

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

COMMISSION FILE NO.: 0-50469



**GREENSHIFT CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**59-3764931**

(IRS Employer  
Identification No.)

**5950 Shiloh Road East, Suite N, Alpharetta, Georgia**

(Address of principal executive offices)

**30005**

(Zip Code)

**(770) 886-2734**

(Registrant's telephone number)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the prior 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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.

Large accelerated filer [  ] Accelerated filer [  ] Non-accelerated filer [  ] 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  No

As of May 14, 2014, there were 32,264,810 shares of common stock outstanding.

**GREENSHIFT CORPORATION**  
**QUARTERLY REPORT ON FORM 10Q**  
**FOR THE FISCAL QUARTER ENDED MARCH 31, 2014**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1 FINANCIAL STATEMENTS**

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF MARCH 31, 2014 (UNAUDITED) AND DECEMBER 31, 2013**

	<b>3/31/2014</b>	<b>12/31/2013</b>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash	\$ 3,631,750	\$ 3,896,312
Accounts receivable, net of doubtful accounts	1,030,364	1,173,490
Inventories, net	1,145,533	1,145,533
Prepaid expenses and other assets	33,012	43,201
Total current assets	5,840,659	6,258,536
<i>Other Assets:</i>		
Intangible assets, net	23,581	24,381
Deposits	69,730	69,730
Total other assets	93,311	94,111
<b>TOTAL ASSETS</b>	<b>5,933,970</b>	<b>6,352,647</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<i>Current Liabilities:</i>		
Accounts payable	6,297,599	6,952,217
Accrued expenses	5,548,848	5,076,202
Accrued expenses – deferred employee compensation	518,043	518,043
Income tax payable	55,604	55,604
Accrued interest payable	6,011,772	5,708,966
Accrued interest payable – related party	156,328	115,811
Billings in excess	190,290	70,000
Notes payable	1,367,045	1,367,045
Current portion of convertible debentures, net	23,780,029	24,934,052
Convertible debentures – related party	2,795,354	2,793,839
Amounts due to minority shareholders	545,842	545,842
Total current liabilities	47,266,753	48,137,621
<i>Long term Liabilities:</i>		
Liability for preferred stock – related party	751,080	764,256
Convertible debentures	175,000	175,000
Total long term liabilities	926,080	939,256
<b>Total Liabilities</b>	<b>48,192,834</b>	<b>49,076,877</b>
<b>Commitments and Contingencies</b>		
<i>Stockholders' Equity (Deficit):</i>		
Convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized:		
Series B: 2,480,544 and 2,480,544 shares issued and outstanding, respectively	2,481	2,481
Series D: 862,262 and 862,262 shares issued and outstanding, respectively	862	862
Common stock: \$0.0001 par value, 2,500,000,000 authorized and 24,424,116 and 9,319,049 issued and outstanding, respectively	2,442	932
Additional paid in capital	120,801,624	120,408,479
Accumulated deficit	(163,066,272)	(163,136,983)
Total stockholders' equity (deficit)	(42,258,863)	(42,724,230)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 5,933,970</b>	<b>\$ 6,352,647</b>

*The notes to the Consolidated Financial Statements are an integral part of these statements.*

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013**

	<b>Three Months Ended</b>	
	<b>3/31/2014</b>	<b>3/31/2013</b>
Revenue	\$ 3,729,044	\$ 3,157,899
Costs of goods sold	1,620,938	1,179,546
Gross profit	2,108,107	1,978,353
<i>Operating expenses:</i>		
Sales, general and administrative expenses	1,528,461	1,606,941
Research and development	186,714	68,642
Total operating expenses	1,715,175	1,675,583
Income (loss) from operations	392,932	302,770
<i>Other Income (Expense):</i>		
Gain (loss) on extinguishment of debt	--	10,884
Miscellaneous income	74	10,624
Change in conversion liabilities	83,333	39,105
Change in conversion liabilities - related party	(15,500)	(14,865)
Interest expense	(349,611)	(404,513)
Interest expense – related party	(40,517)	(45,993)
Total other income (expense), net	(322,221)	(404,758)
Income (loss) before provision for income taxes	70,711	(101,988)
(Provision for)/benefit from income taxes	--	--
Net income (loss)	\$ 70,711	\$ (101,988)
Weighted average common shares outstanding, basic	15,664,027	949,496
Weighted average common shares outstanding, diluted	178,042,065,122	949,496
<i>Earnings (Loss) per Share:</i>		
Income (loss) from continuing operations – basic	\$ 0.00	\$ (0.11)
Income (loss) from continuing operations – diluted	\$ 0.00	\$ (0.11)

*The notes to the Consolidated Financial Statements are an integral part of these statements.*

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013**

	<u>Three Months Ended</u>	
	<u>3/31/2014</u>	<u>3/31/2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 70,711	(101,988)
<i>Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:</i>		
Amortization of intangibles	801	801
Loss (gain) on extinguishment of debt	--	(10,884)
Change in conversion liabilities	(67,833)	(24,240)
Bad debt expense	--	12,000
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	110,672	(394,212)
Costs in excess of earnings	--	844,939
Accrued revenue	32,454	--
Prepaid expenses	10,188	51,195
Inventory	--	(37,983)
Deposits	--	702
Deferred revenue	120,290	--
Accrued interest	349,611	400,407
Accrued interest – related party	40,517	45,993
Accounts payable and accrued expenses	(181,972)	418,073
Net cash provided by (used in) operating activities	<u>485,438</u>	<u>1,204,803</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of convertible debentures	(750,000)	(650,000)
Repayment of convertible debentures – related party bridge	--	(165,000)
Net cash provided by (used in) financing activities	<u>(750,000)</u>	<u>(815,000)</u>
Net increase (decrease) in cash	(264,562)	389,803
Cash at beginning of period	3,896,312	2,030,577
Cash at end of period	<u>\$ 3,631,750</u>	<u>\$ 2,420,380</u>

*The notes to the Consolidated Financial Statements are an integral part of these statements.*

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 BASIS OF PRESENTATION**

REFERENCES TO THE COMPANY

In this Quarterly Report on Form 10-Q, the terms “we,” “our,” “us,” “GreenShift,” or the “Company” refer to GreenShift Corporation, and its subsidiaries on a consolidated basis. The term “GreenShift Corporation” refers to GreenShift Corporation on a standalone basis only, and not its subsidiaries.

The condensed balance sheet at December 31, 2013 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The other information in these condensed financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These condensed financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed financial statements should be read in conjunction with the financial statements and additional information as contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and entities which we control. All significant intercompany balances and transactions have been eliminated on a consolidated basis for reporting purposes.

USE OF ESTIMATES IN THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 DESCRIPTION OF BUSINESS**

We develop and commercialize clean technologies that facilitate the more efficient use of natural resources. We are focused on doing so today in the U.S. ethanol industry, where we innovate and offer technologies that improve the profitability of licensed ethanol producers.

We generate revenue by licensing our technologies to ethanol producers in exchange for ongoing royalty and other license fees. Several plants were licensed to use our technologies during 2013. During the three months ended March 31, 2014 three customers each provided over 10% of our revenue; during the three months ended March 31, 2013, three customers each provided over 10% of our revenue (See Note 4 *Significant Accounting Policies* for Revenue Recognition policies).

**NOTE 3 GOING CONCERN**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of March 31, 2014, the Company had \$3,631,750 in cash, and current liabilities exceeded current assets by \$41,426,094. These matters raise substantial doubt about the Company’s ability to continue as a going concern. Our ability to satisfy our obligations will depend on our success in obtaining financing, our success in developing revenue sources, and our success in negotiating with the creditors. Management’s plans to resolve the

Company's working capital deficit include increasing revenue. There can be no assurances that the Company will be able to eliminate its working capital deficit and that the Company's historical operating losses will not recur. The accompanying financial statements do not contain any adjustments which may be required as a result of this uncertainty.

#### **NOTE 4      SIGNIFICANT ACCOUNTING POLICIES**

##### **SEGMENT INFORMATION**

We determined our reporting units in accordance with FASB ASC 280, "*Segment Reporting*" ("ASC 280"). We evaluate a reporting unit by first identifying its operating segments under ASC 280. We then evaluate each operating segment to determine if it includes one or more components that constitute a business. If there are components within an operating segment that meet the definition of a business, we evaluate those components to determine if they must be aggregated into one or more reporting units. If applicable, when determining if it is appropriate to aggregate different operating segments, we determine if the segments are economically similar and, if so, the operating segments are aggregated. We have one operating segment and reporting unit. We operate in one reportable business segment; we provide technologies and related products and services to U.S.-based ethanol producers. We are organized and operated as one business. We exclusively sell our technologies, products and services to ethanol producers that have entered into license agreements with the Company. No sales of any kind occur, and no costs of sales of any kind are incurred, in the absence of a license agreement. A single management team that reports to the chief operating decision maker comprehensively manages the entire business. We do not operate any material separate lines of business or separate business entities with respect to our technologies, products and services. The Company does not accumulate discrete financial information according to the nature or structure of any specific technology, product and/or service provided to the Company's licensees. Instead, management reviews its business as a single operating segment, using financial and other information rendered meaningful only by the fact that such information is presented and reviewed in the aggregate. Discrete financial information is not available by more than one operating segment, and disaggregation of our operating results would be impracticable.

