GREENMAN TECHNOLOGIES INC
Form 10-Q
February 14, 2011

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, 2010

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

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 x No q

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, 2011, there were 35,558,727 shares of the registrant’s Common Stock outstanding.

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GreenMan Technologies, Inc.

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GreenMan Technologies, Inc.

Consolidated Balance Sheets

(Unaudited)

	December 31, 2010	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$263,612	$293,550
Certificates of deposit	—	500,000
Certificates of deposit, restricted	557,500	257,500
Accounts receivable, trade, less allowance for doubtful accounts of $2,373 and $301 as of December 31, 2010 and September 30, 2010	488,349	733,149
Inventory	1,046,471	1,235,535
Costs in excess of billings	59,543	—
Seller’s note, related party, current portion	180,000	325,000
Prepaid expenses	233,718	240,894
Other current assets	127,687	218,267
Total current assets	2,956,880	3,803,895
Property, plant and equipment, net	966,085	974,827
Other assets:		
Certificates of deposit, restricted	—	300,000
Long term contracts, net	580,102	637,417
Seller’s note, related party, non-current	620,000	475,000
Purchased technology, net	429,166	441,667
Patents, net	59,585	65,000
Other	227,092	229,834
Total other assets	1,915,945	2,148,918
	$5,838,910	$6,927,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$918,431	$917,662
Accrued expenses	825,141	1,051,231
Billings in excess of cost	48,792	24,450
Notes payable, current	1,413,726	337,961
Obligations due under lease settlement, current	68,518	68,518
Notes payable, related parties, current	435,565	368,093
Total current liabilities	3,710,173	2,767,915
Notes payable, non-current	325,686	1,135,789
Obligations due under lease settlement, non-current	505,540	505,540
Convertible notes payable	126,154	—
Total liabilities	4,667,553	4,409,244
Stockholders' equity:		
Preferred stock, $1.00 par value, 1,000,000 shares authorized, none outstanding	—	—

Common stock, $.01 par value, 60,000,000 shares authorized, 35,450,060 shares and 33,300,060 issued and outstanding at December 31, 2010 and September 30, 2010	354,501	333,001
Additional paid-in capital	39,226,730	39,090,313
Common shares held as collateral	(20,000)	—
Accumulated deficit	(38,389,874)	(36,904,918)
Total stockholders' equity	1,171,357	2,518,396
	$5,838,910	$6,927,640

See accompanying notes to unaudited condensed interim consolidated financial statements

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GreenMan Technologies, Inc.

Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Net sales	$791,759	$439,856
Cost of sales	814,174	694,176
Gross loss	(22,415)	(254,320)
Operating expenses:		
Selling, general and administrative	1,143,069	1,191,572
Research and development	189,967	78,359
	1,333,036	1,269,931
Operating loss	(1,355,451)	(1,524,251)
Other income (expense):		
Interest income	14,233	28,270
Interest and financing expense	(110,927)	(15,201)
Other, net	(32,811)	(82,768)
Other expense, net	(129,505)	(69,699)
Net loss	$(1,484,956)	$(1,593,950)
Other comprehensive loss:		
Unrealized loss on marketable investments	—	(11,289)
Comprehensive loss	$(1,484,956)	$(1,605,239)
Net loss per share – basic	$(0.04)	$(0.05)
Net loss per share – diluted	$(0.04)	$(0.05)
Weighted average shares outstanding - basic and diluted	33,438,647	33,077,310

See accompanying notes to unaudited condensed interim consolidated financial statements.

GreenMan Technologies, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the Three Months Ended December 31, 2010

(Unaudited)

	Common Stock		Additional Paid In	Common Shares Held As	Accumulated	
	Share	Amount	Capital	Collateral	Deficit	Total
Balance, September 30, 2010	33,300,060	$333,001	$39,090,313		$(36,904,918)	$2,518,396
Compensation expense associated with stock options	—	—	71,097		—	71,097
Common stock issued with promissory notes	150,000	1,500	63,000		—	64,500
Common stock issued as additional collateral	2,000,000	20,000	—	(20,000)	—	—
Value of warrants issued for financing	—	—	2,320		—	2,320
Net loss for three months ended December 31, 2010	—	—	—		(1,484,956)	(1,484,956)
Balance, December 31, 2010	35,450,060	$354,501	$39,226,730	(20,000)	$(38,389,874)	$1,171,357

See accompanying notes to unaudited condensed interim consolidated financial statements.

