

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

GREENMAN TECHNOLOGIES INC
Form 10QSB
February 17, 2004

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

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

For Quarter Ended December 31, 2003

Commission File Number 1-13776

GreenMan Technologies, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

71-0724248

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

7 Kimball Lane, Building A, Lynnfield, MA

(Address of principal executive offices)

01940

(Zip Code)

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

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

Indicate by check mark whether the issuer (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

Number of shares outstanding as of February 1, 2004
Common Stock, \$.01 par value: 16,061,939 shares

GreenMan Technologies, Inc.
Form 10-QSB
Quarterly Report
December 31, 2003

Table of Contents

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

PART I - FINANCIAL INFORMATION	Page

Item 1. Financial Statements (*)	
Unaudited Consolidated Balance Sheets as of December 31, 2003 and September 30, 2003	3
Unaudited Consolidated Statements of Operations for the three months ended December 31, 2003 and 2002	4
Unaudited Consolidated Statement of Changes in Stockholders' Equity for the three months ended December 31, 2003	5
Unaudited Consolidated Statements of Cash Flows for the three months ended December 31, 2003 and 2002	6
Notes to Unaudited Condensed Consolidated Financial Statements	7-9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10-17
Item 3. Controls and Procedures	18
PART II - OTHER INFORMATION	
Item 2. Changes in Securities	19
Item 5. Certification Under Sarbanes-Oxley Act	19
Item 6. Exhibits and Reports on Form 8-K	19
Signatures	20

* The financial information at September 30, 2003 has been taken from audited financial statements at that date and should be read in conjunction therewith. All other financial statements are unaudited.

2

GreenMan Technologies, Inc. Unaudited Consolidated Balance Sheets

	December 31, 2003	September 30, 2003
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 346,534	\$ 990,745
Accounts receivable, trade, less allowance for doubtful accounts of \$154,580 and \$148,031 as of December 31, 2003 and September 30, 2003	3,461,200	3,368,435
Insurance claim receivable	--	634,172
Note receivable officers	182,601	179,172

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Product inventory	316,484	112,419
Other current assets	1,138,581	1,119,872
	-----	-----
Total current assets	5,445,400	6,404,815
	-----	-----
Property, plant and equipment, net	10,942,203	11,249,706
	-----	-----
Other assets:		
Deferred loan costs	199,014	221,931
Goodwill, net	3,413,894	3,413,894
Customer relationship intangibles, net	231,725	234,875
Deferred income taxes	270,000	270,000
Other	595,973	299,699
	-----	-----
Total other assets	4,710,606	4,440,399
	-----	-----
	\$ 21,098,209	\$ 22,094,920
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable, current	\$ 4,062,792	\$ 3,748,663
Convertible notes payable	220,774	--
Accounts payable	3,560,755	4,350,643
Accrued expenses, other	1,053,595	1,384,652
Notes payable related parties, current	1,095,000	520,000
Obligations under capital leases, current	405,606	423,228
	-----	-----
Total current liabilities	10,398,522	10,427,186
Notes payable, related parties, non-current portion	475,000	975,000
Notes payable, non-current portion	5,369,178	5,726,958
Obligations under capital leases, non-current portion	1,899,918	1,986,827
	-----	-----
Total liabilities	18,142,618	19,115,972
	-----	-----
Stockholders' equity:		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none outstanding	--	--
Common stock, \$.01 par value, 30,000,000 shares authorized, 16,061,939 shares issued and outstanding at December 31, 2003 and September 30, 2003	160,619	160,619
Additional paid-in capital	28,932,228	28,778,002
Accumulated deficit	(26,092,256)	(25,914,673)
Notes receivable, common stock	(45,000)	(45,000)
	-----	-----
Total stockholders' equity	2,955,591	2,978,948
	-----	-----
	\$ 21,098,209	\$ 22,094,920
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

	December 31,	
	2003	2002
Net sales	\$ 7,798,750	\$ 7,963,457
Cost of sales	6,659,941	6,580,184
Gross profit	1,138,809	1,383,273
Operating expenses:		
Selling, general and administrative	1,068,241	1,379,315
Total operating expenses	1,068,241	1,379,315
Operating profit	70,568	3,958
Other income (expense):		
Interest and financing costs, net	(354,796)	(369,953)
Casualty income, net	112,766	--
Other, net	(6,121)	10,974
Other (expense), net	(248,151)	(358,979)
Net loss before income taxes	(177,583)	(355,021)
(Provision) for income taxes	--	(550)
Net loss	\$ (177,583)	\$ (355,571)
Net loss per share - basic and diluted	\$ (.01)	\$ (.02)
Weighted average shares outstanding - basic and diluted	16,061,939	15,676,479

See accompanying notes to unaudited condensed consolidated financial statements.