##### **REVENUE RECOGNITION**

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collection is reasonably assured. The Company recognizes revenue from licensing of the Company's corn oil extraction technologies when corn oil sales occur. Licensing royalties are recognized as earned by calculating the royalty as a percentage of gross corn oil sales by the ethanol plants. For the purposes of assessing royalties, the sale of corn oil is deemed to occur when shipped, which is when four basic criteria have been met: (i) persuasive evidence of a customer arrangement; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured, and (iv) product delivery has occurred, which is generally upon shipment to the buyer of the corn oil. Deposits from customers are not recognized as revenues, but as liabilities, until the following conditions are met: revenues are realized when cash or claims to cash (receivable) are received in exchange for goods or services, or when assets received in such exchange are readily convertible to cash or claim to cash, or when such goods or services are transferred. When an income item is earned, the related revenue item is recognized and any deferred revenue is reduced. To the extent revenues are generated from the Company's licensing support services, the Company recognizes such revenues when the services are completed and billed. The Company provides process engineering services on fixed price contracts. These services are generally provided over a short period of less than three months. Revenue from fixed price contracts is recognized on a pro rata basis over the life of the contract as they are generally performed evenly over the contract period. The Company additionally performs under fixed-price contracts involving design, engineering, procurement, installation, and start-up of oil recovery and other production systems. Revenues and fees on these contracts are recognized using the percentage-of-completion method of accounting, and specifically the efforts-expended percentage-of-completion method using measures such as task duration and completion. The efforts-expended approach is used in situations where it is more representative of progress on a contract than the cost-to-cost or the labor-hours methods. The asset, "costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

##### **BASIC AND DILUTED INCOME (LOSS) PER SHARE**



The Company computes its net income or loss per common share under the provisions of ASC 260, “*Earnings per Share*,” whereby basic net income or loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Dilutive net loss per share excludes potential common shares issuable upon conversion of all derivative securities if the effect is anti-dilutive. Thus, common stock issuable upon exercise or conversion of options, warrants, convertible preferred stock, or convertible debentures are excluded from computation of diluted net loss per share, but are included in computation of diluted net income per share. During the three months ended March 31, 2013, we reported net loss, and accordingly dilutive instruments were excluded from the net loss per share calculation for such periods. During the three months ended March 31, 2014, we reported net income and accordingly included potentially dilutive instruments in the fully diluted net income per share calculation and the dilutive effect of convertible instruments were determined by application of the if-converted method.

## FINANCIAL INSTRUMENTS

The carrying values of accounts receivable, other receivables, accounts payable and accrued expenses approximate their fair values due to their short term maturities. The carrying values of the Company’s long-term debt approximate their fair values based upon a comparison of the interest rate and terms of such debt to the rates and terms of debt currently available to the Company. It was not practical to estimate the fair value of the convertible debt. In order to do so, it would be necessary to obtain an independent valuation of these unique instruments. The cost of that valuation would not be justified in light of the materiality of the instruments to the Company.

## RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

## NOTE 5 FAIR VALUE DISCLOSURES

Effective July 1 2009, the Company adopted ASC 820, *Fair Value Measurements and Disclosures*. This topic defines fair value for certain financial and nonfinancial assets and liabilities that are recorded at fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance supersedes all other accounting pronouncements that require or permit fair value measurements. The Company accounted for the convertible debentures in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the convertible debentures could result in the note principal and related accrued interest being converted to a variable number of the Company’s common shares.

Effective July 1 2009, the Company adopted ASC 820-10-55-23A, *Scope Application to Certain Non-Financial Assets and Certain Non-Financial Liabilities*, delaying application for non-financial assets and non-financial liabilities as permitted. ASC 820 establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In January 2010, the FASB issued an update to ASC 820, which requires additional disclosures about inputs into valuation techniques, disclosures about significant transfers into or out of Levels 1 and 2, and disaggregation of purchases, sales, issuances, and settlements in the Level 3 rollforward disclosure.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1            quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded securities and exchange-based derivatives
- Level 2            inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, mutual funds, and fair-value hedges
- Level 3            unobservable inputs for the asset or liability only used when there is little, if any, market activity for

the asset or liability at the measurement date. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded, non-exchange-based derivatives and commingled investment funds, and are measured using present value pricing models

The following table presents the embedded derivative, the Company's only financial assets measured and recorded at fair value on the Company's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy during the three months ended March 31, 2014:

*Embedded conversion liabilities as of March 31, 2014:*

Level 1	\$	--
Level 2		--
Level 3		2,522,117
Total conversion liabilities	\$	<u>2,522,117</u>

The following table reconciles, for the period ended March 31, 2014, the beginning and ending balances for financial instruments that are recognized at fair value in the consolidated financial statements:

Balance of embedded derivatives at December 31, 2013	\$	2,646,118
Present value of beneficial conversion features of new debentures		52,177
Accretion adjustments to fair value – beneficial conversion features		16,100
Reductions in fair value due to repayments/redemptions		(163,272)
Reductions in fair value due to principal conversions		(29,006)
Balance at March 31, 2014	\$	<u>2,522,117</u>

The fair value of the conversion features are calculated at the time of issuance and the Company records a conversion liability for the calculated value. The Company recognizes the initial expense for the conversion liability which is added to the carrying value of the debenture or the liability for preferred stock. The Company also recognizes expense for accretion of the conversion liability to fair value over the term of the note. The Company has adopted ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in each debenture and/or convertible preferred share could result in the note principal and/or preferred shares being converted to a variable number of the Company's common shares.

## **NOTE 6 INVENTORIES**

The Company maintains an inventory of equipment and components used in systems designed to extract corn oil from licensed ethanol production facilities. The inventory, which consists of equipment and component parts, is held for sale to the Company's licensees on an as needed basis. Inventories are stated at the lower of cost or market, with cost being determined by the specific identification method. Inventories at March 31, 2014 and December 31, 2013 were \$1,145,533 and \$1,145,533, respectively.

## **NOTE 7 DEFERRED REVENUE**

Deposits from customers are not recognized as revenues, but as liabilities, until the following conditions are met: revenues are realized when cash or claims to cash (receivable) are received in exchange for goods or services or when assets received in such exchange are readily convertible to cash or claim to cash or when such goods/services are transferred. When such income item is earned, the related revenue item is recognized, and the deferred revenue is reduced. To the extent revenues are generated from the Company's licensing support services, the Company recognizes such revenues when services are completed and billed.

## **NOTE 8 DEBT OBLIGATIONS**

The following is a summary of the Company's financing arrangements as of March 31, 2014:

	<u>3/31/2014</u>
<i>Current portion of long term debt:</i>	
Mortgages and other term notes	\$ 21,743
Current portion of subsidiary notes payable	1,345,302
Total current portion of long term debt	<u>\$ 1,367,045</u>
<i>Current portion of convertible debentures:</i>	
YA Global Investments, L.P., 6% interest, conversion at 90% of market	\$ 16,800,039

Andypolo, LP, 6% interest, conversion at 90% of market	3,495,766
Better Half Bloodstock, Inc., 0% interest, conversion at 90% of market	50,000
Circle Strategic Allocation Fund, LP, 6% interest, conversion at 90% of market	73,216
Dakota Capital, 6% interest, conversion at 90% of market	293,022
EFG Bank, 6% interest, conversion at 90% of market	155,313
Empire Equity, 6% interest, conversion at 90% of market	125,000
Epelbaum Revocable Trust, 6% interest, conversion at 90% of market	120,160
JMC Holdings, LP, 6% interest, conversion at 90% of market	184,850
Dr. Michael Kesselbrenner, 6% interest, conversions at 90% of market	15,123
May Davis, 6% interest, conversion at 90% of market	53,585
David Moran & Siobhan Hughes, 6% interest, conversion at 90% of market	3,159
Morano, LLC, 6% interest, no conversion discount	79,394
Susan Schneider, 6% interest, conversions at 90% of market	13,839
Stuttgart, LP, 6% interest, conversion at 90% of market	113,440
Westmount International Holdings Limited, 6% interest, conversion at 90% of market	34,029
Minority Interest Fund (II), LLC, 6% interest, no conversion discount	2,440,119
Viridis Capital, LLC, 6% interest, conversion at 50% of market	100,000
Related Party Debenture, 6% interest, no conversion discount	156,750
Conversion liabilities	<u>2,268,582</u>
Total current portion of convertible debentures	<u>\$ 26,575,383</u>

*Long term convertible debentures:*

Gerova Asset Backed Holdings, LP, 2% interest, no conversion discount	175,000
Total long term convertible debentures	<u>\$ 175,000</u>

A total of \$24,481,801 in principal from the convertible debt noted above is convertible into the common stock of the Company. The following chart is presented to assist the reader in analyzing the Company's ability to fulfill its fixed debt service requirements (net of note discounts) as of March 31, 2014 and the Company's ability to meet such obligations:

Year	Amount
2014	\$ 25,673,846
2015	--
2016	--
2017	--
2018	175,000
Thereafter	--
Total minimum payments due under current and long term obligations	<u>\$ 25,848,846</u>

YA GLOBAL INVESTMENTS, L.P.

