

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 SEPTEMBER 30, 2011

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)

**(212) 994-5374**

(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 November 18, 2011, there were 16,401,763 shares of common stock outstanding.

**GREENSHIFT CORPORATION**  
**QUARTERLY REPORT ON FORM 10Q**  
**FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 2011**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1 FINANCIAL STATEMENTS**

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2011 (UNAUDITED) AND DECEMBER 31, 2010**

	<b>9/30/2011</b>	<b>12/31/2010</b>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash	\$ 1,528,192	\$ 18,420
Accounts receivable, net of doubtful accounts	2,978,162	194,571
Inventories, net	463,059	1,275,815
Prepaid expenses and other assets	35,414	644,781
Total current assets	5,004,827	2,133,587
<i>Other Assets:</i>		
Property and equipment, net	--	8,746,240
Intangible assets, net	133,372	516,131
Minority investments	2,501,324	2,501,324
Note receivable	--	500,000
Deposits	47,093	47,571
Assets to be disposed, net of current	--	7,500
Total other assets	2,681,789	12,318,766
<b>TOTAL ASSETS</b>	<b>7,686,616</b>	<b>14,452,353</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<i>Current Liabilities:</i>		
Accounts payable	3,348,915	4,657,016
Accrued expenses	2,579,240	1,789,800
Accrued expenses – deferred employee compensation	1,195,425	2,012,876
Accrued interest payable	3,201,150	3,608,050
Accrued interest payable – related party	--	1,057,052
Deferred revenue	304,244	300,396
Billings in excess	348,461	--
Current portion of long term debt	1,806,322	1,846,575
Current portion of convertible debentures, net	--	858,713
Convertible debentures – related party	--	4,985,001
Current liability for conversion feature	21,961	--
Amounts due to minority shareholders	795,169	839,669
Liabilities of discontinued operations, current	--	316,133
Total current liabilities	13,600,887	22,271,281
<i>Long term Liabilities:</i>		
Asset retirement obligation	--	651,182
Liability for preferred stock – related party	943,359	938,641
Convertible debentures – related party	4,696,000	--
Convertible debentures, net of current	28,312,010	45,737,327
Total long term liabilities	33,951,369	47,327,150
<b>Total Liabilities</b>	<b>47,552,256</b>	<b>69,598,431</b>
<i>Stockholders' Equity (Deficit):</i>		
Convertible preferred stock, \$0.0001 par value, 5,000,000 shares authorized:		
Series B: 2,480,544 shares issued and outstanding	2,481	2,481
Series D: 862,608 and 791,034 shares issued and outstanding, respectively	863	791
Common stock: \$0.0001 par value, 20,000,000,000 authorized 15,602,687 and 13,980,671 shares issued and outstanding, respectively	1,644	1,398
Additional paid in capital	116,732,172	113,922,918
Accumulated deficit	(156,602,800)	(169,073,666)
Total stockholders' equity (deficit)	(39,865,640)	(55,146,078)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 7,686,616</b>	<b>\$ 14,452,353</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 AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>9/30/2011</u>	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>9/30/2010</u>
Revenue	\$ 6,332,035	\$ 1,720,173	\$ 12,211,692	\$ 5,020,992
Performance bonuses	--	--	4,986,568	--
Total revenue	<u>6,332,035</u>	<u>1,720,173</u>	<u>17,198,260</u>	<u>5,020,992</u>
Costs of goods sold	4,366,487	1,265,261	6,756,768	3,488,968
Loss on inventory valuation	--	1,315,315	--	1,315,315
Gross profit	<u>1,965,548</u>	<u>(860,403)</u>	<u>10,441,492</u>	<u>216,709</u>
<i>Operating expenses:</i>				
Sales, general and administrative expenses	<u>1,126,835</u>	<u>1,032,416</u>	<u>3,311,268</u>	<u>4,543,976</u>
Income (loss) from operations	<u>838,713</u>	<u>(1,892,819)</u>	<u>7,130,224</u>	<u>(4,327,267)</u>
<i>Other Income (Expense):</i>				
Gain (loss) on extinguishment of debt	2,204,238	--	8,112,931	--
Gain (loss) on sale of asset	--	--	(222,199)	--
Liquidated damages	(200,000)	--	(850,000)	--
Amortization of debt discount & deferred financing	(8,333)	(8,333)	(25,000)	(30,066)
Interest income	13,810	18,148	51,483	53,852
Miscellaneous income	2,023	1,500	4,523	122,091
Change in conversion liabilities	185,293	108,038	686,062	(584,142)
Change in conversion liabilities - related party	373,414	(49,103)	384,915	(140,709)
Interest expense	(520,565)	(187,499)	(2,039,360)	(629,109)
Interest expense – related party	(224,187)	(878,720)	(762,715)	(2,296,451)
Total other income (expense), net	<u>1,825,693</u>	<u>(995,969)</u>	<u>5,340,640</u>	<u>(3,504,534)</u>
Income (loss) before provision for income taxes	<u>2,664,406</u>	<u>(2,888,788)</u>	<u>12,470,864</u>	<u>(7,831,801)</u>
(Provision for)/benefit from income taxes	--	22,663	--	22,643
Income (loss) from continuing operations	<u>2,664,406</u>	<u>(2,866,125)</u>	<u>12,470,864</u>	<u>(7,809,158)</u>
<i>Discontinued Operations:</i>				
Gain (loss) from disposal of discontinued operations	--	--	--	--
Income (loss) from discontinued operations	--	(156,316)	--	(305,644)
Total income (loss) from discontinued operations	--	(156,316)	--	(305,644)
Net income (loss)	<u>\$ 2,664,406</u>	<u>\$ (3,022,441)</u>	<u>\$ 12,470,864</u>	<u>\$ (8,114,802)</u>
Weighted average common shares outstanding, basic	14,344,713	1,895,455	14,375,719	1,346,999
Weighted average common shares outstanding, diluted	545,212,941	1,895,455	545,212,941	1,346,999
<i>Earnings (Loss) per Share - Basic:</i>				
Income (loss) from continuing operations	\$ 0.19	\$ (1.51)	\$ 0.87	\$ (5.80)
Income (loss) from discontinued operations	0.00	(0.08)	0.00	(0.23)
Net income (loss) per share – basic	<u>\$ 0.19</u>	<u>\$ (1.59)</u>	<u>\$ 0.87</u>	<u>\$ (6.02)</u>
<i>Earnings (Loss) per Share - Diluted:</i>				
Income (loss) from continuing operations	\$ 0.01	\$ (1.51)	\$ 0.03	\$ (5.80)
Income (loss) from discontinued operations	0.00	(0.08)	0.00	(0.23)
Net income (loss) per share – diluted	<u>\$ 0.01</u>	<u>\$ (1.59)</u>	<u>\$ 0.03</u>	<u>\$ (6.02)</u>

*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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>Nine Months Ended</u>	
	<u>9/30/2011</u>	<u>9/30/2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 12,470,864	(8,114,802)
<i>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</i>		
Depreciation	115,311	786,109
Amortization of intangibles	18,473	82,759
Amortization of debt discount and deferred financing costs	25,000	30,066
Non-cash payment of performance bonus applied to convertible debenture	(4,986,568)	--
Loss (gain) on extinguishment of debt	(8,112,931)	--
Loss on sale of assets	222,199	--
Change in net assets of disposal group	7,500	454,710
Change in conversion liabilities	(1,070,977)	724,851
Stock compensation	--	7,500
Accretion of asset retirement obligation	--	29,758
Interest accretion on notes receivable	(53,852)	(53,852)
Expenses incurred by issuance of debentures	236,024	--
Forgiveness of debt	--	(120,630)
Change in inventory valuation	--	1,315,315
Direct payment of operating expense by affiliates under debentures	--	1,354,170
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	(2,783,591)	(237,005)
Prepaid expenses	(257,016)	100,575
Inventory	(21,344)	--
Deferred revenue	3,847	--
Accrued interest	1,948,243	2,292,725
Accrued interest – related party	617,246	629,109
Costs in excess of billings	689,946	--
Billings in excess	348,461	--
Accounts payable and accrued expenses	1,057,711	690,683
Net cash provided by (used in) operating activities	<u>474,546</u>	<u>(27,959)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of inventory components	834,100	--
Proceeds from sale of property, plant and equipment	2,500,000	--
Additions to and acquisition of property, plant and equipment	(13,739)	--
Loans to related party	(13,019)	(75,968)
Net cash provided by (used in) investing activities	<u>3,307,342</u>	<u>(75,968)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of notes payable - related party	(89,436)	--
Proceeds from convertible debentures – related party	80,229	79,005
Loan due to an affiliate	--	(2,500)
Repayment of convertible debentures	(2,000,000)	--
Proceeds from long term debt	--	25,000
Repayment of convertible debentures – related party bridge	(262,909)	--
Net cash provided by (used in) financing activities	<u>(2,272,116)</u>	<u>101,505</u>
Net increase (decrease) in cash	1,509,772	(2,422)
Cash at beginning of period	18,420	39,415
Cash at end of period	<u>\$ 1,528,192</u>	<u>\$ 36,993</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.

