payable, related parties, current | 463,613 | 370,138 |
| Total current liabilities | 4,529,292 | 4,536,056 |
| Notes payable, non-current | 75,004 | 84,695 |
| Convertible notes payable, non-current | 1,920,583 | 1,739,460 |
| Obligations due under lease settlement, non-current | 505,540 | 505,540 |
| Total liabilities | 7,030,419 | 6,865,751 |
| Stockholders' deficit: | | |
| Preferred stock, $1.00 par value, 1 million shares authorized | — | — |
| Common stock, $.01 par value, 100 million shares authorized, 35,525,494 shares and 36,173,033 issued and outstanding at December 31, 2011 and September 30, 2011 | 355,255 | 361,730 |

| | | |
|---|---|---|
| Additional paid-in capital | 41,157,614 | 40,297,853 |
| Common shares held as collateral | — | (20,000 ) |
| Accumulated deficit | (44,862,131 ) | (43,718,538 ) |
| Total stockholders’ deficit | (3,349,262 ) | (3,078,955 ) |
| | $3,681,157 | $3,786,796 |

See accompanying notes to unaudited condensed interim consolidated financial statements

3

**GreenMan Technologies, Inc.**

**Consolidated Statements of Operations**

**(Unaudited)**

| | Three Months Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Net sales | $396,017 | $360,202 |
| Cost of sales | 405,295 | 396,446 |
| Gross loss | (9,278) | (36,244) |
| Operating expenses: | | |
| Selling, general and administrative | 722,745 | 814,229 |
| Research and development | 37,338 | 189,967 |
| | 760,083 | 1,004,196 |
| Operating loss from continuing operations | (769,361) | (1,040,440) |
| Non-operating income (expense): | | |
| Interest income | 11,090 | 14,229 |
| Interest and financing costs | (354,763) | (104,960) |
| Other, net | (30,559) | (41,707) |
| Non-operating income (expense) | (374,232) | (132,438) |
| Loss from continuing operations | (1,143,593) | (1,172,878) |
| Discontinued operations: | | |
| Loss from discontinued operations | — | (312,078) |
| | — | (312,078) |
| Net loss | $(1,143,593) | $(1,484,956) |
| Loss from continuing operations per share –basic and diluted | $(0.03) | $(0.04) |
| Loss from discontinued operations per share –basic and diluted | — | (0.01) |
| Net loss per share –basic and diluted | $(0.03) | $(0.05) |
| Weighted average shares outstanding – basic and diluted | 36,595,317 | 33,438,647 |

See accompanying notes to unaudited condensed interim consolidated financial statements.

4

**GreenMan Technologies, Inc.**

**Consolidated Statement of Changes in Stockholders' Deficit**

**For the Three Months Ended December 31, 2011**

**(Unaudited)**

| | Common Stock | | Additional Paid In | Accumulated | Common Shares Held As | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Collateral | Total |
| Balance, September 30, 2011 | 36,173,033 | $361,730 | $40,297,853 | $(43,718,538) | $(20,000) | $(3,078,955) |
| Compensation expense associated with stock options | — | — | 31,638 | — | — | 31,638 |
| Common stock issued with promissory notes | 421,750 | 4,218 | 206,658 | — | — | 210,876 |
| Common stock issued for services rendered | 226,967 | 2,270 | 108,129 | — | — | 110,399 |
| Common stock issued upon convertible debt exercise | 550,503 | 5,505 | 232,396 | — | — | 237,901 |
| Common stock issued for convertible debt interest | 153,241 | 1,532 | 88,880 | — | — | 90,412 |
| Beneficial conversion discount on convertible notes payable | — | — | 139,901 | — | — | 139,901 |
| Value of warrants issued for financing | — | — | 52,159 | — | — | 52,159 |
| Return of collateral shares | (2,000,000) | (20,000) | — | — | 20,000 | — |
| Net loss for three months ended December 31, 2011 | — | — | — | (1,143,593) | — | (1,143,593) |
| Balance, December 31, 2011 | 35,525,494 | $355,255 | $41,157,614 | $(44,862,131) | $— | $(3,349,262) |

See accompanying notes to unaudited condensed interim consolidated financial statements.