In 2012 the Company and its subsidiaries entered into a series of agreements with YA Global Investments, L.P. ("YA Global") pursuant to which existing obligations from the Company to YA Global were replaced by an amended and restated convertible debenture in the amount of \$33,308,023 (the "A&R Debenture"). The A&R Debenture bears interest at the rate of 6% per annum and provides the holder with the right, but not the obligation, to convert any portion of the A&R Debenture into the Company's common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. A holder of the A&R Debenture will not be permitted, however, to convert into a number of shares that would cause it to own more than 4.99% of the Company's outstanding common shares. The A&R Debenture is additionally subject to ongoing compliance conditions, including the absence of change of control events and timely issuance of common shares upon conversion.

On November 12, 2013, the Company and YA Global Investments, L.P., entered into an amended forbearance agreement pursuant in which the maturity date of the Company's outstanding debt to YA Global and its assignees was extended to December 31, 2014. The amendment further provided for a mandatory prepayment of \$500,000 on or before December 15, 2013, cash payments by the Company of \$250,000 per month for the first six months of 2014, \$300,000 per month for the second six months of 2014 and the reimbursement of certain legal costs and expenses. The Company will also be required to pay an amount equal to twenty percent (20%) of all gross proceeds received from any patent infringement litigation, whether now existing or hereafter arising, within one (1) Business Day of receipt.

The Company accounted for the A&R Debenture in accordance with ASC 480, “Distinguishing Liabilities from Equity,” as the conversion feature embedded in the A&R Debenture could result in the note principal being converted to a variable number of the Company’s common shares. During the three months ended March 31, 2014, the Company paid \$750,000 in cash towards the principal balance of the A&R Debenture. During the three months ended March 31, 2014, YA Global assigned \$475,000 of its principal due on the A&R Debenture to three of its equity-holders, which assignment reduced the principal balance due to YA. The Company had determined the fair value of the A&R Debenture at December 31, 2013 to be \$19,675,780 which represented the face value of the debenture plus the present value of the conversion feature. During the three months ended March 31, 2014, the Company recognized a decrease in the conversion liability relating to the A&R Debenture of \$119,730 for assignments and/or repayments during the period. The carrying value of the A&R Debenture was \$18,444,710 at March 31, 2014, including principal of \$16,800,039 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$1,644,671 at March 31, 2014 to its estimated settlement value of \$1,767,561 at December 31, 2014. Interest expense of \$257,758 for the A&R Debenture was accrued for the three months ended March 31, 2014.

Included in the balance of the A&R Debenture is an accrual that the Company made in 2012 as a result of certain indemnification obligations that arose from the Company’s transactions with YA Global’s affiliate, YA Corn Oil. The initial accrual was approximately \$1.2 million. The Company’s accrual is evaluated at the completion of each reporting period, and additional expense or income will be recognized in the future should an event come to pass which either justifies reduction or removal of the liquidated damages accrual, or otherwise gives rise to an actual or a potential, but determinable, expense. An estimate of this amount cannot be made at this time.

#### ASSIGNEES OF YA GLOBAL INVESTMENTS, L.P.

From time to time since 2011, YA Global has subdivided the A&R Debenture (or its predecessor obligation) and assigned portions to individuals and entities that are equity-holders in YA Global. As of March 31, 2014, fifteen assignees of YA Global held debentures with an aggregate balance of \$4,730,499 (the “Assignee Debentures”). The terms of the Assignee Debentures are substantially identical. The Assignee Debentures bear interest at 6% per annum, except that debentures in the principal amount of \$50,000 that were issued in exchange for assigned accrued interest do not bear interest. The holder of an Assignee Debenture has the right, but not the obligation, to convert any portion of the Assignee Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Assignee Debentures mature on December 31, 2014.

The Company accounted for the Assignee Debentures in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in each Assignee Debentures could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the aggregate value of the Assignee Debentures at December 31, 2013 to be \$5,149,206 which represented the aggregate face value of the debentures of \$4,634,512 plus the present value of the conversion feature. During the three months ended March 31, 2014, the Company made payments against the Assignee Debentures which resulted in a \$16,381 reduction of the fair value of the conversion liability for the period. The carrying value of the Assignee Debentures was \$5,225,926 at March 31, 2014, including principal of \$4,730,499 and the value of the conversion liability. The present value of the liability for the conversion feature has reached its estimated settlement value of \$525,427 as of March 31, 2014. Interest expense of \$70,122 for these obligations was accrued for the three months ended March 31, 2014.

#### RELATED PARTY OBLIGATIONS

As of December 31, 2010, the Company had convertible debentures payable to Minority Interest Fund (II), LLC (“MIF”) in an aggregate principal amount of \$3,988,326 (the “MIF Debenture”) and convertible debentures payable to Viridis Capital, LLC in an aggregate principal amount of \$518,308 (the “Viridis 2010 Debenture”). As discussed more fully in Note 17, *Related Party Transactions*, below, the Company entered into agreements with MIF and Viridis to amend and restate the terms of the MIF Debenture and Viridis 2010 Debenture effective September 30, 2011 to extend the maturity date to September 30, 2013; to eliminate and contribute \$502,086 in accrued interest and \$1,065,308 of principal; to reduce the applicable interest rate to 6% per annum; to eliminate MIF’s and Viridis’

right to convert amounts due at a discount to the market price of the Company's common stock; and to reverse various non-cash assignments of debt involving related parties. The restated balances due to MIF and Viridis at September 30, 2011, were \$3,017,061 and \$237,939, respectively. No interest was payable to either MIF or Viridis after these amendments. MIF received 62,500 shares of Series D Preferred Stock in partial consideration of the contribution of principal and accrued interest and the various other modified terms of MIF's agreements with the Company. On September 30, 2011, the Company issued \$1,090,000 and \$351,000 in convertible debt to Acutus Capital, LLC ("Acutus") and family members of the Company's chairman, respectively, for cash investments previously provided to the Company. The terms of these debentures provide for interest at 6% per annum, a maturity date of September 30, 2013, and the right to convert amounts due into Company common stock at 100% of the market price for the Company's common stock at the time of conversion. The foregoing debentures are subject to conditions which limit the transfer of shares issued upon conversion to 5% of the average monthly volume for the Company's common stock.

As of April 1, 2013, the Company issued a \$250,000 debenture to Viridis Capital, LLC ("Viridis" and the "Viridis Debenture") in exchange for full satisfaction of expenses and costs that were incurred by Viridis in connection with its guaranty of the Company's obligations (see Note 12, *Related Party Transactions*, below). Viridis shall have the right, but not the obligation, to convert any portion of the Viridis Debenture into the Company's common stock at a rate equal to the lesser of (a) \$1.00 or (b) 50% of the 20 day volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. \$150,000 of the Viridis Debenture was paid during the year ended December 31, 2013. The Company accounted for the Viridis Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Viridis Debenture could result in the note principal being converted to a variable number of the Company's common shares. The Company determined the value of the Viridis Debenture upon issuance to be \$477,273 which represented the face value of the debenture of \$250,000 plus the present value of the conversion feature. A \$150,000 portion of the Viridis Debenture was assigned to a related party resulting in a \$136,364 reduction of the fair value of the conversion liability for the period and accretion of \$6,061 was recognized during 2013. The carrying value of the Viridis Debenture was \$198,485 at March 31, 2014, including principal of \$100,000 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$98,485 at December 31, 2013 to its estimated settlement value of \$100,000 at June 30, 2014. Interest expense of \$1,479 for these obligations was accrued for the three months ended March 31, 2014.

#### OTHER DEBENTURES

During the year ended December 31, 2012, the Company incurred \$175,000 in convertible debt to Gerova Asset Back Holdings, LP ("Gerova" and the "Gerova Debenture"). Gerova shall have the right, but not the obligation, to convert any portion of the convertible debenture into the Company's common stock at a rate equal to 100% of the closing market price for the Company's common stock for the day preceding the conversion date. Gerova delivered a release in favor of the Company in respect of any and all amounts that may have been due under the Company's former guaranty agreement with Gerova. The balance of the Gerova Debenture was \$175,000 at March 31, 2014. Interest expense of \$863 for these obligations was accrued for the three months ended March 31, 2014.

During the year ended December 31, 2013, Minority Interest Fund (II), LLC assigned \$200,000 of its convertible debt to Nicholas J. Morano, LLC ("Morano" and the "Morano Debenture"). Morano shall have the right, but not the obligation, to convert any portion of the accrued interest into the Company's common stock at 100% of the market price for the Company's common stock at the time of conversion. During the three months ended March 31, 2014, \$29,672 in principal was converted into common stock. The balance of the Morano Debenture was \$79,394 at March 31, 2014. Interest expense of \$1,439 for these obligations was accrued for the three months ended March 31, 2014.

