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GREENMAN TECHNOLOGIES INC  
Form 10QSB  
May 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 March 31, 2004 Commission File Number 1-13776  
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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 May 12, 2004  
Common Stock, \$.01 par value: 16,894,886 shares

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GreenMan Technologies, Inc.  
Form 10-QSB

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Quarterly Report  
March 31, 2004

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* 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.	

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### GreenMan Technologies, Inc. Unaudited Consolidated Balance Sheets

	March 31, 2004	September 30, 2003
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 473,290	\$ 990,745
Accounts receivable, trade, less allowance for doubtful accounts of \$138,385 and \$148,031 as of March 31, 2004 and September 30, 2003 .....	2,645,714	3,368,435
Insurance claim receivable .....	--	634,172
Note receivable officers .....	177,249	179,172
Product inventory .....	813,898	112,419

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Other current assets .....	1,254,543	1,119,872
	-----	-----
Total current assets .....	5,364,694	6,404,815
	-----	-----
Property, plant and equipment, net .....	11,101,837	11,249,706
	-----	-----
Other assets:		
Deferred loan costs .....	159,416	221,931
Goodwill, net .....	3,413,894	3,413,894
Customer relationship intangibles, net .....	228,575	234,875
Deferred income taxes .....	270,000	270,000
Other .....	489,014	299,699
	-----	-----
Total other assets .....	4,560,899	4,440,399
	-----	-----
	\$ 21,027,430	\$ 22,094,920
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable, current .....	\$ 3,518,597	\$ 3,748,663
Convertible notes payable .....	259,330	--
Accounts payable .....	4,174,844	4,350,643
Accrued expenses, other .....	974,785	1,384,652
Notes payable related parties, current .....	1,095,000	520,000
Obligations under capital leases, current .....	457,240	423,228
	-----	-----
Total current liabilities .....	10,479,796	10,427,186
Notes payable, related parties, non-current portion ....	600,000	975,000
Notes payable, non-current portion .....	4,116,954	5,726,958
Obligations under capital leases, non-current portion ..	3,140,695	1,986,828
Deferred gain on sale leaseback transaction .....	437,337	--
	-----	-----
Total liabilities .....	18,774,782	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, 16,894,886 shares and 16,061,939 shares issued and outstanding at March 31, 2004 and September 30, 2003 .....	168,948	160,619
Additional paid-in capital .....	29,503,864	28,778,002
Accumulated deficit .....	(27,390,164)	(25,914,673)
Notes receivable, common stock .....	(30,000)	(45,000)
	-----	-----
Total stockholders' equity .....	2,252,648	2,978,948
	-----	-----
	\$ 21,027,430	\$ 22,094,920
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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	Three Months Ended		Mar 2
	March 31, 2004	March 31, 2003	
Net sales .....	\$ 5,912,265	\$ 6,148,434	\$ 13
Cost of sales .....	5,564,247	5,550,652	12
Gross profit .....	348,018	597,782	1
Operating expenses:			
Selling, general and administrative .....	1,167,595	1,452,218	2
Operating loss .....	(819,577)	(854,436)	
Other income (expense):			
Interest and financing costs .....	(551,112)	(334,748)	
Casualty income, net .....	90,047	--	
Other, net .....	(17,266)	8,405	
Other income (expense), net .....	(478,331)	(326,343)	
Net loss before income taxes .....	(1,297,908)	(1,180,779)	(1)
Income tax provision (benefit) .....	--	--	
Net loss .....	\$ (1,297,908)	\$ (1,180,779)	\$ (1)
Net loss per share - basic and diluted .....	\$ (0.08)	\$ (0.08)	\$
Weighted average shares outstanding - basic and diluted ..	16,474,145	15,705,360	16

See accompanying notes to unaudited condensed consolidated financial statements.