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.

COST METHOD OF ACCOUNTING FOR UNCONSOLIDATED SUBSIDIARIES

The Company accounts for its 10% investment in ZeroPoint Clean Tech, Inc. under the cost method. Application of this method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write off some or all of the investments. While the Company uses some objective measurements in its review, the review process involves a number of judgments on the part of the Company’s management. These judgments include assessments of the likelihood of ZeroPoint to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in ZeroPoint’s industry as well as in the general economy.

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.

RECLASSIFICATIONS

Certain amounts previously reported within the consolidated financial statements have been reclassified to conform to the current year presentation.

REVERSE STOCK SPLIT

The Company implemented a 1-for-1000 reverse split of its common stock on September 9, 2011. All quantities of shares and per-share calculations presented in this Report have been adjusted to reflect the reverse split as if it occurred prior to the measurement period (see Note 11, *Stockholders’ Equity*, below).

**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 as of the end of 2010 and during 2011. Prior to February 15, 2011, we were also party to license agreements with ethanol producers that were granted the right to

use our technologies and equipment at their locations in return for royalties equal to the spread between the market price of the corn oil recovered by our licensees with our technologies and equipment and a discounted purchase price. Our sales and costs of sales include the sales and the costs of the corn oil produced by these licensees with our technologies and equipment through February 15, 2011, the effective date of the YA Corn Oil Transaction (see Note 9, *Debt Obligations*, below).

### **NOTE 3 GOING CONCERN**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of September 30, 2011, the Company had \$1,528,192 in cash, and current liabilities exceeded current assets by \$8,596,060. Further, the Company's operating income for the nine months ended September 30, 2011 was primarily due to completion of the YA Corn Oil Transaction and the subsequent realization by the Company of non-cash bonuses totaling \$4,986,568 (see Note 9, *Debt Obligations*, below). 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 nine months ended September 30, 2011, we reported net income and accordingly included potentially dilutive instruments in the fully diluted net income per share calculation on the assumption that all convertible instruments have been full converted. However, we reported net losses during the quarter and nine months ended September 30, 2010, and, in accordance with ASC 260, dilutive instruments were excluded from the net loss per share calculation for such periods.

#### 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

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2011-04, "*Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*." ASU No. 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs, by ensuring that fair value has the same meaning in U.S. GAAP and IFRSs and that their respective disclosure requirements are the same except for inconsequential differences in wording and style. The amendments in ASU No. 2011-04 apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. Some of the disclosures required by ASU No. 2011-04 are not required for nonpublic entities. These amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments to result in a change in the application of the requirements in ASC Topic 820. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing

information about fair value measurements. The adoption of ASU 2011-04 did not have a material impact on the Company's results of operations or financial condition.

In December 2010, the FASB issued ASU 2010-29, "*Business Combinations (ASC Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations.*" The amendments in this ASU affect any public entity as defined by ASC Topic 805 that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of ASU 2010-29 did not have a material impact on the Company's results of operations or financial condition.

In December 2010, the FASB issued ASU 2010-28, "*Intangibles — Goodwill and Other (ASC Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.*" The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 did not have a material impact on the Company's results of operations or financial condition.

Management does not believe that any other 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. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

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 nine months ended September 30, 2011:

*Embedded conversion liabilities as of September 30, 2011:*

Level 1	\$	--
Level 2		--
Level 3		2,853,812
Total	\$	<u>2,853,812</u>

The following table reconciles, for the period ended September 30, 2011, 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, 2010	\$	5,663,482
Write off due to restructured terms		(1,520,910)
Present value of beneficial conversion features of new debentures		531,880
Accretion adjustments to fair value – beneficial conversion features		175,262
Reductions in fair value due to repayments/redemptions		(1,831,694)
Reductions in fair value due to principal conversions		(164,208)
Balance at September 30, 2011	\$	<u>2,853,812</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 PROPERTY AND EQUIPMENT**

During the nine months ended September 30, 2011, the Company liquidated its interest in its remaining corn oil extraction systems for a total of \$12.5 million (see Note 9, *Debt Obligations*, below). During the nine months ended September 30, 2010, certain construction in progress was cancelled and \$2,248,302 in related equipment was transferred from construction in progress to inventory.

Pursuant ASC 410-20, *Asset Retirement Obligations*, the Company had recognized the fair value of the asset retirement obligation for the removal of its corn oil extraction facilities. The present value of the estimated asset retirement costs was capitalized as part of the carrying amount of the related long-lived assets. This liability was \$691,435 as of December 31, 2010, and it has been written-off in connection with the satisfaction of the closing conditions for the YA Corn Oil Transaction during the nine months ended September 30, 2011 (see Note 9, *Debt Obligations*, below).

## NOTE 7 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 September 30, 2011 and December 31, 2010 were \$463,059 and \$1,275,815, respectively.

During the year ended December 31, 2010, certain construction in progress was cancelled and \$2,248,302 in related equipment was transferred into inventory. The Company later re-evaluated this inventory during 2010 and determined that a write-down to market was necessary. As a result, the Company wrote down inventory by \$1,315,315, which was expensed under cost of goods sold as a loss on inventory valuation during the year ended December 31, 2010.

## NOTE 8 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.

The Company has received deposits from its various clients that have been recorded as deferred revenue in the amount of \$304,244 and \$300,396 as of the periods ended September 30, 2011 and December 31, 2010, respectively.

## NOTE 9 DEBT OBLIGATIONS

The following is a summary of the Company's financing arrangements as of September 30, 2011:

	<u>9/30/2011</u>
<i>Current portion of long term debt:</i>	
Mortgages and other term notes	\$ 21,743
Current portion of convertible notes payable	50,000
Current portion of subsidiary notes payable	1,734,579
Total current portion of long term debt	<u>\$ 1,806,322</u>
<i>Long term convertible debentures:</i>	
YA Global Investments, L.P., 6% interest, conversion at 90% of market	\$ 20,852,864
Andypolo, LP, 6% interest, conversion at 90% of market	4,391,643
Stuttgart, LP, 6% interest, conversion at 90% of market	271,237
The Cascade Fund, LLP, 6% interest, conversion at 90% of market	123,893
JMC Holdings, LP, 6% interest, conversion at 90% of market	216,070
David Moran & Siobhan Hughes, 6% interest, conversion at 90% of market	70,266
Acutus Capital, LLC, 6% interest, no conversion discount	1,090,000
Minority Interest Fund (II), LLC, 6% interest, no conversion discount	3,017,061
Viridis Capita, LLC, 6% interest, no conversion discount	237,939
Related Party Debenture, 6% interest, no conversion discount	251,000
Related Party Debenture, 6% interest, no conversion discount	100,000
Conversion liabilities	2,386,037
Total long term convertible debentures	<u>\$ 33,008,010</u>

A total of \$30,621,973 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 September 30, 2011 and the Company's ability to meet such obligations:

Year	Amount
2011	\$ 1,806,322
2012	30,621,973
2013	--
2014	--
2015	--
Thereafter	--
Total minimum payments due under current and long term obligations	<u>\$ 32,428,295</u>

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

On June 17, 2010, the Company and its subsidiaries signed a series of agreements with YA Global Investments, L.P. ("YA Global") to reduce convertible debt due from the Company to YA Global (the "YACO Agreements"). On July 30, 2010, the Company and YA Global entered into an agreement pursuant to which the transactions contemplated by the YACO Agreements (the "YA Corn Oil Transaction") were to close effective August 1, 2010 (the "Effective Date") subject to satisfaction of certain closing conditions. The conditions to effectiveness of this transaction were satisfied and the transaction was deemed effective for reporting purposes as of February 15, 2011. Since the conditions of closing were not satisfied as of December 31, 2010, the Company's results of operations for the year ended December 31, 2010 were reported on the basis that the closing of the YA Corn Oil Transaction had not occurred as of such date. The YACO Agreements provided for various GreenShift-owned corn oil extraction facilities based on GreenShift's patented and patent-pending technologies to be transferred as of August 1, 2010 to a newly formed entity, YA Corn Oil Systems, LLC ("YA Corn Oil"). In exchange, \$10,000,000 of the convertible debt issued by GreenShift to YA Global was deemed satisfied as of August 1, 2010. GreenShift will also receive a 20% equity stake in YA Corn Oil and the right to receive 20% of YA Corn Oil's distributable cash upon the realization by YA Corn Oil of a 20% internal rate of return on its invested capital. GreenShift further agreed to provide management services to the YA Corn Oil for the ongoing operation and maintenance of the transferred extraction facilities in exchange for certain management and brokerage fees, as well as earnings-based performance bonuses to be paid in the form of additional reduction of GreenShift's convertible debt due to YA Global. The conditions for the YA Corn Oil Transaction were satisfied as of February 15, 2011, and the Company subsequently earned a performance bonus of \$2,486,568 as of February 28, 2011 and another bonus of \$2,500,000 as of March 31, 2011. The Company recognized a \$5.9 million gain on extinguishment of debt and reduced liabilities for asset retirement obligation and accounts payable by an additional \$847,000 as a result of the completion of the YA Corn Oil Transaction. The performance bonuses earned during 2011 were recognized as revenue and applied to reduction of the Company's convertible debt with YA Global pursuant to the terms of the YACO Agreements. The Company posted an accrual of \$650,000 during the quarter ended March 31, 2011 for liquidated damages that have not been, but may be, assessed by YA Corn Oil relating to certain conditions involving third party documentation that have not yet been fulfilled. 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. If these conditions remain unfulfilled, YACO could declare an event of default under the YACO Agreements and YA Global could declare an event of default under the debentures that the Company has issued to YA Global. The Company believes that the outstanding conditions will be resolved during the fourth quarter of 2011 and has accordingly not reclassified the debentures due to YA Global as current liabilities. However, YA Global retains the right under its agreements with the Company to exercise its rights in the event that such conditions are not resolved.