#### NOTE 9 GUARANTY AGREEMENT

Viridis Capital, LLC ("Viridis") is the majority shareholder of the Company and is solely owned by Kevin Kreisler, the Company's founder and chairman. Viridis has guaranteed all of the Company's senior debt and has pledged all of its assets, including its shares of Company Series D Preferred Stock, to YA Global to secure the repayment by the Company of its obligations to YA Global (see Note 10, *Stockholders' Equity*, below). Viridis has also guaranteed all amounts due to Cantrell Winsness Technologies, LLC in connection with the acquisition by the Company's

subsidiary of its patented and patent-pending extraction technologies (see Note 12, *Related Party Transactions*, below). The Company has separately agreed to indemnify and hold Viridis harmless from any and all losses, costs and expenses incurred by Viridis in connection with its guaranty of the Company's obligations.

## **NOTE 10 STOCKHOLDERS' EQUITY**

### **SERIES B PREFERRED STOCK**

Each share of Series B Preferred Stock may be converted by the holder into 0.025 shares of common stock. Upon the declaration of dividends on common stock, the holders would be entitled to cumulative dividend rights equal to that of the holders of the number of shares into which the Series B Preferred Shares are convertible, and have voting privileges of one vote to every one common share. At March 31, 2014 and December 31, 2013, there were 2,480,544 shares of Series B Preferred Stock issued and outstanding.

### **SERIES D PREFERRED STOCK**

Shares of the Series D Preferred Stock (the "Series D Shares") may be converted by the holder into Company common stock. The conversion ratio is such that the full 1,000,000 Series D Shares originally issued convert into Company common shares representing 80% of the fully diluted outstanding common shares outstanding after the conversion (which includes all common shares outstanding plus all common shares potentially issuable upon the conversion of all derivative securities not held by the holder). The holder of Series D Shares may cast the number of votes at a shareholders meeting or by written consent that equals the number of common shares into which the Series D Shares are convertible on the record date for the shareholder action. In the event the Board of Directors declares a dividend payable to Company common shareholders, the holders of Series D Shares will receive the dividend that would be payable if the Series D Shares were converted into Company common shares prior to the dividend. In the event of a liquidation of the Company, the holders of Series D Shares will receive a preferential distribution of \$0.001 per share, and will share in the distribution as if the Series D Shares had been converted into common shares. The Company has issued 800,000 Series D Shares to Viridis Capital, LLC, and 62,500 Series D Shares to Minority Interest Fund (II), LLC. However, Viridis and the Company are subject to an additional agreements which, if performed, provide for additional (but currently unissued) shares of the Company's Series D Preferred Stock to be beneficially owned by Edward Carroll (187,500 shares), Acutus Capital, LLC (124,875 shares) and Minority Interest Fund (II), LLC (41,034 additional shares).

ASC 480, *Distinguishing Liabilities from Equity*, sets forth the requirements for determination of whether a financial instrument contains an embedded derivative that must be bifurcated from the host contract, therefore the Company evaluated whether the conversion feature for Series D Preferred Stock would require such treatment; one of the exceptions to bifurcation of the embedded conversion feature is that the conversion feature as a standalone instrument would be classified in stockholders' equity. Management has determined that the conversion option would not be classified as a liability as a standalone instrument, therefore it meets the exception for bifurcation of the embedded derivative under ASC 815, *Derivatives and Hedging*. ASC 815 addresses whether an instrument that is not under the scope of ASC 480 would be classified as liability or equity; one of the factors that would require liability classification is if the Company does not have sufficient authorized shares to effect the conversion. If a company could be required to obtain shareholder approval to increase the company's authorized shares in order to net-share or physically settle a contract, share settlement is not controlled by the company. The majority of the Company's outstanding shares of Series D Preferred Stock are owned by Viridis Capital, LLC, an entity controlled by Kevin Kreisler, the chairman of the Company. If all the Series D shares held by Viridis Capital were converted and exceeded the number of authorized common shares, there would be no contingent factors or events that a third party could bring up that would prevent Mr. Kreisler from authorizing the additional shares. There would be no need to have to go to anyone outside the Company for approval since Mr. Kreisler, through Viridis Capital, is the Company's majority shareholder. As a result, the share settlement is controlled by the Company and with ASC 815. The Company assessed all other factors in ASC 815 to determine how the conversion feature would be classified.

### **SERIES F PREFERRED STOCK**

Effective January 1, 2010, GS CleanTech Corporation, a wholly-owned subsidiary of the Company, executed an Amended and Restated Technology Acquisition Agreement ("TAA") with Cantrell Winsness Technologies, LLC

(“CWT”), David F. Cantrell, David Winsness, Gregory P. Barlage and John W. Davis (the “Sellers”) pursuant to which the parties amended and restated the method of calculating the purchase price for the Company’s corn oil extraction technology (the “Technology”). The TAA provides for the payment by the Company of royalties in connection with the Company’s corn oil extraction technologies, the reduction of those royalties as the Sellers receive payment, and a mechanism for conversion of accrued or prepaid royalties into Company common stock. To achieve this latter mechanism, the Company agreed to issue to the Sellers a one-time prepayment in the form of 1,000,000 shares of redeemable Series F Preferred Stock with a face value of \$10 per preferred share. The Series F preferred shares are redeemable at face value and a rate equal to the amount royalties paid or prepaid under the TAA. In addition, the Sellers have the right to convert the Series F preferred shares to pay or prepay royalties at a rate equal to the cash proceeds received by the Sellers upon sale of the common shares issued upon conversion Series F preferred shares. The TAA provides for the payment to the Sellers of an initial royalty fee equal to the lesser of \$0.10 per gallon or a percentage of net cash flows, both of which are reduced ratably to \$0.025 per gallon upon payment, prepayment or conversion as described above. The Company’s obligations under the TAA are guaranteed by Viridis Capital, LLC, which guarantee was subordinated by the Sellers to the rights of YA Global under its guaranty agreement with Viridis Capital (see Note 9, *Guaranty Agreements*, above). The Company accounted for the Series F preferred shares in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the convertible Series F preferred shares could result in the preferred shares being converted to a variable number of the Company’s common shares. The Company determined the value of the Series F preferred shares at the grant date to be \$925,926 which represented the estimated value of the preferred shares based on common shares into which they could be converted at the grant date, which included the present value of the conversion feature, which was determined to be \$428,381. During the three months ended March 31, 2014, the Company recognized a reduction in conversion liability at present value of \$27,161 for royalties paid under the agreement, and recorded an expense of \$13,985 for the accretion to fair at March 31, 2014, including the grant date value plus the accretion less redemptions of the conversion liability during the year. The liability for the conversion feature shall increase from its present value of \$253,535 at March 31, 2014 to its estimated settlement value of \$727,193 at June 10, 2020.

The only conditions under which the Company would be required to redeem its convertible preferred stock for cash would be in the event of a liquidation of the Company or in the event of a cash-out merger of the Company.

## COMMON STOCK

The Company completed a 1 for 100 reverse stock split on March 15, 2014. This stock split became effective under applicable laws on April 15, 2014. All stock prices, share amounts, per share information, stock options and stock warrants in this report reflect the impact of the reverse stock split. Every hundred shares of issued and outstanding Company common stock was automatically combined into one issued and outstanding share of common stock, without any change in the par value per share. All fractional shares resulting from the reverse split were rounded to a full share.

During the three months ended March 31, 2014 and 2013, the Company issued a total of 15,105,067 shares and 420,407 shares of common stock, respectively, upon conversion in period of \$338,488 and \$651,749, respectively, of principal and accrued interest due pursuant to the Company’s various convertible debentures (see Note 8, *Debt Obligations*, above).

## NOTE 11 COMMITMENTS AND CONTINGENCIES

### INFRINGEMENT

On October 13, 2009, the U.S. Patent and Trademark Office (“PTO”) issued U.S. Patent No. 7,601,858, titled “Method of Processing Ethanol Byproducts and Related Subsystems” (the ‘858 Patent) to GS CleanTech Corporation, a wholly-owned subsidiary of GreenShift Corporation. On October 27, 2009, the PTO issued U.S. Patent No. 7,608,729, titled “Method of Freeing the Bound Oil Present in Whole Stillage and Thin Stillage” (the ‘729 Patent) to GS CleanTech. Both the ‘858 Patent and the ‘729 Patent relate to the Company’s corn oil extraction technologies.

On October 13, 2009, GS CleanTech filed a legal action in the United States District Court, Southern District of New York captioned GS CleanTech Corporation v. GEA Westfalia Separator, Inc.; and DOES 1-20, alleging infringement of the '858 Patent ("New York I Action"). On October 13, 2009, GS CleanTech filed a Motion to Dismiss with the same court relative to a separate complaint filed previously by Westfalia captioned GEA Westfalia Separator, Inc. v. GreenShift Corporation that alleged (1) false advertising in violation of the Lanham Act § 43(a); (2) deceptive trade practices and false advertising in violation of New York General Business Law §§ 349, 350 and 350-a; and (3) common law unfair competition ("New York II Action"). On October 13, 2009, Westfalia filed its First Amended Complaint in the New York II Action to include as a plaintiff, ethanol production company Ace Ethanol, LLC, and to add claims seeking a declaratory judgment of invalidity and non-infringement of the '858 Patent. On October 13, 2009, ICM, Inc. filed a complaint in the United States District Court, District of Kansas in the matter captioned ICM, Inc. v. GS CleanTech Corporation and GreenShift Corporation, alleging unfair competition, interference with existing and prospective business and contractual relationships, and deceptive trade practices and also seeking a declaratory judgment of invalidity and non-infringement of the '858 Patent.