4

GreenMan Technologies, Inc.
Unaudited Consolidated Statement of Changes in Stockholders' Equity
Three Months Ended December 31, 2003

	Common Stock Shares	Amount	Additional Paid In Capital	Accumulated Deficit	N Rece Co S
Balance, September 30, 2003	16,061,939	\$160,619	\$28,778,002	\$(25,914,673)	\$(4
Beneficial conversion discount on convertible note payable	--	--	154,226		
Net (loss) for the quarter ended					

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

December 31, 2003	--	--	--	(177,583)	
	-----	-----	-----	-----	-----
Balance, December 31, 2003	16,061,939	\$160,619	\$28,932,228	\$ (26,092,256)	\$ (4,000,000)
	=====	=====	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

5

GreenMan Technologies, Inc.
Unaudited Consolidated Statements of Cash Flow

	Three De 2003

Cash flows from operating activities:	
Net loss	\$ (177,583)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	541,200
Loss on disposal of property, plant and equipment	5,000
Amortization	27,700
Decrease (increase) in assets:	
Accounts receivable	(92,700)
Insurance claim receivable	634,100
Product inventory	(204,000)
Other current assets	(18,700)
(Decrease) increase in liabilities:	
Accounts payable	(789,800)
Accrued expenses	(331,000)
Net cash (used for) provided by operating activities	(405,800)
Cash flows from investing activities:	
Purchase of property and equipment	(240,500)
Increase in notes receivable, officers	(3,400)
Decrease (increase) in other assets	(201,900)
Net cash used for investing activities	(445,800)
Cash flows from financing activities:	
Deferred financing costs	(94,300)
Proceeds from notes payable	239,200
Proceeds from notes payable, related parties	75,000
Proceeds from convertible notes payable	375,000
Net advances under line of credit	187,800
Repayment of notes payable	(470,700)
Principal payments on obligations under capital leases	(104,500)
Cash received upon exercise of stock options	
Net proceeds on sale of common stock	
Net cash provided by financing activities	207,400
Net increase (decrease) in cash	(644,200)

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Cash and cash equivalents at beginning of period	990,7

Cash and cash equivalents at end of period	\$ 346,5
	=====
 Supplemental cash flow information:	
Machinery and equipment acquired under capital leases	\$
Conversion discount on convertible notes payable	154,2
Interest paid	323,7
Taxes paid	

See accompanying notes to unaudited condensed consolidated financial statements

6

GreenMan Technologies, Inc.
Notes To Unaudited Condensed Consolidated Financial Statements
December 31, 2003

1. Business

GreenMan Technologies, Inc. (together with its subsidiaries, "we", "us" or "our") was originally founded in 1992 and has been operated as a Delaware corporation since 1995. Today, we comprise six operating locations that collect, process and market scrap tires in whole, shredded or granular form. We are headquartered in Lynnfield, Massachusetts and currently operate tire processing operations in California, Georgia, Iowa, Minnesota, Tennessee and Wisconsin and operate under exclusive agreements to supply whole tires used as alternative fuel to cement kilns located in Florida, Georgia, Illinois, Missouri, Tennessee and Texas

2. Basis of Presentation

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

The financial statements are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2003 included in our Annual Report on Form 10-KSB. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations, although we believe the disclosures which have been made are adequate to make the information presented not misleading. The results of operations for the periods reported are not necessarily indicative of those that may be expected for a full year. In our opinion, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair statement of operating results for the interim periods presented have been made.

3. Net Income (Loss) Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potential common shares that may be issued by us relate to

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

outstanding stock options and warrants (determined using the treasury stock method) and convertible debt. Basic and diluted net loss per share are the same for the three months ended December 31, 2003 and 2002, since the effect of the inclusion of all outstanding options, warrants and convertible debt would be anti-dilutive.

4. Insurance Claim Receivable

On March 31, 2003, a portion of our Georgia facility and several pieces of waste wire processing equipment were damaged by a fire. We estimate that losses sustained as a result of the fire amounted to approximately \$390,000 excluding business interruption losses, and before considering insurance recoveries.

In December 2003, we reached a settlement agreement with our insurance carrier amounting to \$1,029,885 of which \$821,172 was applicable to losses incurred during fiscal 2003. The settlement amount, net of direct costs incurred, resulted in net casualty income of \$431,594 during the fiscal year ended September 30, 2003 and \$112,766 during the quarter ended December 31, 2003, which is classified as other income in the accompanying statement of operations. In December 2003 all remaining amounts associated with this settlement were received.

7

GreenMan Technologies, Inc.
Notes To Unaudited Condensed Consolidated Financial Statements
December 31, 2003

5. Management's Plans For Raising Additional Capital

As of December 31, 2003, we have incurred cumulative losses of \$26,092,256, and have a working capital deficiency of \$4,953,122 at December 31, 2003. We understand that our continued existence is dependent on our ability to achieve profitable status on a sustainable basis and raise additional financing. During the past twelve months, we have invested over \$3 million in new equipment to increase processing capacity at our Iowa, Minnesota and Georgia locations, and have reconfigured our Wisconsin location to substantially reduce operating costs and maximize our return on assets. In addition, we have implemented and/or are in the process of implementing the following actions:

1. Private Placement of Investment Units

In December 2003, we commenced a private offering of investment units (the "Units") to accredited investors through an investment bank in an effort to raise up to \$3,000,000 (which may be increased to up to \$3,500,000 to cover over-allotments, if any). Each Unit consists of one share of our common stock and a warrant to purchase 0.5 shares of our common stock. The purchase price of the Units will equal 80% of the average closing bid price of our common stock during the ten days preceding each closing of the offering. The warrants are exercisable at any time between the sixth month and the fifth year after the date of issuance at an exercise price equal to 105% of the closing bid price of our common stock on the day preceding the applicable closing. The sale of these Units is exempt from registration under the Securities Act pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act. We have agreed to use our best efforts to register the shares of common stock, and the shares issuable upon exercise of the warrants, for resale under the Securities Act. No assurances can be given that such offering will be successful.