In connection with the completion of the YA Corn Oil Transaction, the Company issued YA Global an amended and restated convertible debenture in the amount of \$33,308,023, inclusive of previously accrued interest (the "A&R Debenture"). The A&R Debenture matures on December 31, 2012 and bears interest at the rate of 6% per annum. YA Global shall have 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. YA Global 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. The difference between August 1, 2010 date of the YACO Agreements and the February 15, 2011 effective date for reporting purposes resulted in an increased interest expense of \$915,464 as of December 31, 2010 that was subsequently, on February 15, 2011, eliminated in connection with the completion of the YA Corn Oil Transaction.

While the YA Corn Oil Transaction was deemed effective for reporting purposes as of February 15, 2011, the date upon which the contractual conditions for closing were satisfied, the Effective Date of the YA Corn Oil Transaction for purposes of satisfying debt to YA Global was August 1, 2010. The initial balance of the A&R Debenture stated above (\$33,308,023) was derived by subtracting \$10,000,000 due to the Company for the sale to YA Corn Oil of the above-referenced corn oil extraction systems from the \$41,476,871 and \$1,574,582 in principal and accrued interest due as of July 31, 2010, plus an additional \$256,759 in legal fees incurred by the Company but paid by YA Global. The A&R Debenture was then reduced during the first quarter of 2011 by \$4,986,568 from YA Corn Oil performance bonuses earned, \$2,000,000 paid to YA Global in cash, \$40,500 from conversion by YA Global into Company common stock, and an additional \$1,651 from Viridis Capital.

The amount due to YA Global under the A&R Debenture was reduced during 2010 by \$720,932 from conversion by YA Global into the Company's common stock, plus an additional \$257,229 paid to YA Global from Viridis Capital, LLC (the Company's majority shareholder), which amount was applied to the Company's balance with YA Global pursuant to the terms of the December 2009 Forbearance Agreement by and between Viridis, the Company and YA Global (see Note 9, *Debt Obligations*, below). Of these amounts, YA Global received \$168,023 from conversion into Company common stock and \$103,030 from Viridis Capital between August 1, 2010 and December 31, 2010.

The following schedule reconciles the balance due to YA Global as of July 31, 2010 to the balance due to YA Global under the A&R Debenture as of March 31, 2011, including the impact of the YA Corn Oil Transaction and other payments and costs described above:

	<u>Amount</u>
Principal balance due to YA Global as of July 31, 2010	\$ 41,476,781
Accrued interest due to YA Global as of July 31, 2010	1,574,482
Legal fees, YA Corn Oil Transaction	256,759
Sale of extraction systems to YA Corn Oil	(10,000,000)
First performance bonus	(2,486,568)
Third performance bonus	(2,500,000)
Cash payments	(2,000,000)
Stock payments	(168,023)
Amounts paid by Viridis Capital, LLC	(103,030)
Principal balance due to YA Global as of March 31, 2011	<u>\$ 26,050,401</u>

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. The Company had determined the fair value of the A&R Debenture at December 31, 2010 to be \$45,908,129 which represented the face value of the debenture plus the present value of the conversion feature. During the nine months ended September 30, 2011, the Company recognized a reduction in conversion liability relating to the A&R Debenture at a present value of \$1,542,609 for the conversion liability portion of the gain on extinguishment of debt, of \$7,125 for the conversions during the period, and \$1,142,503 for assignments and/or repayments during the period and recorded an expense of \$141,436 for the accretion of the present value of the conversion liability for the period. The carrying value of the A&R Debenture was \$22,733,412 at September 30, 2011, including principal of \$20,852,864 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$1,880,548 at September 30, 2011 to its estimated settlement value of \$2,094,764 at December 31, 2012. Interest expense of \$1,490,024 for the A&R Debenture was accrued for the nine months ended September 30, 2011.

## 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”). Prior to September 30, 2011, MIF was entitled to convert the accrued interest and principal of the MIF convertible debenture into common stock of the Company at a conversion price equal to 80% of the lowest daily volume weighted average price for the twenty trading days preceding conversion. During the nine months ended September 30, 2011, MIF converted \$386,624 of the principal balance and interest due to MIF into 4,523,421 shares of Company common stock. The Company accounted for the MIF Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the MIF 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 MIF Debenture at December 31, 2010 to be \$4,407,852 which represented the face value of the debenture of \$3,988,326 plus the present value of the conversion feature. During the nine months ended September 30, 2011, the Company recognized a reduction in the conversion liability at present value of \$88,734 for the conversions and recorded income of \$7,278 for the fair value of new advances less assignments plus the accretion to fair value of the conversion liability for the nine months. Due to the elimination of the conversion discount at September 30, 2011, the carrying value of the MIF Debenture consisted of \$3,017,061 in principal at September 30, 2011. Interest expense of \$709,250 for these obligations was accrued for the nine months ended September 30, 2011.

As of December 31, 2010, the Company had convertible debentures payable to Viridis Capital, LLC in an aggregate principal amount of \$518,308 (the “Viridis Debenture”). Prior to September 30, 2011, Viridis was entitled to convert the accrued interest and principal of the convertible debenture into common stock of the Company at a conversion price equal to 90% of the lowest daily volume weighted average price for the twenty trading days preceding conversion. 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 at December 31, 2010 to be \$577,149 which represented the face value of the debenture of \$518,308 plus the present value of the conversion feature. The increase in the debenture during the year ended December 31, 2010 was due to Viridis’ payments to YA Global under the Forbearance Agreement, totaling \$257,229, which amount was applied to reduce the Company’s balance with YA Global under the A&R Debenture. The Company recognized a reduction in conversion liabilities at present value of \$36,430 for reductions during the period, and recorded an expense of \$297 for the accretion to fair value of the conversion liability for the nine months ended September 30, 2011. Viridis Capital assigned \$112,020 of the Viridis Debenture to a related party during the nine months ended September 30, 2011. Due to the elimination of the conversion discount at September 30, 2011, the carrying value of the Viridis Debenture consisted of \$237,939 in principal at September 30, 2011. Interest expense of \$53,465 for these obligations was accrued for the nine months ended September 30, 2011, for a total of \$100,384 in accrued interest due to Viridis as of September 30, 2011.

As discussed more fully in Note 13, *Related Party Transactions*, below, 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.

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. These transactions additionally resulted in the issuance of \$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 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. All of the foregoing amounts remain subject to the terms and conditions of the June 2010 subordination

agreement by and between MIF and the Company's senior lender, which agreement limits transfer of shares issued upon conversion of debt to 5% of the average monthly volume for the Company's common stock.

#### OTHER CONVERTIBLE DEBENTURES

During the nine months ended September 30, 2011, YA Global assigned \$4,391,643 in convertible debt to Andypolo, LP ("Andypolo" and the "Andypolo Debenture"). Andypolo shall have 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. The Company accounted for the Andypolo Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Andypolo 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 Andypolo Debenture upon assignment to be \$4,809,790 which represented the face value of the debenture of \$4,391,643 plus the present value of the conversion feature. During the nine months ended September 30, 2011, the Company recorded an expense of \$19,947 for the accretion to fair value of the conversion liability for the period. The carrying value of the Andypolo Debenture was \$4,829,737 at September 30, 2011, including principal of \$4,391,643 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$438,094 at September 30, 2011 to its estimated settlement value of \$487,961 at December 31, 2012. Interest expense of \$122,725 for these obligations was accrued for the nine months ended September 30, 2011.