On October 15, 2009, in the New York I Action, GS CleanTech filed a Notice of Filing First Amended Complaint for infringement of the '858 Patent, along with a copy of the First Amended Complaint, which added ICM, Ace Ethanol, Lifeline Foods LLC and ten additional DOES as defendants in the New York I Action. On October 23, 2009, GS CleanTech's First Amended Complaint in the New York I Action was entered by the court. On November 5, 2009, in ICM's Kansas lawsuit, GS CleanTech filed a motion to dismiss or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. Also on November 5, 2009, in ICM's Kansas lawsuit, ICM filed a motion to enjoin CleanTech and GreenShift from prosecuting the claims against ICM in the New York I Action.

During February 2010, GS CleanTech commenced a legal action in the United States District Court, Southern District of Indiana captioned GS CleanTech Corporation v. Cardinal Ethanol, LLC, and a separate legal action in the United States District Court, Northern District of Illinois captioned GS CleanTech Corporation v. Big River Resources Galva, LLC and Big River Resources West Burlington, LLC. ICM sold Cardinal and Big River the equipment that each of Cardinal and Big River have used and are using to infringe the '858 Patent as alleged by GS CleanTech. ICM has assumed the defense of each of the above matters.

During May 2010, GS CleanTech commenced the following additional actions: GS CleanTech Corporation v. Lincolnland Agri-Energy, LLC, in the United States District Court, Northern District of Illinois; GS CleanTech Corporation v. Al-Corn Clean Fuel, LLC; Chippewa Valley Ethanol Company, LLLP; Heartland Corn Products, LLC and Bushmills Ethanol, Inc., in the United States District Court, District of Minnesota; GS CleanTech Corporation v. United Wisconsin Grain Producers, LLC, in the United States District Court, Western District of Wisconsin; GS CleanTech Corporation v. Iroquois BioEnergy Company, LLC, in the United States District Court, Northern District of Indiana; GS CleanTech Corporation v. Blue Flint Ethanol, LLC, in the United States District Court, District of North Dakota; and, GS CleanTech Corporation v. Lincolnway Energy, LLC, in the United States District Court, Northern District of Iowa.

On July 14, 2010, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Adkins Energy, LLC, in the United States District Court, Northern District of Illinois alleging infringement of the '858 Patent. On August 4, 2010, Adkins filed an answer to the complaint and included counterclaims seeking a declaratory judgment that Adkins does not infringe the '858 Patent and that the '858 Patent is invalid, and also alleging breach of contract. On November 30, 2010, the Adkins action was transferred to the MDL Case.

On October 14, 2010, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Flottweg Separation Technology, Inc. and Flottweg AG, in the United States District Court, District of Connecticut alleging infringement of the '858 Patent. On November 15, 2010, GS CleanTech filed an amended complaint alleging that Flottweg Separation Technology, Inc., has infringed the '858 Patent. On November 15, 2010, the Flottweg action was transferred to the MDL Case.

On December 2, 2011, the Court clarified its earlier claim construction order. On February 6, 2012, the Court granted the Company's motion to amend its various complaints to include the recently issued U.S. Pat. No. 8,008,516 (the "'516 Patent"). On February 27, 2012, the Company filed amended complaints alleging that the Defendants infringed the '516 Patent.



On August 6, 2012, the Court granted the Company's motion to amend its various complaints to include the recently issued U.S. Pat. No. 8,168,037 (the "'037 Patent"). On August 31, 2012, the Company filed amended complaints alleging that certain Defendants infringed the '037 Patent. On November 7, 2012, the Court granted the Company's motion to amend its various complaints to include other patents directed to similar technology. On November 9, 2012, the Company filed amended complaints alleging that the Defendants infringed U.S. Pat. No. 8,008,517 (the "'517 Patent") and U.S. Pat. No. 8,283,484 (the "'484 patent").

On January 29, 2013, the Court issued a supplemental order on claim construction. Because this order modified the Court's earlier claim construction, the Court stayed all briefing in the pending summary judgment motions regarding infringement.

On February 12, 2013, the Company filed a motion for summary judgment against Adkins' counterclaims of breach of contract (and related defenses). Adkins filed its opposition on March 22, 2013. On May 21, 2013, the Court denied the Company's motion for summary judgment against Adkins' counterclaims of breach of contract (and related defenses).

On February 27, 2013, the Court dismissed a number of unfair competition claims asserted by ICM against the Company, but the Court allowed ICM to proceed with a federal Lanham Act claim against the Company.

On May 24, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Pacific Ethanol, Inc., in the United States District Court, Eastern District of California alleging infringement of the '858 Patent. On July 18, 2013, Pacific filed an answer to the complaint and included counterclaims seeking a declaratory judgment that Pacific does not infringe the '858 Patent and that the '858 Patent is invalid and unenforceable. On August 8, 2013, GS CleanTech answered Pacific's counterclaims.

On June 7, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Guardian Energy, LLC, in the United States District Court, District of Minnesota alleging infringement of the '858, '516, '517, and '484 Patents.

On July 12, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Western New York Energy, LLC, in the United States District Court, Western District of New York alleging infringement of the '858, '516, '517, and '484 Patents.

On July 19, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Little Sioux Corn Processors, LLLP, in the United States District Court, Northern District of Iowa alleging infringement of the '858, '516, '517, and '484 Patents.

On August 5, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Southwest Iowa Renewable Energy, LLC, in the United States District Court, Southern District of Iowa alleging infringement of the '858, '516, '517, and '484 Patents.

On August 10, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Homeland Energy Solutions, LLC, in the United States District Court, Northern District of Iowa alleging infringement of the '858, '516, '517, '484 and '037 Patents.

On September 10, 2013, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Aemetis, Inc. and Aemetis Advanced Fuels Keyes, Inc., in the United States District Court, Southern District of Indiana alleging infringement of the '858 Patent. On September 13, 2013, Aemetis filed an answer to the complaint and included counterclaims seeking a declaratory judgment that Aemetis does not infringe the '858 Patent and that the '858 Patent is invalid and unenforceable.

These cases with Defendants Pacific Ethanol, Inc.; Guardian Energy, LLC; Western New York Energy, LLC; Little Sioux Corn Processors, LLLP; Southwest Iowa Renewable Energy, LLC; Aemetis, Inc.; and Aemetis Advanced Fuels Keyes, Inc. have all been consolidated as "Tag-Along" cases for pre-trial proceedings in the current MDL in the United States District Court, Southern District of Indiana.

On March 14, 2014, the Tag-Along Defendants stipulated that they adopted the claim construction arguments regarding the patents-in-suit made by the earlier MDL Defendants. Discovery is ongoing with the Tag-Along Defendants.

#### OTHER MATTERS

The Company's subsidiary, GS COES (Yorkville I), LLC, is a party to an action entitled *Nosan, et al. v. GS COES (Yorkville I), LLC, et. al.*, previously pending in Lenawee County, Michigan Circuit Court Case No. 11-4069-CK, an action by nineteen plaintiffs to recover on a guarantee by the subsidiary secured by a pledge of Net Cash Flow from corn oil production at two Michigan facilities, as credit support for a bridge loan arrangement under which a variety of lenders claim to be owed the aggregate principal amount of \$1,734,579, plus interest for claimed breach of their subordinated loan to GS CleanTech Corporation. The parties have briefed the issues on appeal and oral argument is scheduled for April 2, 2014. GS COES intends to continue to vigorously defend this action. In the event of the reversal of the trial court's ruling on appeal, we cannot evaluate the likelihood of an unfavorable outcome at this time. In the event of an adverse judgment, damages could range from \$2,500,000 to \$3,500,000.

GreenShift Corporation, GS CleanTech Corporation, and (non-party) GS COES are parties to an action entitled *Nosan, et al. v. GS CleanTech, GreenShift Corporation, YA Global Investments, LP, and Green Plains Commodities LLC*, previously pending in the Lenawee County, Michigan Circuit Court as Case No. 11-4292-CK, a case filed by the same nineteen plaintiffs as a companion case to Case No. 11-4069-CK. The Plaintiffs filed this action after the Court denied their request to file an Amended Complaint against GS CleanTech Corporation, GreenShift Corporation, YA Global Investments, and Green Plains Commodities, LLC in Case No. 11-4069-CK. The Complaint alleges that GS CleanTech Corporation breached its obligation to repay the same \$1,734,579 loan. The Complaint also alleges that the Defendants violated the Plaintiffs' claimed security interest and improperly sold the corn oil extraction equipment. In addition to the claims for breach of the notes, the Complaint includes claims for civil conspiracy, specific performance and declaratory judgment, contract implied in law/unjust enrichment, and conversion. Pursuant to the Asset Purchase Agreement entered into between GS COES and Green Plains Commodities, LLC, GS COES has agreed to assume the defense of Green Plains Commodities, LLC in this action. This case was dismissed by the trial court on July 2, 2012 based on the principles of res judicata and collateral estoppel, in light of the Court's ruling in case No. 11-4069-CK, and Plaintiffs filed an appeal with the Michigan Court of Appeals. The case is now before the Michigan Court of Appeals and all parties are awaiting a decision after briefing and oral arguments. GS COES intends to continue to vigorously defend this action. At this stage, we cannot evaluate the likelihood of an unfavorable outcome. In the event of an adverse judgment, damages could range from \$2,500,000 to \$3,500,000.