If successful, we intend to utilize the net proceeds to: (1) purchase new shredding and processing equipment for our Tennessee facility, which will allow

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

us to eliminate over \$80,000 per month in excess transportation costs necessitated by processing a majority of Tennessee-sourced tires at our Georgia facility until the required high volume equipment is installed; (2) re-establish our Georgia waste wire processing capacity; and (3) provide additional working capital during the upcoming seasonally slower portion of our fiscal year.

2. Related Party Notes Payable

In October 2003, one of our officers loaned us \$75,000 under the terms of an October 22, 2003 unsecured promissory note payable which bears interest at 12% per annum with interest due quarterly and the principal due June 30, 2004. During January and February 2004, the same officer advanced us an additional \$250,000 under similar terms.

3. Convertible Note Payable

In December 2003, we entered into a note purchase agreement (the "Note Agreement") with an accredited investor (the "Note Holder") and pursuant thereto, we issued a convertible note payable (the "Note") in the aggregate principal amount of \$375,000 and bearing interest at 10%, due December 22, 2004. The Note is convertible at the option of the holder at any time prior to maturity but the Note shall automatically, and without action on the part of Holder, be converted upon the closing of the offering of investment units described above into special investment units (the "SIUnits") at a price equal to \$1.07 per SIUnit with each SIUnit consisting of one share of unregistered common stock and a warrant (the "Warrant") to purchase 1.5 shares of common stock at an exercise price of \$1.07 per share, exercisable six months after issuance for a period of five years from date of issuance. The sale of the Note is exempt from registration under the Securities Act pursuant to Section 4(2) of the Securities Act. The terms of the Note Agreement reflect a beneficial conversion feature amounting to \$154,226 calculated at the date of issue of the Note as the difference between the fair value of the common stock to be received upon conversion and the proceeds of the Note to be allocated to the common stock conversion option. The beneficial conversion feature will be recorded as a debt issuance discount and a corresponding credit to paid-in capital, and will be amortized to interest expense over the term of the Note, or upon conversion.

8

GreenMan Technologies, Inc.
Notes To Unaudited Condensed Consolidated Financial Statements
December 31, 2003

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31, 2003	September 30, 2003	Estimated Useful Lives
	-----	-----	-----
Land	\$ 504,346	\$ 504,346	
Buildings	2,812,816	2,704,693	10-20 years
Machinery and equipment	9,613,153	9,526,045	5-10 years
Furniture and fixtures	284,484	284,484	3-5 years
Motor vehicles	5,937,460	5,904,050	3-10 years
	-----	-----	
	19,152,259	18,923,618	

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Less accumulated depreciation and amortization	(8,210,056)	(7,673,912)
	-----	-----
Property, plant and equipment, net	\$10,942,203	\$11,249,706
	=====	=====

7. Stock Options

We apply Accounting Principles Board Opinion No. 25 and related interpretations in accounting for stock options issued to our employees and directors. Had the compensation cost for the stock options issued to our employees and directors been determined based on the fair value at the grant dates consistent with Statement of Financial Accounting Standards No. 123, the net loss and net loss per share would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended	
	December 31, 2003	December 31, 2002
	-----	-----
Net loss as reported	\$(177,583)	\$(355,571)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(19,845)	(37,192)
	-----	-----
Pro forma net loss	\$(197,428)	\$(392,763)
	=====	=====
 Earnings per share:		
Basic - as reported	\$ (0.01)	\$ (0.02)
	=====	=====
Basic - pro forma	\$ (0.01)	\$ (0.02)
	=====	=====

7. Subsequent Events

As of December 31, 2003, one of our directors is owed \$300,000 under the terms of an October 1999 private offering of 10% convertible notes and warrants and \$75,000 under the terms of a February 2000 offering of 11% convertible notes and warrants. The convertible notes originally matured twelve months after issuance and were payable in cash or unregistered shares of our common stock at a conversion price of \$1.00 per share. In September 2000 and June 2001, the director agreed to extend the maturity date of each note for an additional twelve months from their original maturity. In return for the June 2001 extension, we agreed to reduce the conversion price to \$.75 per share. In September 2002, the director again agreed to extend the maturity of each note for an additional twenty-four months from their extended maturity dates which range from October 2004 to February 2005.

On February 16, 2004, the director converted \$375,000 of principal and \$168,210 of accrued interest into 724,281 shares of our unregistered common stock pursuant to the amended terms noted above.

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of the Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Form 10-KSB filed for the year ended September 30, 2003.

Results of Operations

Three Months ended December 31, 2003 Compared to the Three Months ended December 31, 2002

Net sales for the three months ended December 31, 2003 were \$7,798,750, a 2% decrease, compared to last year's net sales of \$7,963,457, which included approximately \$524,000 of net sales associated with our majority owned joint venture which was divested on April 1, 2003 and approximately \$57,000 of net sales associated with a kiln relationship terminated during fiscal 2003. We processed over 8.1 million passenger tire equivalents during the three months ended December 31, 2003, compared to approximately 8 million passenger tire equivalents during the quarter ended December 31, 2002

Overall end product sales increased to 25% of consolidated revenues during the quarter ended December 31, 2003, compared to 19% for the same period last year. The increase in end product sales is attributable to implementation of our waste wire processing equipment and stronger crumb rubber and tire derived fuel sales during the quarter ended December 31, 2003. The overall quality of revenue (revenue per passenger tire equivalent) benefited from increased tire volumes and end product sales, which partially offset a 10% reduction in tipping fees resulting from lower tipping fees in certain markets.