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GreenMan Technologies, Inc.  
Unaudited Consolidated Statement of Changes in Stockholders' Equity  
Six Months Ended March 31, 2004

	Common Stock		Additional Paid In Capital	Accumul Defic
	Shares	Amount		
Balance, September 30, 2003 .....	16,061,939	\$160,619	\$28,778,002	\$ (25,914
Beneficial conversion discount on convertible note payable .....	--	--	154,226	
Common stock issued upon exercise of options and warrants .....	108,666	1,086	35,669	

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Common stock issued upon conversion of notes payable and accrued interest .....	724,281	7,243	535,967	
Repayment of notes receivable, common stock ....	--	--	--	
Net loss for the six months ended March 31, 2004 .....	--	--	--	(1,475)
	-----	-----	-----	-----
Balance, March 31, 2004 .....	16,894,886	\$168,948	\$29,503,864	\$ (27,390)
	=====	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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GreenMan Technologies, Inc.  
Unaudited Consolidated Statements of Cash Flow

				Six
				200
				-----
Cash flows from operating activities:				
Net loss .....				\$ (1,475)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation .....				1,097
Loss on disposal of property, plant and equipment .....				23
Amortization .....				110
Decrease (increase) in assets:				
Accounts receivable .....				722
Insurance claim receivable .....				634
Product inventory .....				(701)
Other current assets .....				(134)
(Decrease) increase in liabilities:				
Accounts payable .....				(151)
Accrued expenses .....				(212)
				-----
Net cash (used for) provided by operating activities .....				(86)
				-----
Cash flows from investing activities:				
Purchase of property and equipment .....				(553)
Proceeds of sale of property and equipment .....				1,400
(Increase) decrease in notes receivable, officers .....				(7)
Decrease (increase) in other assets .....				(189)
				-----
Net cash provided by (used for) investing activities .....				650
				-----
Cash flows from financing activities:				
Decrease (increase) in deferred financing costs .....				128
Proceeds from notes payable .....				256
Proceeds from notes payable, related parties .....				575
Proceeds from convertible notes payable .....				375
Net advances under line of credit .....				(290)
Repayment of notes payable .....				(1,921)
Principal payments on obligations under capital leases .....				(212)
Cash received upon exercise of stock options .....				7

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Net proceeds on sale of common stock .....	-----
Net cash (used for) provided by financing activities .....	(1,081)
Net decrease in cash .....	(517)
Cash and cash equivalents at beginning of period .....	990
Cash and cash equivalents at end of period .....	\$ 473
	=====
 Supplemental cash flow information:	
Property, plant and equipment acquired under capital leases .....	\$ 1,400
Common stock issued upon conversion of notes payable and accrued interest .....	543
Deferred gain on sale lease back transaction .....	437
Interest paid .....	887
Taxes paid .....	

See accompanying notes to unaudited condensed  
consolidated financial statements.

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GreenMan Technologies, Inc.  
Notes To Unaudited Condensed Consolidated Financial Statements  
March 31, 2004

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 Loss Per Share

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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 (determined using the treasury stock method) and convertible debt. Basic and diluted net loss per share are the same for the three and six months ended March 31, 2004 and 2003, 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.

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.

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GreenMan Technologies, Inc.  
Notes To Unaudited Condensed Consolidated Financial Statements  
March 31, 2004

#### 5. Notes Receivable, Officers

In January 1998 we advanced \$104,000 to an officer under an 8.5% secured promissory note with both principal and interest due January 2001. This note was amended on September 30, 2000 to extend the maturity until April 15, 2002 (subsequently extended to April 15, 2004) and increase the interest rate to 9.5%. As of March 31, 2004, the balance receivable on this note amounted to \$162,174, including accrued interest. On April 30, 2004 the remaining balance of \$163,000, including interest, was applied to offset obligations under our \$400,000 September 30, 2003 note payable due to the officer.

In January 1999, we advanced two officers \$55,000, in aggregate, under 8.5% secured promissory notes with both principal and interest due January 2002 (subsequently extended to January 2004). The proceeds were used to participate in a private placement of our common stock and the loans are secured by 191,637 shares of common stock owned by the two officers. In June 2002, the two officers repaid \$5,000 each toward their respective then outstanding balances. On March 31, 2004, one officer repaid his then outstanding balance of \$24,000 in full settlement of all amounts due under his note. As of March 31, 2004, the amount receivable on the remaining note, including interest, amounted to \$45,302, of which \$30,000 relates to a stock subscription receivable and is classified as an offset to stockholders' equity. On May 11, 2004 the officer sold 36,717 shares of common stock valued at \$45,611 back to us in full settlement of all amounts due under his note. We subsequently cancelled these shares, which reduced our total shares issued and outstanding.