GreenShift Corporation, GS CleanTech Corporation and GS COES (Yorkville I), LLC, was party to the matter captioned *Dynalectric of Michigan II, Inc. v. Biofuels Industries Group, et al.*, Lenawee County, Michigan Circuit Court Case No. 09-3584-CK. This case was consolidated with Case Nos. 09-3479-CK and 09-3321-CK, which also involved the collection of construction lien claimants (Overhead Door and Detroit Boiler) related to BIG. The parties entered into a settlement agreement covering all the pending claims on December 17, 2013, pursuant to which the GreenShift entities agreed to pay the BIG bankruptcy trustee the sum of \$125,000 in exchange for a release of all claims, subject to bankruptcy court approval. GreenShift paid the settlement amount in 2013. The bankruptcy court approved the settlement on March 4, 2014, and the parties are in the process of concluding the settlement.

The Company's former subsidiary GS Agrifuels Corp. is party to *Max v. GS Agrifuels Corp., et al.* now pending in the Supreme Court, New York County, in which the plaintiffs are asserting claims to money damages against the Company and other defendants, arising from a series of "Share Purchase Agreements" dated March 6, 2007, under which the individual plaintiffs sold their shares in a company called "Sustainable Systems, Inc" to GS Agrifuels Corporation. In their Amended Complaint, plaintiffs asserted claims for breach of contract, fraud and negligent misrepresentation, and sought money damages on the amount of \$6 million. In a Decision and Order dated March 19, 2013, the Court granted in part the defendants' motion to dismiss the Amended Complaint, and dismissed all but the breach of contract claims asserted against the Company and certain other corporate defendants. The plaintiffs have filed a Notice of Appeal from the Decision and Order, and have indicated that they intend to perfect their appeal. On October 30, 2013, the defendants filed a motion for summary judgment dismissing the plaintiffs'

remaining claims for breach of contract. The plaintiffs have opposed the motion for summary judgment, and the motion is scheduled for oral argument in May 2014. There is no way to predict whether the motion for summary judgment will be granted and, if it is, whether the plaintiffs will take an appeal and be successful in the appellate court. If the motion for summary judgment is denied, the case is likely to proceed to trial. If the case proceeds to trial, we cannot offer any opinion as to the likelihood of a favorable outcome or, if the outcome is unfavorable, the amount or range of potential loss. It is, however, our understanding that management intends to continue to vigorously defend and litigate the matter.

On June 28, 2010 JMJ Financials commenced an action entitled JMJ Financial v. GreenShift et. al., in the Circuit Court of the 11<sup>th</sup> Judicial Circuit in and for Miami-Dade County, State of Florida, alleging breach of contract and other causes of action for which the plaintiff seeks damages of about \$300,000 plus costs. In January 2013 judgment in the amount of \$600,026 was entered by default against GreenShift and its co-defendants. The Company has agreed to pay \$350,000 in full settlement and release of any obligations. The Company made payments totaling \$189,583 during 2013, with eight monthly remaining payments of \$14,583 due through November 2014. The settlement and release will be effective as long as the required payments are madetimely or defaults due to late payment are cured within five days of the written notice of default has been sent. The Company is permitted two events of default under the terms of the settlement.

On September 10, 2012, Long Side Ventures commenced an action entitled Long Side Ventures and Sunny Isles Ventures, LLC, LLC v. GreenShift et. al., in the United States District Court for the Southern District of New York, alleging breach of contract and other causes of action for which the plaintiff seeks damages of about \$250,000 plus costs. The Company intends to vigorously defend this action. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome in excess of the amounts previously accrued.

On October 10, 2013, Golden Technology Management, LLC, and other plaintiffs commenced an action entitled Golden Technology Management, LLC, et al. v. NextGen Acquisition, Inc. et al. in the Supreme Court of the State of New York, County of New York, alleging breach of contract and other causes of action against the Company in connection with the acquisition of NextGen Fuel, Inc. by a former indirect subsidiary. Plaintiffs seek damages in excess of \$5,200,000 plus prejudgment interest and costs. The Company intends to vigorously defend this action. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome in excess of the amounts previously accrued.

Under the Company's insurance programs, coverage is obtained for catastrophic exposures, as well as those risks required to be insured by law or contract. There is a \$2,500 deductible per occurrence for environmental impairments. Environmental liability insurance is carried with policy limits of \$1,000,000 per occurrence and \$2,000,000 aggregate.

The Company is party to employment agreements with Kevin Kreisler, the Company's Chairman, Ed Carroll, the Company's Chief Executive Officer and Chief Financial Officer, David Winsness, the Company's Chief Technology Officer, Greg Barlage, the Company's Chief Operating Officer, and Richard Krablin, the Company's Vice President. Each agreement also included terms for reimbursement of expenses, periodic bonuses, four weeks' vacation and participation in any employee benefits provided to all employees of GreenShift Corporation.

The Company's Articles of Incorporation provide that the Company shall indemnify its officers, directors, employees and agents to the full extent permitted by Delaware law. The Company's Bylaws include provisions to indemnify its officers and directors and other persons against expenses (including attorney's fees, judgments, fines and amounts paid for settlement) incurred in connection with actions or proceedings brought against them by reason of their serving or having served as officers, directors or in other capacities. The Company does not, however, indemnify them in actions in which it is determined that they have not acted in good faith or have acted unlawfully. The Company is further subject to various indemnification agreements with various parties pursuant to which the Company has agreed to indemnify and hold such parties harmless from and against expenses and costs incurred (including attorney's fees, judgments, fines and amounts paid for settlement) in connection with the provision by such parties of certain financial accommodations to the Company. Such parties indemnified by the Company include YA Global Investments, L.P., YA Corn Oil Systems, LLC, Viridis Capital, LLC, Minority Interest Fund (II), LLC, Acutus Capital, LLC, and various family members of the Company's chairman that have provided the Company with cash investments.

## NOTE 12 RELATED PARTY TRANSACTIONS

Minority Interest Fund (II), LLC (“MIF”) is party to certain convertible debentures issued by the Company (see Note 8, *Debt Obligations*, above). The managing member of MIF is a relative of the Company’s chairman.

Viridis Capital LLC (“Viridis”) is party to certain convertible debentures issued by the Company (see Note 8, *Debt Obligations*, above). The managing member of Viridis is the Company’s chairman, Kevin Kreisler.

The Company entered into agreements with MIF and Viridis to amend and restate the terms of the MIF Debenture and Viridis Debenture effective September 30, 2011 to extend the maturity date to June 30, 2013; to eliminate and contribute \$502,086 in accrued interest and \$1,065,308 of principal; to reduce the applicable interest rate to 6% per annum; to eliminate MIF’s and Viridis’ right to convert amounts due at a discount to the market price of the Company’s common stock; and to reverse various non-cash assignments of debt involving related parties (see Note 8, *Debt Obligations*, above). The restated balances due to MIF and Viridis at September 30, 2011, were \$3,017,061 and \$237,939, respectively. No interest was payable to either MIF or Viridis after these amendments. In addition, the balances of convertible debt due to Acutus Capital, LLC (“Acutus”) and family members of the Company’s chairman were amended and restated at September 30, 2011, to \$1,090,000 and \$351,000, respectively, in connection with cash investments previously provided to the Company. The terms of these debentures provide for interest at 6% per annum, a maturity date of June 30, 2013, and the right to convert amounts due into Company common stock at 100% of the market price for the Company’s common stock at the time of conversion. MIF received 62,500 shares of Series D Preferred Stock in partial consideration of the contribution of principal and accrued interest and the various other modified terms of MIF’s agreements with the Company. The foregoing debentures are subject to conditions which limit the transfer of shares issued upon conversion to 5% of the average monthly volume for the Company’s common stock.

Between January 1, 2008 and December 31, 2010, Viridis, MIF, Acutus, and management personnel provided the Company with the cash resources we needed for our overhead needs, including all legal expenses incurred in the prosecution of infringing use of our patented technologies. Viridis is owned by our chairman, MIF is owned by a family member of our chairman, and Acutus is owned by our chairman's attorney. In addition, Viridis has guaranteed all of the Company’s debt due to YA Global and all amounts due to Cantrell Winsness Technologies, LLC, in connection with the acquisition by the Company’s subsidiary of its patented and patent-pending extraction technologies (see Note 9, *Guaranty Agreements*, above). The Company has separately agreed to indemnify and hold Viridis and its affiliates harmless from any and all losses, costs and expenses incurred by Viridis and its affiliates in connection with its and their various investments with the Company as well as Viridis’ guarantees of Company’s obligations. During the year ended December 31, 2013, the Company paid an indemnification obligation to Viridis of \$450,000, \$250,000 of which was paid in the form of a debenture (see Note 8, *Debt Obligations*, above). These amounts are shown as other expense in the accompanying financial statements. The Company has agreed to indemnify and hold Viridis harmless from any and all losses, costs and expenses incurred by Viridis in connection with its guaranty of the Company’s obligations and its investments with the Company.