Gross profit for the quarter ended December 31, 2003 was \$1,138,809 or 15% of net sales, compared to \$1,383,273 or 17% of net sales for quarter ended December 31, 2002. The decrease was primarily attributable to: (1) more than \$240,000 of excess transportation costs and other operating inefficiencies necessitated by processing Tennessee-sourced tires at our Georgia facility until our Nashville area facility commences full operation and (2) reduced end product revenue and excess waste disposal in Georgia as a result of the March 31, 2003 waste wire processing equipment fire and which management estimates to exceed \$223,000, net of business interruption insurance reimbursement.

Selling, general and administrative expenses for the quarter ended December 31, 2003 decreased \$311,074 to \$1,068,241 or 14% of net sales, compared to \$1,379,315 or 17% of net sales for the quarter ended December 31, 2002. The reduction is due to a focused effort to reduce corporate wide expenses and the elimination of expenses associated with our majority owned joint venture which was divested in April 2003.

As a result of the foregoing, our operating profit for the quarter ended December 31, 2003 increased \$66,610 to \$70,568, compared to an operating profit of \$3,958 for the quarter ended December 31, 2002.

Interest and financing costs for the quarter ended December 31, 2003 decreased \$15,000 to \$355,000, compared to \$370,000 for the quarter ended December 31, 2002. In addition to the lost product revenues caused by the March 2003 fire at our Georgia facility, we also incurred additional direct costs relating to excess disposal costs totaling approximately \$95,000, which were offset by an insurance recovery of \$207,873 received during the quarter ended December 31, 2003.

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

As a result of the foregoing, our net loss for the quarter ended December 31, 2003 decreased \$177,988 or 50% to \$177,583 or \$.01 per basic share, compared to a net loss of \$355,571 or \$.02 per basic share for quarter ended December 31, 2002.

10

Liquidity and Capital Resources

As of December 31, 2003, we had \$346,534 in cash and cash equivalents and a working capital deficiency of \$4,953,122. We understand that the continued, successful sales and marketing of our services and products, the introduction of new products, raising additional growth capital and re-establishing continued profitability from operations will be critical to our future liquidity.

The Consolidated Statements of Cash Flows reflect events in 2003 and 2002 as they affect our liquidity. During the quarter ended December 31, 2003, net cash used for operating activities was \$405,816 which reflects a reduction in accounts payable and accrued expenses of \$1,120,945 in the aggregate, a \$204,065 increase in product inventory, which is typical as we enter our seasonally slower fiscal second quarter, an increase in other current assets of \$18,709, reflecting increased prepaid expenses and parts inventories and a net loss from operations. Positively impacting cash flows for the quarter ended December 31, 2003 was depreciation, amortization, and the receipt of \$842,045 of insurance proceeds. During the quarter ended December 31, 2002, net cash provided by operating activities was \$573,810. Cash flows during this period were positively impacted by depreciation, amortization and a \$530,059 decrease in accounts receivable and negatively impacted by a decrease in accounts payable and an increase in product inventory.

Net cash used for investing activities was \$445,845 and \$715,986 during the quarters ended December 31, 2003 and 2002, respectively. These amounts represent significant investments made for the purchase of property and equipment to increase capacity and efficiencies at several of our operating locations.

Net cash provided by financing activities was \$207,450 and \$487,156 during the quarters ended December 31, 2003 and 2002, respectively. Positively affecting cash flows from financing activities for both periods were proceeds from the issuance of notes payable to unrelated and related parties.

During the past five years, we have terminated under-performing operations and initiatives and eliminated the use of non-conventional financing methods that had contributed over \$18.7million to our accumulated deficit. In order to position our company to be stronger, more profitable and to enhance shareholder value in the future, we began initiatives during fiscal 2003 to upgrade existing operations, expand into new geographic locations to maximize existing transportation and marketing infrastructures, and continue to identify better and more profitable uses for existing and new products. Several of these initiatives are described below.

Operating Performance Enhancements

Historically, our tire shredding operations were able to recover and sell approximately 60% of a processed tire with the balance disposed of as waste wire residual (cross-contaminated rubber and steel) at an annual cost exceeding \$1,000,000 in prior years. We have purchased secondary equipment for our Georgia (damaged in the March 2003 fire), Iowa and Minnesota facilities to further process the waste wire residual into saleable components of rubber and steel that not only provide new sources of revenue but also reduces residual disposal costs.