#### 6. Annual Assessment of Goodwill

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We have elected to perform the required annual impairment test of our goodwill on the last day of our fiscal third quarter.

### 7. Management's Plans For Raising Additional Capital

As of March 31, 2004, we have incurred cumulative losses of \$27,390,164, and have a working capital deficiency of \$5,115,102 at March 31, 2004. We understand that our continued existence is dependent on our ability to achieve profitable status on a sustainable basis and to 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, Georgia and Tennessee locations, and have reconfigured our Wisconsin location to substantially reduce operating costs and enhance our return on assets. We are evaluating several immediate financing alternatives which if successful, would provide the capital necessary to purchase the remaining equipment required to make our Tennessee facility fully operational and allow us to reduce our transportation costs by an estimated \$80,000 per month.

In addition, we have implemented and/or are in the process of implementing the following actions:

#### A. Private Placement of Investment Units

In December 2003, we commenced a private offering of investment units to accredited investors through an investment bank in an effort to raise up to \$3,000,000. Our agreement with the investment bank expired on March 10, 2004, and we did not receive any proceeds from the private placement of these units. As a result, we have written off approximately \$130,000 of related deferred financing costs during the quarter ended March 31, 2004.

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GreenMan Technologies, Inc.  
Notes To Unaudited Condensed Consolidated Financial Statements  
March 31, 2004

### 7. Management's Plans For Raising Additional Capital - (Continued)

On April 9, 2004, our Board of Directors authorized a similar private offering of investment units (the "Units"). 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 the date each investor's subscription for Units becomes a binding commitment. The warrants are exercisable at any time between the ninth month and the third year after the date of issuance at an exercise price equal to 150% of the closing bid price of our common stock on the day preceding such date. In addition, in accordance with American Stock Exchange rules, any Unit purchases made by officers, directors or affiliates of ours will be made at 100% of the closing bid price of our common stock on the day preceding the date such investor's subscription for Units becomes a binding commitment. The sale of the Units is exempt from registration under the Securities Act of 1933 (as amended, the "Securities Act") pursuant to Section 4(2) of the Securities Act.

We estimate that as of May 12, 2004, 3,125,000 Units, or approximately 19 percent of the shares outstanding prior to the issuance, would be issuable based upon the preceding ten-day average closing bid price of our common stock as of May 12, 2004 and the assumption that the entire \$3,000,000 is raised. However, in accordance with American Stock Exchange rules, we may not issue more than 20%



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of our presently outstanding common stock without prior approval from our shareholders. This rule may limit the amount of the proceeds available to us from this private placement.

As of May 12, 2004, investors including an officer and director and existing shareholders have committed to purchase approximately \$950,000 of Units. We expect to close these investments upon the listing of the shares underlying the Units for trading on the American Stock Exchange.

### B. Related Party Notes Payable

See the discussion of certain notes payable to related parties at Note 10 "Notes Payable - Related Parties".

### C. Convertible Note Payable

In December 2003, we entered into a note purchase agreement (the "Note Agreement") with an accredited investor (the "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 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 these securities 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 was recorded as a debt issuance discount and a corresponding credit to paid-in capital, and is being amortized to interest expense over the term of the Note, or upon conversion. Amortization expense for the three and six months ended March 31, 2004 was \$38,556.

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GreenMan Technologies, Inc.  
Notes To Unaudited Condensed Consolidated Financial Statements  
March 31, 2004

### 7. Management's Plans For Raising Additional Capital - (Continued)

#### D. Sale and Leaseback of Real Estate

During March 2004, our Minnesota subsidiary sold all of its land and buildings to an entity co-owned by an officer for \$1,400,000 realizing a gain of \$437,337 which has been recorded as unearned income and classified as a noncurrent liability in the accompanying financial statements. Simultaneously with the sale, we entered into an agreement to lease property back for a term of 12 years at an annual rent of \$195,000 increasing to \$227,460 over the term of the lease. The gain will be recognized into income ratably over the term of the lease. The lease has been classified as a capital lease, and provides for two additional 4-year extensions. We used \$875,000 of the proceeds to repay an existing obligation to Bremer Business Finance.