Effective January 1, 2010, GS CleanTech Corporation, a wholly-owned subsidiary of the Company, executed an Amended and Restated Technology Acquisition Agreement (“TAA”) with Cantrell Winsness Technologies, LLC (“CWT”), David F. Cantrell, David Winsness, Gregory P. Barlage and John W. Davis (the “Sellers”) pursuant to which the parties amended and restated the method of calculating the purchase price for the Company’s corn oil extraction technology (the “Technology”). The TAA provides for the payment by the Company of royalties in connection with the Company’s corn oil extraction technologies, the reduction of those royalties as the Sellers receive payment, and a mechanism for conversion of accrued or prepaid royalties into Company common stock. To achieve this latter mechanism, the Company agreed to issue to the Sellers a one-time prepayment in the form of 1,000,000 shares of redeemable Series F Preferred Stock (“CWT Preferred Shares”) with a face value of \$10 per preferred share (see Note 10, *Shareholders’ Equity*, above). The CWT Preferred Shares are redeemable at face value and a rate equal to the amount royalties paid or prepaid under the TAA. In addition, the Sellers have the right to convert the CWT Preferred Shares to pay or prepay royalties at a rate equal to the cash proceeds received by the Sellers upon sale of the common shares issued upon conversion CWT Preferred Shares. The TAA provides for the payment to the Sellers of an initial royalty fee equal to the lesser of \$0.10 per gallon or a percentage of net cash flows, both of which are reduced ratably to \$0.025 per gallon upon payment, prepayment or conversion as described

above. The Company's obligations under the TAA are guaranteed by Viridis Capital, LLC, which guarantee was subordinated by the Sellers to the rights of YA Global under its guaranty agreement with Viridis Capital (see Note 9, Guaranty Agreement, above).

**NOTE 13 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

The following is a summary of supplemental disclosures of cash flow information for the three months ended March 31, 2014 and 2013:

	<u>3/31/2014</u>	<u>3/31/2013</u>
<i>Cash paid for the following:</i>		
Interest	\$ --	\$ --
Total interest paid in cash	--	--
<i>Supplemental disclosure of non-cash investing and financing activities:</i>		
Debentures converted into common stock	\$ 338,488	\$ 651,749
Reductions of conversion liabilities from debt conversions	56,167	56,847
Forgiveness of affiliate payable	--	5,793

**NOTE 14 SUBSEQUENT EVENTS**

Effective on April 25, 2014, the Company retired convertible debentures with an aggregate outstanding balance of \$3,700,000, consisting of outstanding principal and interest of \$3,609,206 and \$90,794, respectively. The Company made a cash payment of \$1,400,000 to retire the debentures.

The debt retirement is expected to reduce the Company's annual interest charge by approximately \$215,000 (6% interest per year on the \$3,609,206 of principal being retired).

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

*The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated financial condition and results of operations. This discussion should be read in conjunction with the consolidated financial statements included herewith and notes to the consolidated financial statements thereto and the risk factors contained herein.*

### CAUTIONARY INFORMATION REGARDING FORWARD LOOKING STATEMENTS

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report contains "*forward-looking statements*" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to our outlook or expectations for earnings, revenues, expenses, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on our business, results of operations or financial condition. Specifically, forward-looking statements may include statements preceded by, followed by or that include the words "*estimate*," "*plan*," "*project*," "*forecast*," "*intend*," "*expect*," "*anticipate*," "*believe*," "*seek*," "*target*," "*may*," "*could*," "*should*," "*will*," or similar expressions. Any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Forward-looking statements contained herein reflect management's judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Future performance cannot be ensured. Although we believe that our expectations regarding future events are based on reasonable assumptions, any or all forward-looking statements in this report may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Part I, Item 1A, *Risk Factors* of our annual report on Form 10-K for the year ended December 31, 2013. Specifically, we may experience significant fluctuations in future operating results due to the uncertain results of pending patent litigation as well as a number of economic conditions, including, but not limited to, competition, the actions of third parties infringing our patents, commodity market risks, financial market risks, counter-party risks, risks associated with changes to federal policy or regulation or to the laws upon which our intellectual property rights are based, the timely completion of corn oil extraction projects by our licensees, the amount of corn oil recovered by our licensees, and other risk factors detailed in our reports filed with the SEC. Actual results may differ materially from projected results due, without limitation, to unforeseen developments.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this report or in any document incorporated by reference might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference in this report. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

### OVERVIEW

GreenShift invents, develops, commercializes and licenses clean alternative technologies that facilitate the more efficient use of natural resources. We have been very successful in patenting and commercializing the removal of corn oil from dry mill ethanol plants. Our business model is once a technology is patented and commercialized, we license our technology for an ongoing royalty. We thus generate revenue by licensing our technologies to end users, and by providing our licensees with support and engineering services, utilizing our expertise, know-how, technologies, and patent position.

Our patented corn oil process taps into the back-end of existing dry mill corn ethanol plants to extract the inedible crude corn oil that is not recovered from the existing processed corn. This corn oil is a valuable feedstock for use as a replacement of fossil fuels as well as a valuable source of protein to livestock.

We believe that our corn oil extraction technologies are the quickest and best path for margin improvement for corn ethanol producers today. The current market value of corn oil recovered by our licensees is \$2.00 to \$4.00 per gallon, which is a significant premium to its value as a component of distillers grains where the corn oil ends up without use of our patented corn oil extraction processes. Our corn oil extraction technologies increase corn-to-biofuel yields while reducing the energy and greenhouse gas intensity of corn ethanol production for dry mill ethanol producers (see details below). These benefits correspond to increased ethanol producer income of between \$0.05 and \$0.25 per gallon of ethanol produced, and ethanol producer paybacks of extraction system costs of less than 1 year at current market prices. It has been well documented that a corn oil extraction system is one of the most profitable pieces of equipment installed in an ethanol plant today. It is estimated that over 80% of the industry has installed a corn oil extraction system that is producing corn oil with, in our opinion, at least one claimed invention of the GreenShift patents. Currently GreenShift has licensed an estimated 20% of the industry and expects to gain additional market share once the current patent litigation is finally adjudicated.

We also maintain our strong commitment to continued innovation and have many additional patents pending outside of the ethanol industry. We are conducting significant research and development in similar bio-products in other large industries where underutilized bio-components can be modified, improved or redesigned for higher value uses with valuable green credentials due to their bio based origins. We have bio-products in various stages of commercial development.

### **Plan of Operations**

We will continue to work with our licensees to maximize the benefits and minimize the costs of recovering as much corn oil as possible. We will also remain focused on winning new business and increasing our licensed penetration. To do so, we will continue to provide exceptional services, the highest-performing systems packages available, and access to new technologies for further gains in licensee profitability and competitive advantage. We will continue to expand our patent portfolio. We have many additional patents pending and we remain committed to developing new technologies to further enhance the profitability of our licensees. And, we will stay the course in our ongoing infringement litigation but plan to expand our efforts to aggressively prosecute any entity, manager or other person infringing or inducing infringement of our technologies – all with a view towards enhancing and protecting the significant competitive advantage of our licensees.

Our financial performance for 2014 and beyond can be expected to be most significantly impacted by the rate at which our existing and new licensees commence production, the amount of corn oil that our licensees produce, the market price for that corn oil, the extent to which we collect reasonable royalties, and the costs incurred in our ongoing litigation for infringement of our patents. In addition, future results may be improved by the significant interest for our engineering and other services in connection with the design, construction, integration and modification of corn oil extraction systems and other new systems for existing and prospective licensees. We expect that these activities will contribute to revenue during 2014.

We additionally expect to continue to incur substantial costs in connection with our ongoing litigation for infringement of our patented corn oil extraction technologies. These costs increased during 2013 and are expected to continue through 2014 in advance of trial, and as we expand our litigation this year to protect the competitive advantage of our licensees by prosecuting additional producers and other parties infringing our patents. These expenses may delay or otherwise adversely affect our ability to achieve our profitability and debt reduction goals. We hope to eventually eliminate our litigation expense, but we must and will take all necessary steps to bring infringement of our patents to an end.

### **COMPONENTS OF REVENUES AND EXPENSES**

Our revenues are derived from our technology licensing activities and the provision of related products and services. We issue royalty-bearing licenses to ethanol producers that use our patented and patent-pending technologies. In return, we receive ongoing royalty fees under our license agreements that are based on the market value of the corn

oil produced by our licensees. Our license agreements also call for our provision of technical services to our licensees, which we provide to maximize the benefit of our technologies to our clients and, derivatively, us by way of increased royalty income. These services include design, procurement, integration and ongoing support services. During 2014 and 2013, some of our license agreements provided for royalties in the form of a discounted corn oil purchase price. In these cases, our royalty payments were equal to the gross profit realized upon sale of corn oil, or the difference between the market price of the corn oil produced and our discounted purchase price in each relevant license.