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

During the fourth quarter of fiscal 2002, we initiated a \$1.5 million equipment upgrade to our Des Moines, Iowa tire processing facility. We completely replaced all tire shredders with more efficient, higher volume equipment and installed a waste wire processing equipment line that will reduce waste wire disposal costs while increasing our capacity to produce over 20 million pounds of rubber feedstock per year for our internal crumb rubber operations. From July through December 2002, we experienced inevitable one-time operational disruptions during the equipment installation. Additionally, we incurred increased transportation costs because a significant portion of Iowa tires were diverted to our Minnesota plant for processing during the upgrade. These disruptive factors negatively impacted earnings in the first quarter of fiscal 2003 by approximately \$150,000. We estimate the internalization of crumb rubber feedstock supply and production via our new processing equipment will eliminate over \$250,000 in annual transportation costs by eliminating the need to source crumb rubber feedstock from our other locations. Additionally, we believe that these actions position us to better meet the growing market demand for our products and services as evidenced by the fact that Iowa crumb product shipments have increased almost three-fold during the fiscal year ended

11

September 30, 2003, compared to the same period last year. The capital investment in Iowa was funded by a combination of internal cash flow and long-term debt provided by First American Bank of Des Moines, Iowa and the State of Iowa.

On March 31, 2003, a portion of our Georgia facility and several pieces of waste wire processing equipment were damaged by a fire. We therefore will incur increased disposal costs and reduced product revenue in Georgia into our third fiscal quarter, when the equipment is currently expected to be re-installed and operational. As of September 30, 2003, damaged equipment and parts with a net book value of approximately \$179,000 have been written off and we have incurred \$225,000 of expenses associated with the fire, including \$211,000 of excess waste wire disposal. During the quarter ended December 31, 2003, we incurred an additional \$95,000 of excess waste wire disposal. In December 2003 we reached a \$1.03 million settlement with our insurance carrier in connection with the claims associated with the fire and have received all remaining amounts due under this insurance claim. During the quarter ended December 31, 2003, we recognized \$207,873 of casualty income associated with the insurance settlement before related costs.

Following the February 2003 decision to reconfigure our Wisconsin operations, waste wire processing equipment in Wisconsin was taken off line in March 2003 with the intention of moving it to our Minnesota operation. We had originally delayed the relocation of the equipment to Minnesota in order to evaluate whether to deploy it in Georgia to temporarily replace the damaged equipment; however in May 2003 we decided to relocate the Wisconsin equipment to Minnesota as planned. The Minnesota waste wire processing equipment began initial operation in July 2003. We estimate this equipment will reduce disposal expense by over \$160,000 per year, while providing new sources of revenue and much needed material feedstock for our Iowa crumb rubber operations. In addition to the existing waste wire processing equipment, we invested an additional \$250,000 in new support equipment and infrastructure improvements. These capital investments were funded by internal cash flow.

In addition, during the first half of fiscal 2003, several new pieces of shredding and screening equipment were installed at our Minnesota and Georgia locations in order to meet increased demand for more lucrative smaller tire-derived fuel material in the Midwest and Southeast. These capital

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

investments, which exceeded \$525,000, were funded by internal cash flow.

Effects of Inflation and Changing Prices

Generally, we are exposed to the effects of inflation and changing prices. Primarily because the largest component of our collection and disposal costs is transportation, we are adversely affected by significant increases in the cost of fuel. Additionally, because we rely on floating-rate debt for certain financing arrangements, rising interest rates would have a negative effect on our performance.

Other Matters That Have Impacted Our Liquidity

New Market Development Initiatives

The July 2002 acquisition of a scrap tire business in Azusa, California marked our first location in the western portion of the United States. We have devoted significant resources during the past twelve months to expand and enhance our California market position in order to provide a solid foundation for future growth and sustainable profitability.

In February 2003, we announced our intent to open a new high-volume tire processing facility in LaVergne, Tennessee as a result of experiencing significant market share growth during the last two years. Historically, we transported all Tennessee-sourced tires to our Georgia facility to be processed. We anticipated that a majority of the funding to implement this initiative would come from our principal lender, which unfortunately was closed by the Commissioner of Financial Institutions of the State of California in February 2003, shortly after we received verbal approval to move forward. In July 2003, our Tennessee facility began processing local tires on a limited basis using excess and idle equipment from various other locations. We are evaluating several immediate financing alternatives to provide the capital necessary to purchase all remaining equipment, which is estimated to cost approximately \$1.5 million. When the Tennessee facility is fully operational, we estimate the cost savings realized by processing Tennessee-sourced tires locally instead of transporting them to Georgia should exceed \$80,000 per month.

12

Also, in February 2003, we decided to reconfigure the operations of our Wisconsin facility from an unprofitable low-volume size reduction facility to a whole tire transfer station supplying compliant tires to a cement kiln. The decision was made because the cement kiln is anticipated to continue consuming a majority of the scrap tires collected by our Wisconsin facility. We intend to either use the available Wisconsin size reduction equipment at our other locations or initiate an effort to sell. We also intend to continue our efforts to increase Wisconsin tire volumes and reduce expenses in order to reach profitability in the near term.

During fiscal 2003 we invested over \$1.5 million developing and/or reconfiguring our California, Tennessee and Wisconsin operations. These investments have come in the form of new internally financed capital equipment and the funding of new market development initiatives.

Private Offerings of Common Stock

In February 2002, we commenced a private offering of our common stock to accredited investors (as that term is defined in Rule 501 of Regulation D under the Securities Act) in an effort to raise up to \$2,000,000 in gross proceeds (subsequently increased to \$3,000,000 in August 2002). As of September 30, 2003,

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

when the offering terminated, we had sold 1,458,511 shares of our unregistered common stock to investors, including existing shareholders, for gross proceeds of \$2,133,603. The investors have been granted limited registration rights to cause us to register the common stock for resale in the event that we register shares of common stock for our own account. The investors have agreed not to sell or transfer the shares for a period of at least 18 months after issuance. A majority of the proceeds of this offering were used to acquire certain tire recycling operations and assets. The sale of these shares was exempt from registration under the Securities Act pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act.