#### E. Hiring of Financial Advisor

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In March 2004, we retained an investment banking firm to serve as our exclusive financial advisor to assist us in identifying and securing new capital and to restructure existing obligations.

### 8. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	March 31, 2004	September 30, 2003	Estimated Useful Lives
	-----	-----	-----
Land .....	\$ 167,981	\$ 504,346	
Buildings .....	3,454,238	2,704,693	10-20 years
Machinery and equipment .....	9,530,002	9,526,045	5-10 years
Furniture and fixtures .....	285,017	284,484	3-5 years
Motor vehicles .....	6,061,838	5,904,050	3-10 years
	-----	-----	
	19,499,076	18,923,618	
Less accumulated depreciation and amortization	(8,397,239)	(7,673,912)	
	-----	-----	
Property, plant and equipment, net	\$11,101,837	\$11,249,706	
	=====	=====	

### 9. Notes Payable

In August 1998, our former Louisiana crumb rubber processing facility was severely damaged by a fire, which necessitated the closure of this operation in December 1998. As a result of the fire, certain cryogenic equipment we were leasing from Cryopolymers Leasing, Inc. ("Cryopolymers Leasing"), under an October 1997 agreement was destroyed.

On May 14, 1999, we reached a settlement agreement valued at \$3,255,000, whereby Cryopolymers Leasing agreed to assign to us all interest in and to any additional insurance proceeds to be received as a result of the fire; transfer ownership of some additional cryogenic rubber recycling equipment to us; and withdraw from all legal proceedings against us. As part of the settlement agreement, we issued a \$1,100,000 sixty-month note payable, bearing interest at 7.75% with monthly payments of \$7,553 and a balloon payment due June 2004. The \$1,100,000 note payable is personally guaranteed by three of our officers. We currently anticipate satisfying this obligation when due by utilizing our working capital line of credit with Waco Asset Management Co.31, Ltd.

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

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GreenMan Technologies, Inc.  
Notes To Unaudited Condensed Consolidated Financial Statements  
March 31, 2004

### 9. Notes Payable - (Continued)

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 March 31, 2004, 10 payments totaling \$88,830 were past due and we have received a waiver of default from RSLP through June 30, 2004 on any past due amounts.

On April 4, 2002, our Iowa subsidiary executed a five-year, \$1,185,000 secured term note and a one year \$300,000 working capital line of credit (secured with all Iowa assets) with First American Bank ("First American"), payable in monthly installments of \$23,735, with a final payment of unpaid principal and accrued interest on April 1, 2007. The term note bears interest at 7.5% and the line of credit bears interest the prime rate plus 1%. The proceeds of this term note were used in connection with the acquisition of UT Tire Recyclers, Inc in April 2002. We incurred \$34,425 of deferred loan costs associated with the transaction, which are being amortized to interest expense over the life of the term note.

On February 13, 2003, our Iowa subsidiary amended its existing term debt, under the terms of a five-year, \$1,760,857 secured term note. The note is payable in sixty monthly installments of \$34,660 and is secured with all Iowa assets. They also renewed their one-year working capital line of credit including an increase to \$500,000. The line was subsequently extended to July 1, 2004. The term note bears interest at 7.5% and the line of credit bears interest at the prime rate plus 1%. We are currently working with First American to renew the working capital line of credit beyond the current July 1, 2004 maturity.

### 10. Notes Payable - Related Party

#### Convertible Notes Payable - Related Party

One of our directors was 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 both notes, including \$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.

#### Related Party Notes Payable

During the period from June to August 2003, two immediate family members of an officer loaned us \$400,000 in aggregate, under the terms of two year, unsecured notes payable which bear interest at 12% per annum with interest due quarterly and the principal due upon maturity through August 2005.

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During March 2004, these same individuals loaned us an additional \$200,000 in aggregate, under similar terms with the principal due upon maturity March 2006.