5

**GreenMan Technologies, Inc.**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

| | Three Months Ended December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | $(1,143,593) | $(1,484,956) |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Shares issued for services rendered | 110,400 | — |
| Depreciation | 36,534 | 49,360 |
| Amortization of stock issued | 90,600 | 50,508 |
| Amortization of beneficial conversion feature and warrants | 99,920 | 374 |
| Amortization of deferred financing costs | 14,284 | — |
| Stock compensation expense | 31,638 | 71,097 |
| Amortization of patents | — | 5,415 |
| Amortization of long term contracts | 12,500 | 57,315 |
| Amortization of purchased technology | 12,500 | 12,501 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 96,732 | 244,800 |
| Inventory | (40,027) | 189,064 |
| Costs in excess of billings | 57,120 | (59,543) |
| Prepaid and other current assets | 43,136 | 97,756 |
| Other assets | (177,760) | (64,478) |
| (Decrease) increase in liabilities: | | |
| Accounts payable | (30,548) | 769 |
| Billings in excess of costs | (17,759) | 24,342 |
| Accrued expenses | 145,526 | (226,090) |
| Net cash used in operating activities | (658,797) | (1,031,766) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | — | (40,618) |
| Maturity of certificates of deposit | — | 500,000 |
| Net cash provided by investing activities | — | 459,382 |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | — | 350,000 |
| Proceeds from convertible notes payable | 507,000 | 145,000 |
| Proceeds from notes payable, related party | 156,000 | 110,000 |
| Repayment of notes payable | (43,824) | (50,654) |
| Repayment of notes payable, related party | (11,000) | (11,900) |
| Net cash provided by financing activities | 608,176 | 542,446 |
| Net increase (decrease) in cash and cash equivalents | (50,621) | (29,938) |
| Cash and cash equivalents at beginning of year | 153,657 | 293,550 |
| Cash and cash equivalents at end of period | $103,036 | $263,612 |

Supplemental cash flow information:

| | | |
|---|---|---|
| Shares issued as additional collateral | $— | $20,000 |
| Shares issued with debt extensions | 210,876 | — |
| Shares issued in converted debt | 328,313 | — |
| Beneficial conversion feature | 139,901 | — |
| Warrants issued | 52,159 | — |
| Interest paid | 85,899 | 41,027 |
| Taxes paid | — | — |

See accompanying notes to unaudited condensed interim consolidated financial statements

6

**GreenMan Technologies, Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

(Unaudited)

## 1. Nature of Operations, Risks, and Uncertainties

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

*Recent Developments*

In March 2011, we announced our intention to divest our Green Tech Products business and to devote all of our corporate resources to American Power Group's dual fuel conversion business. On July 29, 2011 our shareholders approved the sale of substantially all of Green Tech Products' assets to Irish Knight Holdings, L.L.C., a company co-owned by two of Green Tech's senior managers. We completed that sale on August 1, 2011, and recorded a loss on disposal of approximately $59,000. The consideration for the purchase of the assets was (i) the assumption of substantially all of Green Tech Products' liabilities, which were approximately $1.2 million; (ii) a $50,000 stock inventory credit toward the purchase of products and services from the buyer, which credit may be applied during the first nine months after completion of the sale; and (iii) a promissory note in the principal amount of $100,000 which is payable in increasing monthly installments over a period of 60 months. (See Note 7)

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

In September 2011, we were notified by the EPA that our first submission under the new regulations had been approved for the OUL Heavy Duty 2004 Caterpillar C-15 engine family. We believe that this first OUL approval provides us with a clear path for additional conversion approval submissions on a wide-array of heavy-duty aftermarket diesel truck engines utilizing our dual fuel technology. With the EPA acceptance of our testing protocol, we believe we can accelerate the preparation and submission timeline of subsequent OUL vehicle family submissions. In addition, we also intend to begin our IUL vehicle submission, which will be subject to different regulatory requirements, but if approved would expand our product offerings to include IUL vehicles.