During the nine months ended September 30, 2011, YA Global assigned \$321,237 in convertible debt to Stuttgart, LP ("Stuttgart" and the "Stuttgart Debenture"). Stuttgart shall have 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. The Company accounted for the Stuttgart Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Stuttgart 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 Stuttgart Debenture upon assignment to be \$351,824 which represented the face value of the debenture of \$321,237 plus the present value of the conversion feature. During the nine months ended September 30, 2011, \$50,000 in principal was converted into common stock. During the nine months ended September 30, 2011, the Company recorded an expense of \$1,459 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$5,046 for the conversions. The carrying value of the Stuttgart Debenture was \$298,236 at September 30, 2011, including principal of \$271,237 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$26,999 at September 30, 2011 to its estimated settlement value of \$30,137 at December 31, 2012. Interest expense of \$13,422 for these obligations was accrued for the nine months ended September 30, 2011.

During the nine months ended September 30, 2011, YA Global assigned \$263,498 in convertible debt to JMC Holdings, LP ("JMC" and the "JMC Debenture"). JMC shall have 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. The Company accounted for the JMC Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the JMC 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 JMC Debenture upon assignment to be \$286,448 which represented the face value of the debenture of \$261,070 plus the present value of the conversion feature. During the nine months ended September 30, 2011, \$47,428 in principal was converted into common stock. During the nine months ended September 30, 2011, the Company recorded an expense of \$650 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$4,809 for the conversions. The carrying value of the JMC Debenture was \$237,289 at September 30, 2011, including principal of \$216,070 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$21,219 at September 30, 2011 to its estimated settlement value of \$24,008 at December 31, 2012. Interest expense of \$3,645 for these obligations was accrued for the nine months ended September 30, 2011.



During the nine months ended September 30, 2011, YA Global assigned \$123,893 in convertible debt to The Cascade Fund, LLP (“Cascade” and the “Cascade Debenture”). Cascade shall have 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. The Company accounted for the Cascade Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Cascade 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 Cascade Debenture upon assignment to be \$135,825 which represented the face value of the debenture of \$123,893 plus the present value of the conversion feature. During the nine months ended September 30, 2011, the Company recorded an expense of \$306 for the accretion to fair value of the conversion liability for the period. The carrying value of the Cascade Debenture was \$136,131 at September 30, 2011, including principal of \$123,893 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$12,238 at September 30, 2011 to its estimated settlement value of \$13,766 at December 31, 2012. Interest expense of \$1,853 for these obligations was accrued for the nine months ended September 30, 2011.

During the nine months ended September 30, 2011, YA Global assigned \$70,266 in convertible debt to David Moran & Siobhan Hughes (“Moran-Hughes” and the “Moran-Hughes Debenture”). Moran-Hughes shall have 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. The Company accounted for the Moran-Hughes Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Moran-Hughes 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 Moran-Hughes Debenture upon assignment to be \$77,033 which represented the face value of the debenture of \$70,266 plus the present value of the conversion feature. During the nine months ended September 30, 2011, the Company recorded an expense of \$173 for the accretion to fair value of the conversion liability for the period. The carrying value of the Moran-Hughes Debenture was \$77,206 at September 30, 2011, including principal of \$70,266 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$6,940 at September 30, 2011 to its estimated settlement value of \$7,807 at December 31, 2012. Interest expense of \$1,051 for these obligations was accrued for the nine months ended September 30, 2011.

On September 9, 2009, JMJ Financial Corporation (“JMJ”) issued the Company a 14.4% secured promissory note in the amount of \$500,000 (the “JMJ Note”) in return for \$600,000 in 12% convertible debt (the “JMJ Debenture”) issued by the Company. The principal balance due under the JMJ Note was \$500,000 as of September 30, 2011 and accrued interest receivable under the JMJ Note was \$160,767. The principal balance due under the JMJ Debenture was \$481,748 as of September 30, 2011 and accrued interest owed under the JMJ Debenture was \$135,664. On September 2, 2011, JMJ sent notice of its election to offset the JMJ Note against the JMJ Debenture. As a result of this offset, the Company and JMJ are both released of their liability in regards to the JMJ Note and the JMJ Debenture. As of September 30, 2011, the balances on the JMJ Note and the JMJ Debenture have been paid in full. For the nine months ended September 30, 2011, interest expense of \$43,239 for these obligations was incurred.

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, *Derivatives and Hedging*, addresses whether an instrument that is not under the scope of ASC 480, *Distinguishing Liabilities from Equity*, 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 and chief executive officer 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, *Derivatives and Hedging*. The Company assessed all other factors in ASC 815, *Derivatives and Hedging*, to determine how the conversion feature would be classified.

#### **NOTE 10 GUARANTY AGREEMENT**

Viridis Capital, LLC ("Viridis") is the majority shareholder of the Company and is solely owned by Kevin Kreisler, the Company's founder, chairman and chief executive officer. 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 YA Global (see Note 11, *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 13, *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.

On October 31, 2006, the Company guaranteed a secured note issued by a wholly owned subsidiary of the Company's former subsidiary, GS AgriFuels Corporation, in the principal amount of \$6,000,000 to Stillwater Asset-Backed Fund, LP. The balance due to Stillwater at September 30, 2011 and December 31, 2010 was \$2,071,886. The operations of GS AgriFuels were discontinued during 2009. Viridis Capital, LLC subsequently acquired the stock of GS AgriFuels during 2010.

#### **NOTE 11 STOCKHOLDERS' EQUITY**

The Company completed a 1 for 1,000 reverse stock split on September 9, 2011. This stock split became effective under applicable laws on September 9, 2011. 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 thousand 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. The reverse split reduced the number of outstanding shares of common stock from about 16 billion to about 16 million.

During the nine months ended September 30, 2011, 9,000,000 shares of Company common stock were cancelled by Viridis Capital, LLC, the Company's majority shareholder, and about 10 million shares of common stock were issued upon the conversion of an aggregate of \$740,678 in debt during the nine months ended September 30, 2011 (see Note 9, *Debt Obligations*, above). There were 15,602,687 and 13,980,671 shares of Company common stock outstanding as of September 30, 2011 and December 31, 2010, respectively.

#### **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.

During the year ended December 31, 2010, 8,920 shares of Series D Preferred Stock were converted into 10 million shares of Company common stock by Viridis Capital, all of which shares were subsequently surrendered to the Company and cancelled between November 2010 and May 12, 2011. Viridis Capital is the majority shareholder of the Company and its sole member, Kevin Kreisler, is the Company's founder, chairman and chief executive officer. Viridis Capital (along with our chairman personally and an entity held in trust for the benefit of our chairman's wife), has provided GreenShift and its affiliated companies and subsidiaries with more than about \$9 million in financing. Viridis Capital and Kevin Kreisler have guaranteed all of the Company's debt due to YA Global (see Note 10, *Guaranty Agreements*, above). Viridis Capital 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 13, *Related Party Transactions*, below). Effective September 30, 2011, 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 Company's Series D Preferred Stock is beneficially owned by Viridis Capital, LLC (625,125 shares), Edward Carroll (187,500 shares), Acutus Capital, LLC (124,875 shares) and Minority Interest Fund (II), LLC (103,534 shares).

#### SERIES F PREFERRED STOCK

During the year ended December 31, 2010, the Company entered into the Second 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") (see Note 13, *Related Party Transactions*, below). 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. Each preferred share is redeemable at face value and convertible into shares of the Company's common stock at a rate equal to 90% of the then-current five day trailing average closing market price for the Company's common stock. The Sellers agreed not sell shares of the Company's common stock issued upon conversion of the CWT Preferred Shares at a monthly rate greater than 5% of the average trading volume for the Company's common stock for each preceding calendar month. 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 Company accounted for the CWT Preferred Shares in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the CWT convertible 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 CWT 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 year ended December 31, 2010, the Company recognized a total expense of \$925,962 based on the grant date value, including \$497,545 in professional fees for the agreement modification and the \$428,381 for the conversion liability at present value. The Company recognized a reduction in conversion liability at present value of \$45,601 for redemptions that occurred from payments of royalties under the agreement and recorded an expense of \$50,319 for the accretion to fair value of the conversion liability for the nine months ended September 30, 2011. The carrying value of the liability for the CWT Preferred Shares was \$943,359 at September 30, 2011, 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 \$445,814 at September 30, 2011 to its estimated settlement value of \$1,021,637 at September 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.

## NOTE 12 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. Amaizing Energy Atlantic, LLC; Amaizing Energy Cooperative; Amaizing Energy Denison, LLC; Amaizing Holding Company, LLC; and Lincolnway Energy, LLC, in the United States District Court, Northern District of Iowa.

On May 6, 2010, GreenShift submitted a *"Motion to Transfer Pursuant to 28 U.S.C. § 1407 for Consolidated Pretrial Proceedings"* to the United States Judicial Panel on Multidistrict Litigation (the "Panel") located in Washington, D.C. In this motion, GreenShift moved the Panel to transfer and consolidate all pending suits involving infringement of GreenShift's patents to one federal court for orderly and efficient review of all pre-trial matters. On

August 6, 2010, the Panel ordered the consolidation and transfer of all pending suits in the U.S. District Court, Southern District of Indiana for pretrial proceedings (the "MDL Case").