In September 2003, an officer loaned us \$400,000 under the terms of a September 30, 2003 unsecured promissory note which bears interest at 12% per annum with interest due quarterly and the principal originally due March 31, 2004 (subsequently extended to September 30, 2004). In connection with the April 15, 2004 maturity of a note receivable from this officer, we offset the amounts due from him against this note payable (See Note 5).

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GreenMan Technologies, Inc.  
Notes To Unaudited Condensed Consolidated Financial Statements  
March 31, 2004

10. Notes Payable - Related Party - (Continued)

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 substantially similar notes that are also due in June 2004.

11. 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 March 31, 2004	March 31, 2003	Six M March 31, 2004
	-----	-----	-----
Net loss as reported .....	\$(1,297,908)	\$(1,180,779)	\$(1,475,49
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects .....	(19,845)	(11,941)	(39,69
Pro forma net loss .....	\$(1,317,753)	\$(1,192,720)	\$(1,515,18
	=====	=====	=====
Earnings per share:			
Basic - as reported .....	\$ (0.08)	\$ (0.08)	\$ (0.0
Basic - pro forma .....	\$ (0.08)	\$ (0.08)	\$ (0.0
	=====	=====	=====

12. Subsequent Events

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In April 2004, our Wisconsin subsidiary reached agreement with the lessor of certain processing equipment to buy-out the remaining term of the lease. The lessor agreed to accept several pieces of idle equipment, 50,000 unregistered shares of our common stock, and cash, valued in the aggregate at approximately \$180,000, in full settlement of our capital lease obligation with a carrying value of approximately \$195,000 at March 31, 2004. We anticipate realizing a gain of approximately \$15,000 in connection with this transaction.

On April 9, 2004, our Board of Directors authorized a private offering of investment units (the "Units"). 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 the date each investor's subscription for Units becomes a binding commitment. The warrants are exercisable at any time between the ninth month and the third year after the date of issuance at an exercise price equal to 150% of the closing bid price of our common stock on the day preceding such date. In addition, in accordance with American Stock Exchange rules, any Unit purchases made by officers, directors or affiliates of ours will be made at 100% of the closing bid price of our common stock on the day preceding the date such investor's subscription for Units becomes a binding commitment. The sale of the Units is exempt from registration under the Securities Act pursuant to Section 4(2) of the Securities Act.

As of May 12, 2004, investors including an officer and director and existing shareholders have committed to purchase approximately \$950,000 of Units. We expect to close these investments upon the listing of the shares underlying the Units for trading on the American Stock Exchange.

In April 2004, our Board of Directors adopted, subject to shareholder approval, a 2004 Stock Option Plan under similar terms and conditions as the 1993 Stock Option Plan, and have reserved 2 million shares for future issuance under the plan. Our 1993 Stock Option Plan was established to provide options to purchase shares of common stock to employees, officers, directors and will terminate on June 10, 2004.

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### 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 March 31, 2004 Compared to the Three Months ended March 31, 2003

Net sales for the three months ended March 31, 2004 were \$5,912,265, a 4% decrease, compared to last year's net sales of \$6,148,434, which included approximately \$572,000 of net sales associated with our majority owned joint venture which was divested on April 1, 2003 and two kiln relationships terminated during fiscal 2003. We processed over 6.2 million passenger tire equivalents during the three months ended March 31, 2004, compared to approximately 6.1 million passenger tire equivalents during the quarter ended March 31, 2003.

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Overall end product sales increased to 27% of consolidated revenues during the quarter ended March 31, 2004, compared to 23% for the same period last year, despite our Georgia waste wire processing equipment being off-line since April 2003. The 15% 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 March 31, 2004. The overall quality of revenue (revenue per passenger tire equivalent) benefited from increased tire volumes and end product sales, which partially offset a 9% reduction in tipping fees resulting from lower tipping fees in certain markets.

Gross profit for the quarter ended March 31, 2004 was \$348,018 or 6% of net sales, compared to \$597,782 or 10% of net sales for quarter ended March 31, 2003. 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 we estimate exceeds \$300,000 for the quarter ended March 31, 2004.

Selling, general and administrative expenses for the quarter ended March 31, 2004 decreased \$284,623 to \$1,167,595 or 20% of net sales, compared to \$1,452,218 or 24% of net sales for the quarter ended March 31, 2003. 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 loss for the quarter ended March 31, 2004 decreased \$34,859 to \$819,577, compared to an operating loss of \$854,436 for the quarter ended March 31, 2003.