*Nature of Operations, Risks, and Uncertainties*

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

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

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

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

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

7

**GreenMan Technologies, Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**1. Nature of Operations, Risks, and Uncertainties – (Continued)**

- Minimize diesel fuel storage space by as much as 50%.

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

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

As of December 31, 2011, we had $403,036 in cash, cash equivalents and restricted certificates of deposit and a working capital deficiency of $2,866,852. Our molded rubber products business has historically been the source of substantially all of our revenue and cash flow over the past three fiscal years and we have incurred substantial losses from operations over those fiscal years. These factors among others raise substantial doubt about our ability to continue as a going concern. Our continued existence is dependent on our ability to obtain additional funding, generate positive operating cash flow, achieve profitability on a sustained basis and generate improved performance. The financial statements have been prepared assuming we will continue as a going concern.

In order to ensure our future viability, management has implemented or is in the process of implementing the following actions:

***A. Iowa State Bank Credit Facility***

In November 2010, American Power Group entered into a $2 million working capital line of credit with Iowa State Bank, which expired on December 1, 2011 (subsequently extended to April 1, 2012). We may borrow up to 50% of the value of American Power Group's eligible inventory and 70% of its eligible accounts receivable. We have guaranteed all obligations under the line of credit and have secured that guarantee by (i) granting to the lender a security interest in a $300,000 certificate of deposit and certain additional collateral and (ii) issuing to the lender, as additional collateral 2,000,000 shares of our Common Stock. In December 2011, the lender agreed to return the 2,000,000 shares in return for our pledge to issue up to 2,000,000 shares in the event of a default. This pledge agreement will be terminated, at such time as all obligations under the credit facility have been satisfied and the lender has no further obligations to make advances under the credit facility.

***B. Short Term Promissory Notes***

In September and October 2010, we issued our 12% unsecured, six-month promissory notes for gross proceeds of $573,500, including notes with aggregate gross proceeds of $323,500 issued to a director and an officer of our company. In addition, we issued 0.5 shares of unregistered Common Stock for each dollar invested in the offering, or 311,750 shares of common stock, including an aggregate of 161,750 shares of Common Stock to the director and officer. We also issued 25,000 shares of Common Stock as a placement fee. In March 2011, the note holders agreed to extend the maturity date of the notes to the earlier of the completion of a financing of at least $3 million or six months after the original maturity date of the notes. In consideration of these extensions, we issued 0.5 additional shares of unregistered Common Stock for each dollar invested in the offering or 321,750 additional shares of Common Stock including 10,000 shares of Common Stock as a placement fee.

In February and March 2011, we issued additional promissory notes for gross proceeds of $270,000, including notes with gross proceeds of $20,000 issued to a director of our company. In addition, we issued an aggregate of 135,000 shares of Common Stock, including 10,000 shares of Common Stock to the director, and paid $30,000 as a placement fee. The maturity date of these notes is the earlier of the completion of a financing of at least $3 million or six months after the date of issuance.

In October 2011, the holder of $250,000 of notes agreed to extend the maturity date of their note to February 8, 2012 and the remaining holders agreed to extend the maturity of their notes to March 31, 2012. In consideration of these extensions, we issued 0.5 additional shares of unregistered Common Stock for each dollar invested in the offering or 421,750 additional shares of Common Stock to the holders in aggregate. (See Note 12).