In December 2003, we commenced a private offering of investment units (the "Units") to accredited investors through an investment bank in an effort to raise up to \$3,000,000 (which may be increased to up to \$3,500,000 to cover over-allotments, if any). Each Unit consists of one share of our common stock and a warrant to purchase 0.5 shares of our common stock. The purchase price of the Units will equal 80% of the average closing bid price of our common stock during the ten days preceding each closing of the offering. The warrants are exercisable at any time between the sixth month and the fifth year after the date of issuance at an exercise price equal to 105% of the closing bid price of our common stock on the day preceding the applicable closing. The sale of these Units is exempt from registration under the Securities Act pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act. We have agreed to use our best efforts to register the shares of common stock, and the shares issuable upon exercise of the warrants, for resale under the Securities Act. No assurances can be given that such offering will be successful.

If successful, we intend to utilize the net proceeds to: (1) purchase new shredding and processing equipment for our Tennessee facility which will allow us to eliminate over \$80,000 per month in excess transportation costs necessitated by processing a majority of Tennessee-sourced tires at our Georgia facility until the required high volume equipment is installed; (2) re-establish our Georgia waste wire processing capacity; and (3) provide additional working capital during the upcoming seasonally slower portion of our fiscal year.

Repurchase of Class B Convertible Preferred Stock

On February 14, 2002, we repurchased and retired all of the Class B convertible Preferred Stock held by Republic Services of Georgia, Limited Partnership ("RSLP") (as successor to United Waste Services, Inc.) for a \$1,500,000 promissory note bearing interest at 10% and due in February 2007 and 100,000 shares of common stock valued at \$1.60 per share on the date of issuance. The difference between the liquidation value of the preferred stock and the consideration given was credited to paid-in-capital.

On May 6, 2002, RSLP converted \$750,000 of the principal amount of the February 14, 2002 promissory note into 300,000 unregistered shares of our common stock valued at \$750,000. We issued RSLP a promissory note for the remaining balance on the February 14, 2002 promissory note in the principal amount of \$743,750 bearing interest at 10% and due in March 2007. As of December 31, 2003, seven payments totaling \$62,729 were past due and we have received a waiver of default from RSLP through March 31, 2004 on any past due amounts.

Credit Facility

On February 7, 2003, Southern Pacific Bank ("SPB") and its wholly owned subsidiary Coast Business Credit ("CBC") were closed by the Commissioner of Financial Institutions of the State of California. The Federal Deposit Insurance

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Company ("FDIC") was appointed receiver of SPB and its subsidiaries. Prior to its closure, CBC had been our principal source of working capital financing and long term debt (the "Credit Facility") and had verbally agreed to provide the necessary funding to implement several growth initiatives including shredding and screening upgrades in Georgia and Minnesota, our waste wire processing equipment in Minnesota and a new high volume tire processing facility in Tennessee. As a result of the CBC failure, these initiatives have taken longer to implement as they have been funded by internal cash flows.

On May 16, 2003, we were notified by the FDIC that Waco Asset Management Co.31, Ltd., an affiliate of First City Financial Company ("FCFC"), had purchased a pool of loans from the FDIC that included our Credit Facility. FCFC focuses on acquiring and resolving distressed loans and other assets at discounted values and is not generally a long-term, asset-based lender. Accordingly, we have been advised that because the Credit Facility does not represent a typical FCFC loan, FCFC intends to sell its interest in the Credit Facility to a third party. No assurance can be given that FCFC will be successful in selling its interest in the Credit Facility. We are in compliance with all covenants and other terms of the Credit Facility. Although FCFC must honor the terms of the Credit Facility as long as we are not in default, FCFC is not willing to expand the Credit Facility to provide us with necessary growth capital. No assurance can be given that FCFC will grant waivers of defaults that we may need in the future. Our management is currently evaluating several financing alternatives which would provide growth capital and enhance our financial position, and is diligently working to determine the feasibility of each alternative. No assurances can be given that any such financing will be concluded in the near future, on terms favorable to us, or at all. If we are unable to obtain additional growth capital, our ability to implement our business plan may be materially and adversely affected. If we are forced to refinance our obligations, we would be required to write off the then unamortized balance of deferred financing charges relating to the Credit Facility (\$161,746 at December 31, 2003).

Related Party Notes Payable

In October 2003, one of our officers loaned us \$75,000 under the terms of an October 22, 2003 unsecured promissory note payable which bears interest at 12% per annum with interest due quarterly and the principal due June 30, 2004. During January and February 2004, the same officer advanced us an additional \$250,000 under similar terms.