Interest and financing costs for the quarter ended March 31, 2004 increased \$216,364 to \$551,112, compared to \$334,748 for the quarter ended March 31, 2003. The increase was primarily attributable to the inclusion of approximately \$130,000 of deferred financing costs associated with the unsuccessful December 2003 private placement of investment Units, approximately \$40,000 of interest expense associated with the \$375,000 convertible note payable issued in December 2003 and \$25,000 of cost associated with the March 2004 sale of our Minnesota real estate. During the quarter ended March 31, 2004 we recorded other income of approximately \$90,000 relating to a settlement received for end product which was damaged.

As a result of the foregoing, our net loss for the quarter ended March 31, 2004 increased \$117,029 or 10% to \$1,297,908 or \$.08 per basic share, compared to a net loss of \$1,180,779 or \$.08 per basic share for quarter ended March 31, 2003.

Six Months ended March 31, 2004 Compared to the Six Months ended March 31, 2003

Net sales for the six months ended March 31, 2004 were \$13,711,015, a 3% decrease, compared to last year's net sales of \$14,111,891, which included approximately \$1,357,000 of net sales associated with our majority owned joint venture which was divested on April 1, 2003 and two kiln relationships terminated during fiscal 2003. We processed approximately 14.4 million passenger tire equivalents during the six months ended March 31, 2004, compared to approximately 14.1 million passenger tire equivalents during the six months ended March 31, 2003.

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Overall end product sales increased to 24% of consolidated revenues during the six months ended March 31, 2004, compared to 20% for the same period last year, despite our Georgia waste wire processing equipment being off-line since April 2003. The 24% 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 six months ended March 31, 2004. 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 six months ended March 31, 2004 was \$1,486,827 or 11% of net sales, compared to \$1,981,055 or 14% of net sales for six months ended March 31, 2003. The decrease was primarily attributable to: (1) more than \$480,000 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 we estimate exceeds \$570,000 for the six months ended March 31, 2004.

Selling, general and administrative expenses for the six months ended March 31, 2004 decreased \$595,697 to \$2,235,836 or 16% of net sales, compared to \$2,831,533 or 20% of net sales for the six months ended March 31, 2003. 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 loss for the six months ended March 31, 2004 decreased \$101,468 to \$749,009, compared to an operating loss of \$850,478 for the six months ended March 31, 2003.

Interest and financing costs for the six months ended March 31, 2004 increased \$201,207 to \$905,908, compared to \$704,701 for the six months ended March 31, 2003. The increase was primarily attributable to the inclusion of approximately \$130,000 of deferred financing costs associated with the unsuccessful December 2003 private placement of investment Units, approximately \$40,000 of interest expense associated with the \$375,000 convertible note payable issued in December 2003 and \$25,000 of cost associated with the March 2004 sale of our Minnesota real estate. 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. During the quarter ended March 31, 2004 we also recorded other income of approximately \$90,000 relating to a settlement for damaged product.

As a result of the foregoing, our net loss for the six months ended March 31, 2004 decreased \$60,859 or 4% to \$1,475,491 or \$.09 per basic share, compared to a net loss of \$1,536,350 or \$.10 per basic share for six months ended March 31, 2003.

### Liquidity and Capital Resources

As of March 31, 2004, we had \$473,290 in cash and cash equivalents and a working capital deficiency of \$5,115,102. 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

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profitability from operations will be critical to our future liquidity.

The Consolidated Statements of Cash Flows reflect events in 2004 and 2003 as they affect our liquidity. During the six months ended March 31, 2004, net cash used for operating activities was \$86,613 which reflects a reduction in accounts payable and accrued expenses of \$364,501 in the aggregate, a \$701,479 increase in product inventory, which is typical as we end our seasonally slower fiscal second quarter, an increase in other current assets of \$134,671, reflecting increased prepaid expenses and parts inventories and a net loss from operations. Positively impacting cash flows for the six months ended March 31, 2004 was depreciation, amortization, and the receipt of \$922,092 of insurance proceeds. During the six months ended March 31, 2003, net cash provided by operating activities was \$1,178,577. Cash flows during this period were positively impacted by depreciation, amortization, a \$1,334,008 decrease in accounts receivable and an increase in accounts payable and accrued expenses of \$587,277 in the aggregate which offset a \$457,787 increase in product inventory.