GreenMan Technologies, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31, 2010	2009
Cash flows from operating activities:		
Net loss	$(1,484,956)	$(1,593,950)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	49,360	36,491
Deferred financing costs	50,882	—
Stock compensation expense	71,097	36,142
Amortization of patents	5,415	5,417
Amortization of long term contracts	57,315	57,313
Amortization of purchased technology	12,501	12,501
(Increase) decrease in assets:		
Accounts receivable	244,800	696,702
Inventory	189,064	(41,365)
Costs in excess of billings	(59,543)	—
Prepaid and other current assets	97,756	270,296
Other assets	(64,478)	(14,242)
(Decrease) increase in liabilities:		
Accounts payable	769	(373,676)
Billings in excess of costs	24,342	—
Accrued expenses	(226,090)	(472,029)
Net cash used in operating activities	(1,031,766)	(1,380,400)
Cash flows from investing activities:		
Purchase of property and equipment	(40,618)	(100,135)
Maturity of certificates of deposit	500,000	750,000
Proceeds from marketable investments	—	39,605
Net cash provided by investing activities	459,382	689,470
Cash flows from financing activities:		
Proceeds from notes payable	350,000	33,847
Proceeds from convertible notes payable	145,000	—
Proceeds from notes payable, related party	110,000	—
Repayment of notes payable	(50,654)	(27,590)
Repayment of notes payable, related party	(11,900)	(14,242)
Net cash provided by (used in) financing activities	542,446	(7,985)
Net decrease in cash and cash equivalents	(29,938)	(698,915)
Cash and cash equivalents at beginning of year	293,550	1,760,988
Cash and cash equivalents at end of period	$263,612	$1,062,073
Supplemental cash flow information:		
Unrealized loss on marketable investments	$—	$11,289
Shares issued as additional collateral	20,000	—

Interest paid	41,027	23,723
Taxes paid	—	710,492

See accompanying notes to unaudited condensed interim consolidated financial statements.

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. Our business is comprised of two business segments, our dual fuel conversion operations (American Power Group) and our molded recycled rubber products operations (Green Tech Products). Prior to November 17, 2008, we also had tire recycling operations. As described below, our business changed substantially in November 2008, when we sold substantially all of the assets of our tire recycling operations located in Savage, Minnesota and Des Moines, Iowa.

Our Green Tech Products' molded recycled rubber products operations specialize 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. Green Tech's Duromat Extended Life™ playground safety tiles are manufactured with a patented "cold-cure" process that allows high quality crumb rubber tiles to have a unique long life, even in extreme hot and cold temperatures.

On June 17, 2009, we signed an exclusive license agreement with American Power Group, an Iowa corporation, under which we acquired the exclusive worldwide right to commercialize American Power Group's patented dual fuel alternative energy technology. American Power Group's unique external fuel delivery enhancement system converts existing diesel engines into more efficient and environmentally friendly engines that have the flexibility to run on: (1) diesel fuel and compressed natural gas; (2) diesel fuel and bio-methane; or (3) 100% on diesel fuel depending on the circumstances. On July 27, 2009, we entered into an agreement with American Power Group to purchase substantially all of their operating assets, including their name but excluding its dual fuel patent.

In May 2010, Green Tech Products entered into a sales and marketing agreement with Disability Access Consultants, Inc. (DAC) for the worldwide commercialization of DAC's unique web-based compliance software platform and inspection methods. DAC provides "accessibility compliance" software products, consulting services and expertise to ensure their clients are in compliance with the Americans with Disabilities Act of 1990 which mandates that facilities in the United States provide equal access for individuals with disabilities. Initially, we intend to amend Green Tech Product's existing business development and product endorsement agreements with six state school board organizations by adding DAC's products and services to our existing products and services. We will be paid a commission for all sales of DAC products and services.