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.

As part of the MDL Case, on November 15, 2010, GS CleanTech amended its complaint filed in the New York I Action to include a claim of patent infringement personally against the founder, CEO and President of ICM, and ICM amended its complaint filed in the Kansas action to include a claim seeking a declaratory judgment that the '858 Patent is unenforceable. On November 30, 2010, in the MDL Case, GS CleanTech filed a motion to dismiss ICM's amended complaint (including its claim seeking a declaratory judgment that the '858 Patent is unenforceable) or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. ICM has opposed the motion to dismiss. On December 10, 2010, in the MDL Case, GS CleanTech filed motions to strike the affirmative defenses that the '858 Patent is unenforceable asserted by Cardinal Ethanol, LLC; Big River Resources Galva, LLC; and Big River Resources West Burlington, LLC; and Lincolnland Agri-Energy, LLC. Each defendant has opposed the respective motion to strike. On February 14, 2011, GS CleanTech notified the court in the MDL Case that it will not be proceeding with a motion for preliminary injunction. On February 24, 2011, in the MDL Case, in connection with its breach of contract counterclaim against GreenShift Corporation, Adkins Ethanol, LLC filed a motion for judgment on the pleadings or in the alternative partial summary judgment on the issue of liability on the issue of breach of contract and partial summary judgment on the issue of damages. On March 24, 2011, GreenShift filed an opposition to Adkins' motion.

All of the parties in the MDL Action filed their respective briefs with the Court in connection with proposed claim construction for certain claim limitations in the '858 Patent. A hearing on the claim construction matter was then held by the Court in the MDL Action on August 22, 2011. On September 29, 2011, the Court issued its ruling with respect to claim construction.

There have been no other substantive rulings on the merits on any of the actions included in the MDL Case and Management is unable to characterize or evaluate the probability of any outcome at this time. The Company intends to take all necessary steps to bring infringement of its patents to an end, including filing additional lawsuits involving any and all infringing use of the Company's patents. The Company further plans to seek additional relief for instances of willful infringement. The Company's position is that any infringing ethanol producer is liable for any infringing use of the Company's patented technologies beginning on the publication date of the application that led to the '858 Patent.

#### OTHER MATTERS

The Company's subsidiary, GS COES (Yorkville I), LLC, is party to an action entitled Nosan, et al v. GS COES (Yorkville I), LLC, et. al., pending as Oakland County, Michigan Circuit Court Case No. 10-110329-CK, an action by nineteen plaintiffs to recover on a guarantee by the subsidiary secured by a pledge in support of 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. GreenShift Corporation and GS CleanTech Corporation are not currently parties to this action. The Court has granted a Motion for Change of Venue to allow transfer to Lenawee County, Michigan where the underlying bridge loan arrangement is currently being litigated. GS COES intends to vigorously defend this action. This case is in the discovery phase. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome.

GreenShift Corporation, GS CleanTech Corporation and GS COES (Yorkville I), LLC, are 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 action was originally filed as a lien foreclosure and unjust enrichment claim by Dynalectric of Michigan II, Inc., which claim was resolved. GreenShift, as assignee of GS CleanTech, filed a counterclaim, cross-claim and third party complaint against various parties asserting a claim for money due in the amount of \$1,442,082, plus interest, attorney fees and costs, and for foreclosure of its construction lien. Biofuels Industries Group then asserted counterclaims, cross-claims and third party complaints against GreenShift, GS CleanTech, GS COES, Kevin Kreisler and Viridis Capital, LLC claiming breach of contract and seeking damages plus attorney fees, interest and cost. In response, the Company and its subsidiaries has asserted additional claims against Biofuels Industries Group and third party complaints against three of the bridge lenders claiming lender liability and various other claims in excess of \$25,000. On June 6, 2011 Biofuels Industries Group filed for Chapter 11 bankruptcy protection in the Southern District of Michigan, Eastern Division, under which protection the collateral upon which the lien was recorded was sold for substantially less than the first mortgage holder's claimed balance in excess of \$9,000,000. Documentation confirming priority claim to the proceeds has been requested, but is not yet received. Recovery by GS CleanTech on the construction lien does not appear at this time. As to the other claims, this case is in the discovery stage, but was stayed secondary to the bankruptcy filing. We are unable to evaluate the likelihood of an unfavorable outcome or the range of possible loss in the event of an adverse verdict at this time.

On October 31, 2006, the Company guaranteed a secured note issued by a wholly owned subsidiary of the Company's former subsidiary, GS AgriFuels Corporation, in the principal amount of \$6,000,000 to Stillwater Asset-Backed Fund, LP. The balance due to Stillwater at December 31, 2010 was \$2,071,886. This obligation is guaranteed by the Company, however, Stillwater is party to an intercreditor agreement with the Company's senior lender which provides that no payments can be made by the Company against the balance due to Stillwater until the senior lender has been fully paid. The operations of GS AgriFuels were discontinued during 2009. Viridis Capital, LLC subsequently acquired the stock of GS AgriFuels during 2010.

The Company posted an accrued expense of \$650,000 during the period ended September 30, 2011 for liquidated damages that have not been, but may be, assessed by YA Corn Oil relating to certain conditions involving third party documentation that have not yet been fulfilled.

The Company is also involved in various collection matters for which vendors are seeking payment for services rendered and goods provided. The Company and its subsidiaries are party to numerous matters pertaining to outstanding amounts alleged to be due. Management is unable to characterize or evaluate the probability of any outcome at this time.

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.

#### **NOTE 13 RELATED PARTY TRANSACTIONS**

Minority Interest Fund (II), LLC ("MIF") is party to certain convertible debentures issued by the Company (see Note 9, *Debt Obligations*, above). The managing member of MIF is a relative of the Company's chairman.

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 9, *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. These transactions additionally resulted in the issuance of \$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 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. All of the foregoing amounts remain subject to the terms and conditions of the June 2010 subordination agreement by and between MIF and the Company's senior lender, which agreement limits transfer of shares issued upon conversion of debt to 5% of the average monthly volume for the Company's common stock.

On September 30, 2011, the Company's chairman waived \$411,061 in deferred salaries due from prior years, \$138,001 in unreimbursed expenses, and \$112,020 previously assigned to an employee of the Company. Various other related party employees waived an aggregate of \$133,101 in deferred compensation from prior years, and one former employee (a family member of the Company's chairman) agreed to accept payment of \$92,337 in deferred salaries due from prior years in the form of restricted Company common stock at \$0.11 per share. These transactions collectively reduced the Company's liabilities by about \$2.4 million at September 30, 2011.

Between January 1, 2008 and December 31, 2010, Viridis, MIF, Acutus, and management personnel provided us 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 total, Viridis (along with our chairman personally and an entity held in trust for the benefit of our chairman's wife (the "Kreisler Trust")), MIF and current management have provided GreenShift and its affiliated companies and subsidiaries with more than \$15 million between January 1, 2005 and December 31, 2010. Viridis, the Kreisler Trust and our chairman collectively loaned about \$9 million of this amount, about half of which was subsequently canceled, forgiven and contributed to shareholders' equity. 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 10, *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.

Effective December 31, 2010, Viridis Capital, LLC and the Company entered into an agreement pursuant to which Viridis acquired the stock of GS AgriFuels Corporation and GS Design, Inc., from the Company for \$5,000. The terms of the agreement provided for the acknowledgment by the parties of the continuing first priority security interest of the Company's senior lender on the stock and assets of each entity, and the continuing guarantees and obligations of Viridis, each entity, and the Company with respect to amounts due from the Company to its senior lender.

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 11, *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 10, *Guaranty Agreement*, above). As of December 31, 2009, the Company accrued royalty fees payable of

\$1,047,832 and prepaid royalty fees of another \$300,000, for a total of \$1,347,832. \$750,000 of this amount was capitalized and then amortized and included in the Company's cost of sales for the years ended December 31, 2011 (\$321,429), December 31, 2010 (\$267,857) and December 31, 2009 (\$160,714). During the year ended December 31, 2009, the Company issued unsecured convertible debentures (collectively, the "TAA Debentures") to each of David Cantrell, David Winsness, Greg Barlage, and John W. Davis in consideration for amounts due and/or accrued pursuant to the TAA (\$1,347,832). The TAA Debentures were acquired by MIF during 2009 and paid to a balance of \$851,422 as of December 31, 2010. The Company subsequently accrued royalties of \$271,186 and \$932,924 during 2010 and 2011, respectively, which amounts were then offset against prepaid royalties of \$300,000 from 2009 and an additional \$519,311 from 2011, corresponding to a balance of about \$384,799 in accrued royalties payable under the TAA as of September 30, 2011.