Net cash provided by investing activities was \$650,532 for the six months ended March 31, 2004 reflecting the \$1,400,000 of proceeds received from the sale of our Minnesota real estate which offset the purchase of \$553,076 of property and equipment. The net cash used by investing activities for the six months ended March 31, 2003 was \$1,441,143 reflecting significant investments made for the purchase of property and equipment to increase capacity and efficiencies at several of our operating locations.

Net cash used by financing activities was \$1,081,374 during the six months ended March 31, 2004 which reflected the repayment of notes payable of \$1,921,425, including approximately \$875,000 associated with payoff of the loan outstanding on our Minnesota real estate. 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 \$18.7 million 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.

Based on our fiscal 2004 operating plan, we believe that available working capital together with revenues from operations, the sale of common stock and Units pursuant to the revised April 2004 private placement, loans from affiliated and unaffiliated lenders, the remaining availability under our existing working capital lines of credit, the acquisition of machinery and equipment through capital leases and notes payable, and the possible issuance of common stock and common stock options and warrants in lieu of cash for services rendered should be sufficient to meet our cash requirements through fiscal 2004. As noted, we have identified and are currently negotiating with several immediate financing alternatives which, if successful would enhance our financial position and are diligently working to determine the feasibility of each alternative. No assurances can be given that such financing will be concluded in the near future on favorable terms, if at all. If we are unable to obtain additional financing, we will be forced to curtail certain operations.

### 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



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(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 reduced residual disposal costs.

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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. 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 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. 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.

We estimate that during the six months ended March 31, 2004, reduced end product revenue and excess waste disposal in Georgia associated with the impact of the March 31, 2003 waste wire processing equipment fire exceeded \$570,000.

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

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tire-derived fuel material in the Midwest and Southeast. These capital 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.

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### 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.

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

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(subsequently increased to \$3,000,000 in August 2002). As of September 30, 2003, 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 to accredited investors through an investment bank in an effort to raise up to \$3,000,000. Our agreement with the investment bank expired on March 10, 2004, and we did not receive any proceeds from the private placement of these investment units and as a result have written off approximately \$130,000 of related deferred financing costs.

On April 9, 2004, our Board of Directors authorized a similar private offering of investment units (the "Units"). 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 the date each investor's subscription for Units becomes a binding commitment. The warrants are exercisable at any time between the ninth month and the third year after the date of issuance at an exercise price equal to 150% of the closing bid price of our common stock on the day preceding such date. In addition, in accordance with American Stock Exchange rules, any Unit

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purchases made by officers, directors or affiliates of ours will be made at 100% of the closing bid price of our common stock on the day preceding the date an investor's subscription for Units becomes a binding commitment. The sale of the Units is exempt from registration under the Securities Act of 1933 (as amended, the "Securities Act") pursuant to Section 4(2) of the Securities Act.

We estimate that as of May 12, 2004, 3,125,000 Units, or approximately 19 percent of the shares outstanding prior to the issuance, would be issuable based upon the preceding ten-day average closing bid price of our common stock as of May 12, 2004 and the assumption that the entire \$3,000,000 is raised. However, in accordance with American Stock Exchange rules, we may not issue more than 20% of our presently outstanding common stock without prior approval from our shareholders. This rule may limit the amount of the proceeds available to us from this private placement

As of May 12, 2004, investors including an officer and director and existing shareholders have committed to purchase approximately \$950,000 of Units pursuant to the revised terms. We expect to close these investments upon the listing of the shares underlying the Units for trading on the American Stock Exchange.

If the private placement is 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

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seasonally slower portion of our fiscal year.

### Hiring of Financial Advisor

In March 2004, we retained an investment banking firm to serve as our exclusive financial advisor to assist us in identifying and securing new capital and to restructure existing obligations.

### 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 March 31, 2004, 10 payments totaling \$88,830 were past due and we have received a waiver of default from RSLP through June 30, 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 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.