**GreenMan Technologies, Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**1. Nature of Operations, Risks, and Uncertainties – (Continued)**

***C. Convertible Promissory Notes***

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

Between April 2011 and July 2011 we issued additional 10% unsecured convertible promissory notes for gross proceeds of $1,725,000. The convertible notes are payable 24 months after issuance. Each note is convertible at any time, at the option of the holder, into shares of Common Stock at a conversion price of $.59. In addition, each investor received a warrant to purchase that number of shares of Common Stock which is equal to the number of shares of Common Stock into which the principal amount of the note subscribed for by the investor is convertible, multiplied by 0.3. Each warrant will be exercisable for a period of five years after the date the investor subscribed for his or her note, at a price of $.65 per share.

In November 2011, we commenced a private offering of 10% convertible notes payable in an effort to raise up to $1.5 million in gross proceeds and as of December 31, 2011 we have issued $507,000 of notes. The convertible notes are payable 24 months after issuance and are convertible at any time, at the option of the holder, into shares of Common Stock at a conversion price equal to 85% of the closing bid price of the Common Stock on the day the notes were issued. In addition, each investor received a warrant to purchase that number of shares of Common Stock which is equal to the number of shares of Common Stock into which the principal amount of the note subscribed for by the investor is convertible, multiplied by 0.3 at a price equal to equal to 95% of the closing bid price of the Common Stock on the day the notes were issued. (See Note 12)

***D. Strategic Financial Advisor Agreement***

In December 2010, we engaged Northland Capital Markets under a one year agreement to principally provide strategic financial advice in the area of capital raising activities. In December 2011, the agreement expired and we engaged Ardour Capital, LLC to serve as our new financial advisor. Ardour Capital is the leading research and investment-banking firm exclusively focused on energy technology, alternative energy and power, and clean and renewable technologies.

***E. Divestiture of Molded Recycled Rubber Products Business***

Based on the magnitude of Green Tech Products' continuing operating losses ($6 million cumulative since acquisition), our Board of Directors determined it to be in the best interests of shareholder value to exit the molded recycled rubber product business and to devote all of our corporate resources to advancing American Power Group's dual fuel conversion business. On August 1, 2011 we completed the sale of substantially all of the assets of Green Tech Products to Irish Knight Holdings, L.L.C., a company co-owned by two of Green Tech Product's senior managers.

***F. Operating Enhancements***

Since the July 2009 acquisition of American Power Group’s dual fuel conversion operations, we have invested over $6.8 million to enhance our dual fuel products and support dual fuel sales and marketing initiatives intended to promote American Power Group’s dual fuel conversion technology and establish broader market presence worldwide. As a result of these efforts, revenue for the three months ended December 31, 2011 was up 10% over the prior year’s results and revenue for fiscal year ended September 30, 2011 was up over 430% to $1.77 million as compared to approximately $333,000 during the fiscal year ended September 30, 2010.

We will continue to try to make the correct decisions to ensure the continued viability and performance of our company. Our continued existence is dependent on our ability to generate positive operating cash flow, achieve profitability on a sustained basis and generate improved performance. If American Power Group is unable to achieve sustained profitability and we are unable to obtain additional financing to supplement our cash position, our ability to maintain our current level of operations could be materially and adversely affected. There is no guarantee we will be able to achieve profitability.

**GreenMan Technologies, Inc.**

**Notes to Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**2. Basis of Presentation**

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

The accompanying interim financial statements at December 31, 2011 are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2011 included in our Annual Report on Form 10-K. The balance sheet at September 30, 2011 has been derived from the audited financial statements as of that date, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations, although we believe the disclosures which have been made herein are adequate to ensure that the information presented is not misleading. The results of operations for the interim periods reported are not necessarily indicative of those that may be reported for a full year. In our opinion, all adjustments which are necessary for a fair statement of our financial position as of December 31, 2011 and the operating results for the interim periods ended December 31, 2011 and 2010 have been included.

**3. Certificates of Deposit**

All certificate of deposit investments have an original maturity of more than three months but less than three years and are stated at original purchase price which approximates fair value. As of December 31, 2011 and September 30, 2011, we have pledged a $300,000 certificate of deposit as collateral for two loans currently outstanding with Iowa State Bank.

**4. Receivables**