Convertible Note Payable

In December 2003, we entered into a note purchase agreement (the "Note Agreement") with an accredited investor (the "Note Holder") and pursuant thereto, we issued a convertible note payable (the "Note") in the aggregate principal amount of \$375,000 and bearing interest at 10%, due December 22, 2004. The Note is convertible at the option of the holder at any time prior to maturity but the Note shall automatically, and without action on the part of Holder, be converted upon the closing of the offering of investment units described above into special investment units (the "SIUnits") at a price equal to \$1.07 per SIUnit with each SIUnit consisting of one share of unregistered common stock and a warrant (the "Warrant") to purchase 1.5 shares of common stock at an exercise price of \$1.07 per share, exercisable six months after issuance for a period of five years from date of issuance. The sale of the Note is exempt from registration under the Securities Act pursuant to Section 4(2) of the Securities Act. The terms of the Note Agreement reflect a beneficial conversion feature amounting to \$154,226 calculated at the date of issue of the Note as the difference between the fair value of the common stock to be received upon conversion and the proceeds of the Note to be allocated to the common stock conversion option. The beneficial conversion feature will be recorded as a debt issuance discount and a corresponding credit to paid-in capital, and will be

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

amortized to interest expense over the term of the Note, or upon conversion.

Off-Balance Sheet Arrangements

We lease various facilities and equipment under cancelable and non-cancelable short and long term operating leases which are described in Footnote 10 to the Audited Consolidated Financial Statements contained in our annual report on Form 10-KSB. Cautionary Statement

Information contained or incorporated by reference in this document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which statements can be identified by the use of forward-looking terminology such as "may," "will," "would," "can," "could," "intend," "plan," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The following matters constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements.

Factors That May Affect Future Results

Risks Related to our Business

We have lost money in the past five consecutive quarters and may need additional working capital, which if not received, may force us to curtail operations.

We have experienced five consecutive quarters of net losses. While management has identified several significant non-recurring charges which have contributed to these losses, the continued, successful sales and marketing of our services and products, the introduction of new products and the re-establishment

of profitable operations will be critical to our future liquidity. If we are unable to return to profitability before our cash is depleted, we will need to seek additional capital. There can be no assurance that we will be profitable in the future or, if we are not, that we will be able to obtain additional capital on terms and conditions acceptable to us or at all.

We may need to seek an alternate principal source of working capital financing and long term debt.

See the discussion regarding our Credit Facility in "Other Matters That Have Impacted Our Liquidity - Credit Facility," above. In addition to the risks disclosed in that discussion, the uncertainty surrounding the status of the Credit Facility, which expires on December 31, 2006, may become a significant distraction of management from our ongoing business.

In March 2003, a portion of our Georgia facility and several pieces of equipment were damaged by fire; as a result we have experienced increased disposal costs and reduced product revenue in Georgia.

On March 31 On March 31, 2003, a portion of our Georgia facility and several pieces of waste wire processing equipment were damaged by a fire, which resulted in increased disposal costs and reduced product revenue in Georgia. We anticipate that these conditions will continue into our third fiscal quarter, when the equipment is expected to be repaired and returned to operative status. No assurance can be given, however, that we will be able to re-establish our

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Georgia waste wire processing capabilities in a timely manner.

We may not realize the anticipated benefits associated with the establishment of our Tennessee operations.

In February 2003, as a result of experiencing significant market share growth during the last two years, we announced our intent to open a new high-volume tire processing facility in LaVergne, Tennessee. Historically, we have transported all Tennessee-sourced tires to our Georgia facility for processing. In July 2003, we began processing tires on a limited basis in Tennessee utilizing excess and idle equipment from various GreenMan subsidiaries. Until we are successful in purchasing the appropriate high-volume shredding and ancillary equipment for our Tennessee facility, we will continue to incur excess transportation costs necessitated by transporting Tennessee-sourced tires to Georgia instead of processing them locally.

We may not realize the anticipated benefits associated with the reconfiguration of our Wisconsin operations.

In February 2003, we decided to reconfigure the operations of our low-volume Wisconsin size reduction facility to a whole tire transfer station supplying compliant tires to a cement kiln. The cement kiln has been and is anticipated to continue to consume a majority of the scrap tires collected by the Wisconsin facility. We do not have a long-term supply contract with the cement kiln and there can be no assurance that we will realize the anticipated benefits associated with the reconfiguration of these operations.

Improvement in our business depends on our ability to increase demand for our products and services.

Adverse events or economic or other conditions affecting markets for our products and services, potential delays in product development, product and service flaws, changes in technology, changes in the regulatory environment and the availability of competitive products and services are among a number of factors that could limit demand for our products and services.

Our business is subject to extensive and rigorous government regulation; failure to comply with applicable regulatory requirements could substantially harm our business.

Our tire recycling activities are subject to extensive and rigorous government regulation designed to protect the environment. The establishment and operation of plants for tire recycling are subject to obtaining numerous permits and compliance with environmental and other government regulations. The process of obtaining required regulatory approvals can be lengthy and expensive. The Environmental Protection Agency and comparable state and local regulatory agencies actively enforce environmental regulations and conduct

periodic inspections to determine compliance with government regulations. Failure to comply with applicable regulatory requirements can result in, among other things, fines, suspensions of approvals, seizure or recall of products, operating restrictions, and criminal prosecutions. Furthermore, changes in existing regulations or adoption of new regulations could impose costly new procedures for compliance, or prevent us from obtaining, or affect the timing of, regulatory approvals.

The market in which we operate is highly competitive, fragmented and decentralized and our competitors may have greater technical and financial

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

resources.

The market for our services is highly competitive, fragmented and decentralized. Many of our competitors are small regional or local businesses. Some of our larger competitors may have greater financial and technical resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their services. Competition could increase if new companies enter the markets in which we operate or our existing competitors expand their service lines. These factors may limit or prevent any further development of our business.