#### **NOTE 14 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

The following is a summary of supplemental disclosures of cash flow information for the nine months ended September 30, 2011 and 2010:

	<u>9/30/2011</u>	<u>9/30/2010</u>
<i>Cash paid for the following:</i>		
Interest	\$ --	\$ 3,276
Total	--	3,276
Performance bonuses applied to convertible debentures	\$ 4,986,568	\$ --
Debentures converted into common stock	740,648	--
Forgiveness of affiliate payable	180,000	--
Stock issued for compensation	--	7,500
Forgiveness of affiliate receivable charged against paid in capital	1,655,851	327,011
Increase in affiliate receivable from transfer of affiliate accounts payable	--	445,113
Transfer of construction in progress into inventory	--	2,248,302
Direct payment of convertible debentures by affiliate, increasing affiliated debenture	--	251,277
Reduction in value of conversion features of convertible debt from conversions	492,298	318,536



## 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, 2010. Specifically, we may experience significant fluctuations in future operating results due to 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

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 invented, developed, commercialized and patented new technologies that integrate into the back-end of existing dry mill corn ethanol plants to tap into a new reserve of inedible crude corn oil with an estimated industry-wide output of more than 800 MMGY, an amount capable of offsetting more than about 20 million barrels of fossil fuel-

derived crude oil per year. This corn oil is a valuable feedstock for use in the production of advanced carbon-neutral liquid fuels and other biomass-derived alternatives to fossil fuel-based products.

Our corn oil extraction technologies are widely considered to be 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 about \$2.80 per gallon – more than seven times higher than its value 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. These benefits correspond to increased ethanol producer income ranging from about \$0.08 to more than \$0.20 per gallon of ethanol produced, depending on the extent to which the producer uses our patented and patent-pending extraction technologies, and ethanol producer paybacks of less than 1 year at current market prices. No technologies have been developed, commercialized and made available to corn ethanol producers in the history of the ethanol industry that begin to approach these results.

More than 15% of the ethanol industry has licensed our patented and patent-pending corn oil extraction technologies. In February 2010, the EPA published its estimate that 70% of the U.S. ethanol industry will use back-end corn oil extraction technology to produce 40% of America's biodiesel feedstock by 2022. At the end of 2010, industry publications were predicting the adoption of back-end corn oil extraction by the entire industry. If that actually occurs, if our patented technologies actually standardize and shift the majority of the U.S. ethanol industry into increased efficiency and profitability, then we will have fulfilled our founding mission of building value by developing and using technology to catalyze disruptive environmental gain.

We believe that the first, best and most cost-effective way to achieve positive environmental change of any magnitude is to develop technology-driven economic incentives that motivate large groups of people and companies to make incremental environmental contributions that are collectively very significant. At projected levels of adoption, that is precisely what our patented corn oil extraction technologies will have done by sustainably producing globally-meaningful quantities of new carbon-neutral liquid fuels for distribution through existing fossil fuel supply chains; displacing more than 20 million barrels per year of crude oil; saving trillions of cubic feet per year of natural gas; eliminating tens of millions of metric tons per year of greenhouse gas emissions; and infusing more than an estimated \$2 billion per year of increased income into the corn ethanol industry – the foundation of North America's renewable fuel production capability.

We are focused on driving and supporting the full utilization of our patented corn oil extraction technologies by as many licensed ethanol plants as possible, as quickly as possible. We generate revenue by licensing our technologies to ethanol producers, and by providing our licensees with success-driven, value-added services and other solutions based upon our expertise, know-how, technologies, and patent position.

We also maintain our strong commitment to continued innovation and have many additional patents pending for our portfolio of strategically-compatible cleantech designed to leverage our extraction platform and further strengthen the significant competitive advantages that our technologies provide to licensed ethanol producers.

## **Plan of Operations**

Our business continues to improve. We won significant new business during 2011, increasing licensed penetration to more than 15% of the industry and more than doubling the amount of production licensed to use our extraction technologies from 1.0 billion gallons per year (“BGY”) at the end of 2010 to more than 2.0 BGY of ethanol production today.

We were awarded contracts to design, build and install extraction systems for our licensees after extensive due diligence and third party review, including a state of the art new corn oil recovery facility for Sunoco, Inc. We received two new patents during 2011 that we believe substantially strengthen our issued patents and ability to protect the competitive advantage of our licensees. We expanded our technology portfolio by filing new patent applications and pressing forward with new technologies designed to further enhance the profitability of our licensees. We reduced our debt to YA Global and its affiliates by about \$7 million to about \$26 million, down about 21% from the balance due at the start of 2011. We produced about \$2.1 million in operating income during the nine months ended September 30, 2011 (excluding the impact of one-time performance bonuses), up from the \$4.3 million in operating losses incurred during the first three quarters of 2010. And, we generated about \$150,000 in net

income during the third quarter of 2011 excluding about \$2.5 million in non-recurring other income resulting from our reduction and elimination of liabilities during the quarter.

Our goals for the balance of 2011 are to work with our licensees to maximize the benefits and minimize the costs of recovering corn oil; increase our licensed penetration to facilities producing a total of 2.3 BGY of ethanol; reduce debt by a total of 33% during 2011; generate material positive cash flow from operations and operating income; and to continue to improve upon our technologies serving the ethanol industry.

Our financial performance for the balance of 2011 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.

A number of our licensees were in various stages of deploying or optimizing the performance of the systems needed to use our technologies as of September 30, 2011. Notwithstanding the impact of new license agreements that we may enter into or fluctuation in the market price for corn oil, we expect that our quarterly results of operations will continue to improve sequentially at least until the second quarter of 2012 as all of our existing licensees commence and achieve full production. In addition, future results may be improved by the impact of event-driven systems integration contracts as we have recently experienced a significant increase in 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 to continue incurring substantial costs in connection with our ongoing litigation for infringement of our patented corn oil extraction technologies. These costs have increased during the second half of 2011 and are expected to continue to increase into 2012 in advance of trial, and as we expand our litigation 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. We have reserved cash for this purpose.

As discussed further below, despite producing nominal net income during the third quarter of 2011, it is unlikely that we will generate pre-tax profit for the full year ended December 31, 2011 after excluding the positive impact of non-recurring income earned during 2011. However, we believe that the license agreements we have executed to date will provide us with sufficient recurring revenue to transition to pre-tax profit on an annualized basis by the end of 2011, depending on the amount of corn oil produced by our licensees, the market price for corn oil, and the extent to which we incur additional costs in our litigation for infringement of our patents.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This disclosure is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe are proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our consolidated financial statements. Actual results could differ materially from those estimates. Key accounting policies, including but not limited to those relating to revenue recognition, property and equipment, impairment of long-lived assets and goodwill, derivative financial instruments, and accounting for income taxes, are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See further discussion of our critical accounting policies and estimates, as well as significant accounting policies, in our Form 10-K, as amended, for the year ended December 31, 2010.

## 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.

## INDUSTRY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

### **Commodity Prices**

The results of licensed ethanol producers are highly impacted by commodity prices, including the spread between the cost of corn and natural gas that they must purchase, and the price of ethanol and distillers grains that they sell. Prices and supplies are subject to and determined by market forces over which our licensees have no control, such as weather, domestic and global demand, shortages, export prices, and various governmental policies in the United States and around the world. As a result of price volatility for these commodities, the ability of our licensees to operate or to commit the capital needed to purchase, build and install the systems needed to use our patented extraction technologies is subject to uncertainty. Increases in corn or natural gas prices or decreases in ethanol or distillers grains prices are likely to put pressure on and may strain the liquidity of our licensees.

Our business is also directly impacted by commodity price volatility in the market for corn oil. The current market price for corn oil is about \$2.80 per gallon. 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. Any such decreases may adversely affect our results of operations and financial position.

Our ability to generate and increase revenue from existing and new license agreements is consequently subject to uncertainty, and our results of operations and financial position may be adversely affected by commodity price volatility in the markets for corn, natural gas, ethanol, distillers grain and corn oil.

### **Availability of Capital**

Some ethanol producers have faced financial distress recently, culminating with bankruptcy filings by several companies over the past three years. This, in combination with continued volatility in the capital markets has resulted in reduced availability of capital for the ethanol industry generally. Construction of corn oil extraction systems by our licensees is capital intensive and our licensees may not be able to access the capital they need to pay for the components, equipment and installation services needed to implement our technologies (despite the fact that a new licensee would see a return of capital within less than a year at current corn oil market prices). Our results of operations are dependent on the ability of our licensees to capitalize and profitably operate their businesses. Our financial and operational performance therefore depends to significant extent on numerous factors including prevailing economic conditions, volatile commodity prices, and financial, business and other factors beyond our control.