As of December 31, 2010, we had $821,112 in cash, cash equivalents and restricted certificates of deposit and a working capital deficiency of $753,293. Our tire recycling business has historically been the source of substantially all of our revenue and cash flow and we have incurred substantial losses from operations over the past two fiscal years since divesting our tire recycling business. We understand that our continued existence is dependent on our ability to generate positive operating cash flow and achieve profitability on a sustained basis for all operations. The financial statements have been prepared assuming we will continue as a going concern.

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

A. Bank Refinancing/Alternative Financing

Iowa State Bank Credit Facility

Based on our December 31, 2010 results and traditional credit facility advance rates of 70% of eligible accounts receivable and 50% of eligible inventory, we believe we could have an additional $866,000 of available liquidity through a traditional credit facility.

On November 9, 2010, American Power Group entered into a $2,000,000 working capital line of credit facility with Iowa State Bank, which expires on December 1, 2011 (See Note 11). We are currently evaluating alternatives for a similar relationship for our Green Tech Products subsidiary.

GreenMan Technologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

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

Short Term Notes Payable

In September 2010, we commenced a private offering of 12% unsecured, six-month notes payable in an effort to raise up to $575,000 in gross proceeds. In addition we agreed to issue 0.5 shares of unregistered common stock for each $1 invested in the offering. As of December 31, 2010, we had issued $573,500 of notes which are due in March 2011 and April 2011 with $250,000 issued during October 2010. In conjunction with the offering we issued 311,750 unregistered shares of common stock including 161,750 shares of common stock in aggregate to a director and officer of the Company and 25,000 shares issued as a placement fee to third parties in October 2010. In December 2010, the director and officer also loaned us $110,000 in aggregate and were repaid in January 2011, including interest of $1,100.

Convertible Notes Payable

In October 2010, we commenced a private offering of 10% convertible notes payable in an effort to raise up to $3,000,000 in gross proceeds. The convertible notes were due 24 months after issuance and are convertible, after 6 months, into shares of common stock at a conversion price equal to 85% of the closing price of our common stock on the day the notes are issued. As of February 14, 2011 we had issued $370,000 of convertible notes.

Strategic Financial Advisor Agreement

On December 29, 2010, we engaged Northland Capital Markets to provide strategic financial advice in the areas of capital raising activities, mergers and acquisitions, and other key strategic efforts to accelerate the expansion of our EPA approved domestic vehicular dual fuel testing initiative as well as our international marketing efforts. Northland has extensive experience in the Alternative Energy sector, particularly in the area of natural gas vehicles.

B. Operating Performance Enhancements

Since the July 2009 acquisition of American Power Group’s dual fuel conversion operations, we have invested over $4.8 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 of January 2011, we have announced over $1.2 million of orders from four customers with the potential for over $1.5 million of additional follow-on orders from these customers. We anticipate that our dual fuel related revenue recorded during the second quarter of fiscal 2011 will exceed the approximately $360,000 of dual fuel revenue recorded during the quarter ended December 31, 2010 as well as the approximate $332,000 for fiscal 2010. In addition, we have quoted over $80 million in potential dual fuel revenue and are working aggressively to convert these quotes into orders. In December 2010, the Environmental Protection Agency approved our request for 11 test exemptions for aftermarket dual fuel diesel trucks. The initial test exemptions will allow APG to gather critical engine performance and emission data on a pre-dual fuel and post-dual fuel basis to support EPA approval requirements and commence commercialization of our non-invasive dual fuel upgrade system in the United States. To date, we have been approached by over 70 companies operating diesel fleets ranging from 10 vehicles to over 10,000 vehicles in a wide range of diesel vehicular markets, most of which would be ideal candidates for our upgraded dual fuel technology.