Our success depends on the retention of our senior management and other key personnel.

Our success depends largely on the skills, experience and performance of our senior management, particularly, Robert H. Davis, our Chief Executive Officer; Charles E. Coppa, our Chief Financial Officer; Mark T. Maust, our Vice President of Operations and Midwest Regional Vice President; Thomas A. Carter, our Southeastern Regional Vice President; and James C. Dodenhoff, our Western Regional Vice President. The loss of any of these personnel could have a material adverse effect on our business, financial condition and results of operations. We have obtained "key man" insurance only on the lives of Messrs. Davis and Coppa.

Seasonal factors may affect our quarterly operating results.

Seasonality may cause our total revenues to fluctuate. We typically process fewer tires during the winter and experience a more pronounced volume reduction in severe weather conditions. In addition, a majority of our crumb rubber is used for playground and athletic surfaces, running tracks and landscaping/groundcover applications which are typically installed during the warmer portions of the year. Similar seasonal or other patterns may develop in our business.

If we acquire other companies or businesses, we will be subject to risks that could hurt our business.

A significant part of our business strategy entails future acquisitions, or significant investments in, businesses that offer complementary products and services. Promising acquisitions are difficult to identify and complete for a number of reasons. Any acquisitions completed by our company may be made at substantial premiums over the fair value of the net assets of the acquired companies, and competition may cause us to pay more for an acquired business than its long-term fair market value. There can be no assurance that we will be able to complete future acquisitions on terms favorable to us or at all. In addition, we may not be able to integrate future acquired businesses, at all or without significant distraction of management from our ongoing business. In order to finance acquisitions, it may be necessary for us to issue shares of our capital stock to the sellers of the acquired businesses and/or to seek additional funds through public or private financings. Any equity or debt financing, if available at all, may be on terms which are not favorable to us and, in the case of an equity financing or the use of our stock to pay for an acquisition, may result in dilution to our existing stockholders.

As we grow, we are subject to growth related risks.

We are subject to growth-related risks, including capacity constraints and pressure on our internal systems and personnel. In order to manage current operations and any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to

hire, train, motivate, manage and retain employees. We may be unable to manage such growth effectively. Our management, personnel or systems may be inadequate to support our operations, and we may be unable to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. Any such failure could have a material adverse impact on our business, operations and prospects. In addition, the cost of opening new facilities and the hiring of new personnel for those facilities could significantly decrease our profitability, if the new facilities do not generate sufficient additional revenue.

Risks Related to the Securities Market

Our stock price may be volatile, which could result in substantial losses for our shareholders.

Our common stock is thinly traded and an active public market for our stock may not develop. Consequently, the market price of our common stock may be highly volatile. Additionally, the market price of our common stock could fluctuate significantly in response to the following factors, some of which are beyond our control:

- o changes in market valuations of similar companies;
- o announcements by us or by our competitors of new or enhanced products, technologies or services or significant contracts, acquisitions, strategic relationships, joint ventures or capital commitments;
- o regulatory developments;
- o additions or departures of senior management and other key personnel;
- o deviations in our results of operations from the estimates of securities analysts; and
- o future issuances of our common stock or other securities.

We have options, warrants and convertible promissory notes currently outstanding. Exercise of these options and warrants, and conversions of these promissory notes will cause dilution to existing and new shareholders.

As of December 31, 2003, we have options and warrants to purchase approximately 4,004,794 shares of common stock currently outstanding in addition to \$750,000 of convertible promissory notes. These notes are convertible into approximately 850,000 shares of common stock and warrants to purchase approximately 526,000 shares of our common stock at an exercise price of \$1.07 per share. The exercise of our options and warrants, and the conversion of these promissory notes, will cause additional shares of common stock to be issued, resulting in dilution to investors and our existing stockholders.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on our capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our businesses. As a result, capital appreciation, if any, of our common stock will be shareholders' sole source of gain for the foreseeable future.

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

Anti-takeover provisions in our charter documents and Delaware law could discourage potential acquisition proposals and could prevent, deter or delay a change in control of our company.

Certain provisions of our Restated Certificate of Incorporation and By-Laws could have the effect, either alone or in combination with each other, of preventing, deterring or delaying a change in control of our company, even if a change in control would be beneficial to our stockholders. Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

17

Item 3 Controls and Procedures

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

18

PART II - OTHER INFORMATION

Item 2. Changes in Securities

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- Exhibit 10.1 \$75,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated October 22, 2003.
- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
- Exhibit 32.1 Certification of Chief Executive Officer under 18 U.S.C Section 1350.
- Exhibit 32.2 Certification of Chief Financial Officer under 18 U.S.C Section 1350.

(b) Reports on Form 8-K

Edgar Filing: GREENMAN TECHNOLOGIES INC - Form 10QSB

A Current Report on Form 8-K was filed on January 7, 2004, covering Item 5 ("Other Information") and Item 9 ("Regulation FD Disclosure"). Our press releases dated December 17, 2003 and January 5, 2004 were included as exhibits under Item 7.

19

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant certifies that it has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

By: GreenMan Technologies, Inc.

/s/ Robert H. Davis

Robert H. Davis
Chief Executive Officer

By: GreenMan Technologies, Inc.

/s/ Charles E. Coppa

Chief Financial Officer, Treasurer,
Secretary

20