### **Legislation**

The domestic market for ethanol is largely dictated by federal mandates for blending ethanol with gasoline. The Renewable Fuel Standard ("RFS") mandate level for 2011 of 12.6 billion gallons approximates current domestic production levels. Future demand will be largely dependent upon the economic incentives to blend based upon the relative value of gasoline versus ethanol, taking into consideration the blender's credit and the RFS. Any significant increase in production capacity beyond the RFS level might have an adverse impact on ethanol prices. Additionally, the RFS mandate with respect to ethanol derived from grain could be reduced or waived entirely. A reduction or waiver of the RFS mandate could adversely affect the prices of ethanol and the financial performance of existing and potential licensees, and could thus adversely affect our business. The volumetric ethanol excise tax credit, or VEETC, is currently set to expire on December 31, 2011. Referred to as the blender's credit, VEETC provides companies with a tax credit to blend ethanol with gasoline. The Food, Conservation and Energy Act of 2008, or the 2008 Farm Bill, amended the amount of tax credit provided under VEETC to 45 cents per gallon of pure ethanol and 38 cents per gallon for E85, a blended motor fuel containing 85% ethanol and 15% gasoline. The elimination or further reduction of VEETC or other federal tax incentives to the ethanol industry may have an adverse impact on our business by reducing the demand and market price for ethanol, which could adversely affect the financial performance of our licensees. To the extent that such laws are modified, the demand for ethanol may be reduced, which could negatively and materially affect the ability of our licensees and, derivatively, our own ability to operate profitably.

Our licensees sell the corn oil they produce with our technologies into several markets, and primarily for refining into biodiesel or renewable diesel. The production of biodiesel is made significantly more competitive by federal and state tax incentives. These incentives are meant to lower the cost of biodiesel in comparison to petroleum diesel. The biodiesel industry has been dependent on the continuation of certain federal subsidies and regulatory support. The biodiesel tax credit expired on December 31, 2009 and was not reinstated until December 2010. While its reinstatement was made retroactive to January 1, 2010, the credit is scheduled to expire on December 31, 2011 and may not be timely renewed, if at all. The revocation or amendment of any one or more of those laws, regulations or programs could adversely affect the market for corn oil and our financial condition.

## **Infringement**

We are currently and are likely in the future to be subject to claims, negotiations or complex, protracted litigation in connection with the enforcement of our intellectual property rights. Intellectual property disputes and litigation are typically very costly and can be disruptive to our business operations by diverting the attention and energies of management and key technical personnel. Litigation and regulatory proceedings are subject to inherent uncertainties, and unfavorable changes in the law or rulings could occur which could materially harm our business and results of operations.

## **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, GreenShift by way of increased royalty income. These services include design, procurement, integration and ongoing support services. During 2011 and 2010, 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. In addition, during 2011 and 2010, we owned corn oil extraction systems that were located at and operated by several licensees. Our costs of sales during 2011 and 2010 accordingly included additional costs incurred in connection with our corn oil purchase rights under the relevant licenses as well as the ongoing maintenance of these systems.

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.

We entered into agreements during 2010 with our senior lender, YA Global Investments, L.P. (“YA Global”), for the sale of several GreenShift-owned corn oil extraction systems to YA Corn Oil Systems, LLC (“YA Corn Oil”) in exchange for the satisfaction of convertible debt due to YA Global and the right to receive certain distributions from YA Corn Oil. We fulfilled the conditions for effectiveness of this transaction as of February 15, 2011. Our results of operations for the nine months ended September 30, 2011 include a one-time gain of about \$5.9 million due to the sale of extraction systems. In addition, we earned non-recurring performance bonuses from YA Corn Oil in the amount of about \$5 million which are included in revenue for the nine months ended September 30, 2011.

## RESULTS OF OPERATIONS

### **Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010**

Revenue and operating income improved during the three months ended September 30, 2011 in comparison to the same period last year, with \$6.3 million in revenue and \$839,000 in operating income during the third quarter of this year as compared to \$1.7 million in revenue and \$1.9 million in operating losses from the three months ended September 30, 2010.

The increase in revenue and operating margins was due to the overall impact of the new technology licensing agreements that we have executed to date. Revenue and operating income in future quarters can be expected to fluctuate in connection with a number of factors, including 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, the costs incurred in our ongoing litigation for infringement of our patents, 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 quarters ended September 30, 2011 and September 30, 2010 were \$4.4 million and about \$2.6 million, respectively. Gross profit during the third quarter 2011 increased to \$2.0 million from about \$0.5 million from the same period last year (excluding the cost of an inventory write-down of about \$1.3 million). Gross margin improved to 31% of revenue from the 26% demonstrated during the third quarter 2010. Increased economies of scale are responsible for the improved gross margin and can be expected to favorably impact margins in future periods as existing and planned new licensees commence and achieve full production.

Operating expenses for the three months ended September 30, 2011 and 2010 were about \$1.1 million and \$1.0 million, respectively. Our operating expenses include significant professional fees which can be expected to increase moving forward as we defend against infringement and expand our patent litigation. We hope to eventually eliminate this expense, but we must and will take all necessary steps to bring infringement of our patents to an end.

Other income for the three months ended September 30, 2011 was about \$1.8 million as compared to other expense of \$1.0 million incurred during the same period in 2010. The amount in 2011 included a net amount of about \$2.5 million in non-recurring other income realized in connection with settlement and discharge of liabilities. Net of this amount, other expense during the third quarter of 2011 was about \$0.7 million. This amount is mostly comprised of accrued interest expenses and expenses associated with the conversion features of our convertible debt.

Net income for the quarter ended September 30, 2011 was about \$2.7 million as compared to a net loss of about \$3.0 million from the same period in 2010. Net income during the third quarter 2011 would have been about \$150,000 without the \$2.5 million in non-recurring other income discussed above. The reduction of our net loss during 2011 as compared to the net loss from the same period in 2010 was due to the impact of cost-cutting measures implemented during 2010 and the new technology licensing agreements discussed above. We expect additional improvements in future quarters as we realize increased economies of scale in connection with the commencement and realization of full production by our existing licensees.

### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

Total revenues for the nine months ended September 30, 2011 were \$17.2 million as compared the \$5.0 million generated during the nine months ended September 30, 2010. While most of the increase in revenue during the period was due to the overall impact of the new technology licensing agreements we have executed to date, about \$5.0 million of the increase was due to the award of one-time, non-cash performance bonuses in connection with the YA Corn Oil Transaction. Revenue in future periods will not include these non-recurring amounts. However, a number of our licensees were in various stages of deploying or optimizing the performance of the systems needed to use our technologies at the end of the third quarter of 2011. Revenue can consequently be expected to increase at least until the second quarter of 2012 as all of our existing licensees commence and achieve full production. Revenue moving forward can also be expected to fluctuate with a number of factors, including the market price for corn oil, our ability to execute new license agreements, the extent to which we collect reasonable royalties for all use of our technologies, and the degree to which we provide event-driven systems integration services to our licensees.

Costs of sales for the nine months ended September 30, 2011 and September 30, 2010 were \$6.8 million and about \$3.5 million, respectively. Gross profit for the nine months ended September 30, 2011 was about \$10.4 million, or about \$5.4 million net of the YA Corn Oil performance bonuses described above. In comparison, gross profit for the nine months ended September 30, 2010 was about \$1.5 million excluding a non-recurring inventory write-down in that period of about \$1.3 million. The net increase in gross profit during 2011 was primarily due to increased sales from our existing license agreements discussed above. We expect to achieve increased economies of scale in future periods with respect to our costs of sales and gross profit as all of our existing licensees commence production and as we execute new licenses for our technologies.

Operating expenses for the nine months ended September 30, 2011 and 2010 were about \$3.3 million and \$4.5 million, respectively. The slight decrease in operating expenses during the period was the result of our cost-cutting activities during 2011 and was offset by increased professional fees. Professional fees can be expected to increase moving forward as we defend against patent infringement. We expect to continue to incur increased expenses in this regard for the foreseeable future. These expenses have increased in the latter half of 2011 and are expected to continue to increase into 2012 in advance of trial, and as we expand our litigation to protect the competitive advantage of our licensees by prosecuting additional producers and other parties infringing our patents. Consequently, litigation 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. Despite these expected increases, our operating expenses can be expected to decrease overall as a percentage of revenue in future periods as we continue to realize increased economies of scale from our existing and new licensing activities.

Income from operations during the nine months ended September 30, 2011 was about \$7.1 million, or about \$2.1 million net of the \$5.0 million in performance bonuses earned from YA Corn Oil during the nine month period. We anticipate improving on this result in future quarters in connection with the commencement and realization of full production by existing and new licensees. Our costs of sales and operating expenses moving forward will be primarily comprised of (1) technology royalties; (2) employee costs; (3) travel, materials and other expenses incidental to execution of our license support services; (4) general and administrative costs relating to our offices, utilities and insurance; and (5), professional fees relating to accounting, corporate and litigation activities. As discussed above, we expect that the license agreements we have executed to date will provide sufficient revenue to more than cover all of these costs on an ongoing basis.

Other income (expense) for the nine months ended September 30, 2011 included \$8.9 million in net gains realized in connection with the Company's efforts to reduce and eliminate liabilities. Net of this amount, other expenses for the nine months ended September 30, 2011 and 2010 were about \$3.6 million and \$3.5 million, respectively.