Our costs of sales primarily include allocable labor, materials and incidental expenses incurred in connection with our provision of services to our licensees.

Selling, general and administrative expenses consist of payroll, office expenses, insurance, and professional fees for accounting, legal, consulting and investor relations activities. Payroll, including employee salaries, incentives and benefits, are the largest single category of expenditures in selling, general and administrative expenses. Other income (expense) includes interest earned, interest expenses, amortization expenses, income or expenses relating to the changing value of the conversion benefit embedded into our convertible debentures and other non-operating items. Notably, our agreements with our lenders provide for the accrual of our interest expenses pending conversion or other payment.

#### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial condition, results of operations or liquidity.

#### RESULTS OF OPERATIONS

##### **Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013**

Revenues for the three months ended March 31, 2014 were \$3.7 million as compared to \$3.2 million generated during the three months ended March 31, 2013. Revenue in future periods can be expected to increase as a result of our technology licensing activities, but will remain subject to variance in connection with a number of factors, including the rate at which our licensees commence production, the amount of corn oil that our licensees produce, the market price for that corn oil, the extent to which we collect reasonable royalties, and the degree to which we provide event-driven systems integration services to our licensees involving the design, construction, integration and modification of licensed technologies.

Costs of sales for the three months ended March 31, 2014 were \$1.6 million as compared to about \$1.2 million for the same period last year. Gross profit for the three months ended March 31, 2014 was about \$2.1 million as compared to about \$2.0 million from the first quarter of 2013. We expect to achieve increased economies of scale with respect to our costs of sales and gross profit as all of our existing and new licensees commence and achieve full production and as we execute new licenses for our corn oil extraction and other technologies.

Operating expenses for the three months ended March 31, 2014 and 2013 were about \$1.7 million in each year. Operating expenses during 2014 included about \$0.6 million in legal costs, incurred primarily in connection with our ongoing litigation for patent infringement and the completion of amended agreements with YA Global. By contrast, operating expenses during the first quarter of 2013 included about \$0.8 million in professional fees incurred in connection with our ongoing litigation for patent infringement and completion of amended agreements with YA Global.

Other expense for the three months ended March 31, 2014 was about \$0.3 million, as compared to other expense of about \$0.4 million from 2013. The amount for 2014 included about \$0.4 million in accrued interest as compared to about \$0.5 million in accrued interest expense incurred in 2013, corresponding to a reduction of about 22% as a result of previously-disclosed debt reduction efforts. We additionally incurred about \$375,000 in legal costs relating to the execution of amended agreements with YA Global during the first quarter 2013, 90% of which were recorded as deferred financing costs and were expensed ratably on a monthly basis over the remainder of 2013. Net income



for three months ended March 31, 2014 was about \$70,000 as compared to a net loss of about \$100,000 during the same period in 2013.

### **Conversion Liabilities**

We accounted for our convertible debt in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the convertible debentures could result in the note principal and related accrued interest being converted to a variable number of our common shares. The conversion feature on these debentures is variable and based on trailing market prices. It therefore contains an embedded derivative. The fair value of the conversion features is calculated at the time of issuance and we record a conversion liability for the calculated value. We recognize additional interest expense for the conversion liability which is added to the principal of the debenture for financial reporting purposes (without an actual increase in the amount we owe to the relevant lender). We also recognize interest expense for accretion of the conversion liability to fair value over the term of the note. The conversion liability is valued at the end of each reporting period and results in a gain or loss for the change in fair value. Due to the volatile nature of our stock, the change in the derivative liability and the resulting gain or loss is usually material to our results. The principal amount on our convertible debentures due to various lenders was about \$25 million as of March 31, 2014, which amount included conversion liabilities of about \$2.2 million. The change in value of these conversion liabilities during the first quarter of 2014 resulted in other income during the period of about \$68,000.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary source of liquidity during 2014 was cash produced by our operations. During the three months ended March 31, 2014, we produced about \$0.5 million in net cash in operating activities and used \$750,000 in net cash in financing activities. During the three months ended March 31, 2013, we produced about \$1.2 million in net cash in operating activities and used \$815,000 in net cash in financing activities. Our cash balances at March 31, 2014 and December 31, 2013 were about \$3.6 million and \$3.9 million, respectively. The Company had a working capital deficit of about \$41 million at March 31, 2014, about \$27 million of which was attributable to current obligations convertible into Company common stock.

Our financial position and liquidity moving forward will be based on our ability to generate cash flows from our operations, as well as the level of our outstanding indebtedness and our debt service obligations. Our business is highly impacted by commodity price volatility, primarily in the market for corn oil. While demand for extracted corn oil is strong in the biodiesel and multiple other markets, decreases in the price of corn oil will have a negative impact on the amount of cash we are able to produce from our operating activities. Moreover, to the extent that our existing and potential new licensees are all corn ethanol producers, our business is also subject to commodity price risk in the markets for ethanol, distillers grain, corn and natural gas. These risks are partially mitigated for us by the fact that use of our corn oil extraction technologies will enhance the liquidity and financial position of licensed ethanol producers and provide our licensees with vitally important cash flows during periods of reduced ethanol producer margins. However, our ability to generate cash flow may be adversely affected if, for example, a new licensee were forced by a reduced crush spread to suspend operations prior to installing a corn oil extraction system.

We owe about \$22 million in debt to YA Global. During the three months ended March 31, 2014, we paid YA Global and its assignees a total of \$750,000 in cash, and YA Global and its assignees collectively converted about \$262,012 due under their debentures into shares of our common stock. On March 29, 2013, the Company and YA Global entered into an amended forbearance agreement pursuant to which the maturity date of the Company's outstanding debt to YA Global and its assignees was extended to December 31, 2014. The most recent amendment that occurred subsequent to the end of the first quarter further provides for cash payments by the Company of \$217,500 per month until July 2014 when the payment increases to \$261,000 per month and the reimbursement of certain legal costs and expenses. Repayment of the balance of these obligations in cash has been and remains an important objective for us, and we hope to complete a financing during 2014 to refinance and recapitalize all of our remaining convertible obligations.

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

Not applicable.

### **ITEM 4      CONTROLS AND PROCEDURES**

Our principal executive officer and principal financial officer participated in and supervised the evaluation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company’s chief executive officer and chief financial officer determined that, as of the end of the period covered by this report, the Company had a material weakness because it did not have a sufficient number of personnel with an appropriate level of knowledge and experience of generally accepted accounting principles in the United States of America (U.S. GAAP) that are commensurate with the Company’s financial reporting requirements. As a result, Management concluded that the Company’s disclosure controls and procedures were not effective at March 31, 2014.

There have been no changes in the Company’s internal control over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1 LEGAL PROCEEDINGS**

See Note 11 to the Consolidated Financial Statements for litigation events during the recent quarter.

### **ITEM 1A RISK FACTORS**

Our investors should consider the risks that could affect us and our business as set forth in Part I, Item 1A, *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change from the risks set forth in that Report.

Although we have attempted to discuss meaningful factors, our investors need to be aware that other factors and risks may become important in the future. New risks may emerge at any time. We cannot predict such risks or estimate the extent to which they may affect our operations and financial performance. Investors should carefully consider the discussion of risks and the other information included in this Quarterly Report on Form 10-Q, including the *Cautionary Information Regarding Forward-Looking Information* provided above in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended March 31, 2014, the Company issued a total of 15,105,067 shares to the Company's various convertible debt holders upon their conversion of convertible debenture in the aggregate amount of \$308,816. The sales were exempt pursuant to Section 4(2) of the Securities Act since the sales were not made in a public offering and were made to entities whose principals had access to detailed information about the Company and were acquiring the shares for the entity's own account. There were no underwriters.

### **ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4 MINE SAFETY DISCLOSURES**

Not Applicable.

### **ITEM 5 OTHER INFORMATION**

None.

## **ITEM 6      EXHIBITS**

The following are exhibits filed as part of GreenShift's Form 10-Q for the quarter ended March 31, 2014:

### INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as incorporated herein by reference
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002 as incorporated herein by reference
101.INS	XBRL Instance
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the date indicated.

### GREENSHIFT CORPORATION

By: /s/EDWARD CARROLL  
EDWARD CARROLL  
Chief Executive Officer &  
Chief Financial and Accounting  
Officer

Date: May 15, 2014

**CERTIFICATION OF QUARTERLY REPORT**

I, EDWARD CARROLL, certify that:

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

By: /s/EDWARD CARROLL  
EDWARD CARROLL  
Chief Executive Officer &  
Chief Financial Officer

Date: May 15, 2014

EXHIBIT 32.1

**CERTIFICATION OF PERIODIC REPORT**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of GreenShift Corporation (the “Company”), certifies that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/EDWARD CARROLL  
EDWARD CARROLL  
Chief Executive Officer &  
Chief Financial Officer  
Date: May 15, 2014

This certification is made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.