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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

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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 (\$142,337 at March 31, 2004).

### Related Party Notes Payable

During the period from June to August 2003, two immediate family members of an officer loaned us \$400,000 in aggregate, under the terms of two year, unsecured notes payable which bear interest at 12% per annum with interest due quarterly and the principal due upon maturity through August 2005.

During March 2004, these same individuals advanced us an additional \$200,000 in aggregate, under similar terms with the principal due upon maturity through March 2006.

In September 2003, an officer loaned us \$400,000 under the terms of a September 30, 2003 unsecured promissory note which bears interest at 12% per annum with interest due quarterly and the principal originally due March 31, 2004 (subsequently extended to September 30, 2004). In connection with the April 15, 2004 maturity of a note receivable from this officer, we offset the amounts due from him against this note payable (See Note 5).

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, maturing June 30, 2004.

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.

### Convertible Note Payable

In December 2003, we entered into a note purchase agreement (the "Note Agreement") with an accredited investor (the "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

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to \$1.07 per SIUnit with each SIUnit consisting of one share of unregistered common stock and a 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 these securities 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.

### 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 six consecutive quarters and may need additional working capital, which if not received, may force us to curtail operations.

We have experienced six 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.

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

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that these conditions will continue into our third fiscal quarter, when the

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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 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.

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

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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 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.



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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;

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- 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 March 31, 2004, we have options and warrants to purchase approximately 3,678,794 shares of common stock outstanding in addition to \$375,000 of convertible promissory notes. These notes are convertible into approximately 350,000 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.

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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.

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.

### Item 3 Controls and Procedures

Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days of the filing date of this report and have concluded that such controls and procedures are effective. There were no significant changes in our disclosure controls and procedures or in other factors during the fiscal period covered by this report that have materially affected, or are reasonably likely to materially affect, our disclosure controls and procedures.

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## PART II - OTHER INFORMATION

### Item 2. Changes in Securities

On February 16, 2004, we issued 724,281 shares of our unregistered common stock to one of our directors upon conversion of \$375,000 of principal and \$168,210 of accrued interest on a promissory note. See Note 9, "Notes Payable - Related Party" of Notes to Unaudited Condensed Consolidated Financial Statements included in this report. The issuance of these shares is exempt from registration under the Securities Act pursuant to Section 4(2) of the Securities Act.

During the six months ended March 31, 2004, the Company issued 108,666 unregistered shares of its common stock upon exercise of stock options for gross proceeds of \$36,755. Exemption from registration for this transaction is claimed under Section 4(2) of the Securities Act of 1933, as amended.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

Exhibit 10.1	\$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated January 13, 2004.
Exhibit 10.2	\$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated January 26, 2004.
Exhibit 10.3	\$50,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated February 6, 2004.

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- Exhibit 10.4 \$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Joyce Ritterhauss dated March 10, 2004.
- Exhibit 10.5 \$50,000 Promissory Note issued by GreenMan Technologies, Inc. to Richard Ledet dated March 12, 2004.
- Exhibit 10.6 \$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Barbara Morey dated March 18, 2004.
- Exhibit 10.7 Purchase Agreement dated February 21, 2004 between GreenMan Technologies of Minnesota, Inc. and Earl Fisher
- Exhibit 10.8 Commercial Lease Agreement dated March 25, 2004 between GreenMan Technologies of Minnesota, Inc. and Two Oaks, LLC
- Exhibit 10.9 Extension Agreement dated March 31, 2004 between GreenMan Technologies, Inc. and Robert H. Davis and Nancy Karfilis-Davis.
- Exhibit 10.10 Waiver agreement by Republic Services of Georgia, LP.
- 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

A Current Report on Form 8-K was filed on February 19, 2004, covering Item 5 ("Other Information") and Item 9 ("Regulation FD Disclosure"). Our press releases dated February 13, 17 and 18, 2004 were included as exhibits under Item 7.

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### 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

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Robert H. Davis  
Chief Executive Officer

By: GreenMan Technologies, Inc.

/s/ Charles E. Coppa

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Chief Financial Officer, Treasurer,  
Secretary