During the past three fiscal years, Green Tech Products has incurred significant operating losses and experienced negative cash flow from operations. We are currently evaluating several new types of products and marketing agreements outside the playground and parks markets that would use Green Tech Product's patented cold-cure process and exclusive school board contract network.

We will continue to evaluate each operation on its merits and contributions and we will continue to make the correct decisions to ensure the continued viability and performance of our corporation. We also understand that our continued existence is dependent on our ability to generate positive operating cash flow, achieve profitability on a sustained basis from all operations and generate improved performance. If Green Tech Products and American Power Group are 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 with either business segment.

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 tire recycling assets, liabilities and results of operations have been classified as discontinued operations for all periods presented in the accompanying consolidated financial statements.

The balance sheet at December 31, 2010 has been derived from the audited financial statements at September 30, 2010. The accompanying interim financial statements are unaudited and should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2010 included in our Annual Report on Form 10-K. 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, 2010 and the operating results for the interim periods ended December 31, 2010 and 2009, have been included.

3. Certificates of Deposit

We invest excess cash in certificates of deposit issued by various banks. 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, 2010 and September 30, 2010, we pledged $557,500 of our certificates of deposit as collateral for two loans currently outstanding.

4. Receivables

Accounts Receivables

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating past due individual customer receivables and considering a customer's financial condition, credit history, and the current economic conditions. Individual accounts receivable are written off when deemed uncollectible, with any future recoveries recorded as income when received.

Seller's Note Receivable, Related Party

In conjunction with the July 2009 acquisition of substantially all the American Power Group operating assets including the name American Power Group (excluding its dual fuel patent) we acquired include a promissory note from the previous owners of American Power Group of $800,000 to GreenMan. The note bears interest at the rate of 5.5% per annum and was based on the difference between the assets acquired and the consideration given. Per our agreement, 25% of any royalties due from time to time to American Power Group under the technology license agreement will be applied against outstanding interest and principal due under the terms of the note rather than to American Power Group. Based on the revised fiscal 2011 plan, we have classified $180,000 of the balance as the current portion. The note is due in a single, lump sum payment on July 27, 2013; provided, however, that we consider this a related party note as one of the former owners of American Power Group is now an employee of ours.

5. Net 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 outstanding stock options and warrants and convertible debt. Basic and diluted net loss per share are the same for the three months ended December 31, 2010 and 2009, since the effect of the inclusion of all outstanding options, warrants and convertible debt would be anti-dilutive. In addition, the common shares issued as additional collateral are excluded from both these calculations due to the restrictive nature of the agreement and shares (see Note 11).

GreenMan Technologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

6. Intangible Assets

We review intangibles for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of our intangible assets below their carrying value.

Amortization expense associated with acquisition related intangibles during the next five years is anticipated to be:

Twelve months ending December 31:	Contracts	Patents	Technology	Total
2011	$188,936	$21,667	$50,000	$260,603
2012	62,000	21,667	50,000	133,667
2013	50,000	16,251	50,000	116,251
2014	50,000		50,000	100,000
2015 and thereafter	229,166	—	229,166	458,332
	$580,102	$59,585	$429,166	$1,068,853

7. Inventory

Raw material inventory primarily consists of dual fuel conversion components and crumb rubber used in production of molded rubber products by our molded recycled rubber products operation. Work in progress includes materials, labor and direct overhead associated with incomplete dual fuel conversion projects. Finished goods primarily consist of molded products and playground equipment. All inventory is valued at the lower of cost or market on the first-in first-out (FIFO) method. Inventory consists of the following:

	December 31, 2010	September 30, 2010
Raw materials	$255,771	$ 317,967
Work in progress	2,748	11,313
Finished goods	787,952	906,255
Total inventory	$1,046,471	$ 1,235,535

8. Contracts in Progress

Contracts in progress consisted of the following:

	December 31, 2010	September 30, 2010
Costs incurred on uncompleted contracts	$409,327	$57,368