Both amounts consisted primarily of non-cash items. The amount for 2011 included about \$2.8 million in accrued interest expense; an accrual of \$0.9 million for liquidated damages that have not yet been assessed but may be; and a non-cash gain of about \$1.0 million due to the change in value of the conversion features embedded in the Company's outstanding convertible debt. The amount for 2010 included about \$2.3 million in accrued interest expense and a non-cash loss of about \$0.7 million due to the change in value of the conversion features embedded in the Company's outstanding convertible debt. Other expense for the nine months ended September 30, 2011 and 2010 would have been about \$2.8 million in each period excluding the impact of the foregoing non-recurring items, the unpredictable change in value of the conversion features of convertible debt, and the impact of additional debt reduction. Each amount was primarily comprised of interest expense for amounts due to our various lenders, and can be expected to decrease in future periods if we are able to continue to successfully reduce debt.

Net income for the nine months ended September 30, 2011 was about \$12.5 million as compared to a net loss of about \$8.1 million from the same period in 2010. However, the net income realized during 2011 included the non-cash and non-recurring items discussed above. For comparison purposes, we would have realized a net loss of about \$0.6 million during the nine months ended September 30, 2011 without the impact of the non-recurring items discussed above, which corresponded to an aggregate gain of about \$13.1 million. The net loss for the same period in 2010 would have been about \$6.8 million without the one-time inventory write-down of \$1.3 million. The reduction of our net loss during 2011 as compared to the net loss from the same period in 2010 was due to the combination of factors discussed above, primarily including the impact of our cost-cutting measures during 2010

and new license agreements. We expect net loss to continue to decrease as we realize increased economies of scale in connection with the commencement and realization of full production by our existing licensees. Importantly, we believe that the license agreements we have executed to date will provide us with sufficient recurring revenue to transition to consistent pre-tax profit on an annualized basis by the end of 2011, depending on the amount of corn oil produced by our licensees, the market price for corn oil, and the extent to which we incur additional costs in our litigation for infringement of our patents.

### **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 \$32 million as of September 30, 2011, and included conversion liabilities of about \$2.9 million. For the nine months ended September 30, 2011, we recognized additional interest expense of \$25,000 for accretion of the debt discount and about \$1.1 million gain for the value of the conversion features of our convertible debt (about \$389,000 of which was associated with debt due to related parties).

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company had a working capital deficit of about \$8.6 million as of September 30, 2011, down from about \$20.1 million as of December 31, 2010 and about \$38 million as of December 31, 2009. Elimination of this deficit remains a top priority. The primary source of the improvement in 2011 was the reclassification of \$4.4 million in convertible debentures owed to related parties from current to long-term liabilities. Overall, however, the positive trend here was due to execution of our plan to streamline our business following the allowance by the U.S. Patent and Trademark Office of the first of our corn oil extraction patents in March 2009.

Our liquidity and capital resources were improved during the third quarter of 2011 as compared to prior periods. During the nine months ended September 30, 2011, we produced about \$0.5 million in net cash from operating activities and about \$3.3 million in net cash from investing activities, and used about \$2.3 million in net cash in financing activities. The shift in early 2011 from relying on cash from financing activities to producing and using surplus cash from operating and investing activities was an important milestone for GreenShift and its shareholders. That said, the output of our licensees, the price for corn oil are variable and litigation costs can be expected to continue to increase. Thus, until we build up a meaningful cash reserve, we cannot rule out the possibility that we may seek financing to cover operating needs in the future. Our cash positions at September 30, 2011 and December 31, 2010 were about \$1.5 million and \$18,000, respectively.

Our financial position and liquidity moving forward will be based on our ability to generate cash flows from our operations, as well as our debt service obligations and the extent to which we are able to satisfy our goals. 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. Still, our ability to generate cash flow may be adversely affected if, for example, a new licensee were forced by a reduced crush spread and profitability to suspend operations prior to installing a corn oil extraction system.



### 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 September 30, 2011.

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

#### 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. Amaizing Energy Atlantic, LLC; Amaizing Energy Cooperative; Amaizing Energy Denison, LLC; Amaizing Holding Company, LLC; and Lincolnway Energy, LLC, in the United States District Court, Northern District of Iowa.

On May 6, 2010, GreenShift submitted a "*Motion to Transfer Pursuant to 28 U.S.C. § 1407 for Consolidated Pretrial Proceedings*" to the United States Judicial Panel on Multidistrict Litigation (the "Panel") located in Washington, D.C. In this motion, GreenShift moved the Panel to transfer and consolidate all pending suits involving infringement of GreenShift's patents to one federal court for orderly and efficient review of all pre-trial matters. On August 6, 2010, the Panel ordered the consolidation and transfer of all pending suits in the U.S. District Court, Southern District of Indiana for pretrial proceedings (the "MDL Case").

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.

As part of the MDL Case, on November 15, 2010, GS CleanTech amended its complaint filed in the New York I Action to include a claim of patent infringement personally against the founder, CEO and President of ICM, and ICM amended its complaint filed in the Kansas action to include a claim seeking a declaratory judgment that the '858 Patent is unenforceable. On November 30, 2010, in the MDL Case, GS CleanTech filed a motion to dismiss ICM's amended complaint (including its claim seeking a declaratory judgment that the '858 Patent is unenforceable) or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. ICM has opposed the motion to dismiss. On December 10, 2010, in the MDL Case, GS CleanTech filed motions to strike the affirmative defenses that the '858 Patent is unenforceable asserted by Cardinal Ethanol, LLC; Big River Resources Galva, LLC; and Big River Resources West Burlington, LLC; and Lincolnland Agri-Energy, LLC. Each defendant has opposed the respective motion to strike. On February 14, 2011, GS CleanTech notified the court in the MDL Case that it will not be proceeding with a motion for preliminary injunction. On February 24, 2011, in the MDL Case, in connection with its breach of contract counterclaim against GreenShift Corporation, Adkins Ethanol, LLC filed a motion for judgment on the pleadings or in the alternative partial summary judgment on the issue of liability on the issue of breach of contract and partial summary judgment on the issue of damages. On March 24, 2011, GreenShift filed an opposition to Adkins' motion.

All of the parties in the MDL Action filed their respective briefs with the Court in connection with proposed claim construction for certain claim limitations in the '858 Patent. A hearing on the claim construction matter was then

held by the Court in the MDL Action on August 22, 2011. On September 29, 2011, the Court issued its ruling with respect to claim construction.

There have been no other substantive rulings on the merits on any of the actions included in the MDL Case and Management is unable to characterize or evaluate the probability of any outcome at this time. The Company intends to take all necessary steps to bring infringement of its patents to an end, including filing additional lawsuits involving any and all infringing use of the Company's patents. The Company further plans to seek additional relief for instances of willful infringement. The Company's position is that any infringing ethanol producer is liable for any infringing use of the Company's patented technologies beginning on the publication date of the application that led to the '858 Patent.

#### OTHER MATTERS

The Company's subsidiary, GS COES (Yorkville I), LLC, is party to an action entitled Nosan, et al. v. GS COES (Yorkville I), LLC, et. al., pending as Oakland County, Michigan Circuit Court Case No. 10-110329-CK, an action by nineteen plaintiffs to recover on a guarantee by the subsidiary secured by a pledge in support of 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. GreenShift Corporation and GS CleanTech Corporation are not currently parties to this action. The Court has granted a Motion for Change of Venue to allow transfer to Lenawee County, Michigan where the underlying bridge loan arrangement is currently being litigated. GS COES intends to vigorously defend this action. This case is in the discovery phase. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome.

GreenShift Corporation, GS CleanTech Corporation and GS COES (Yorkville I), LLC, are 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 action was originally filed as a lien foreclosure and unjust enrichment claim by Dynalectric of Michigan II, Inc., which claim was resolved. GreenShift, as assignee of GS CleanTech, filed a counterclaim, cross-claim and third party complaint against various parties asserting a claim for money due in the amount of \$1,442,082, plus interest, attorney fees and costs, and for foreclosure of its construction lien. Biofuels Industries Group then asserted counterclaims, cross-claims and third party complaints against GreenShift, GS CleanTech, GS COES, Kevin Kreisler and Viridis Capital, LLC claiming breach of contract and seeking damages plus attorney fees, interest and cost. In response, the Company and its subsidiaries has asserted additional claims against Biofuels Industries Group and third party complaints against three of the bridge lenders claiming lender liability and various other claims in excess of \$25,000. On September 6, 2011 Biofuels filed for Chapter 11 bankruptcy protection in the Southern District of Michigan, Eastern Division, under which protection the collateral upon which the lien was recorded was sold for substantially less than the first mortgage holder's claimed balance in excess of \$9,000,000. Documentation confirming priority claim to the proceeds has been requested, but is not yet received. Recovery by GS CleanTech on the construction lien does not appear at this time. As to the other claims, this case is in the discovery stage, but was stayed secondary to the bankruptcy filing. We are unable to evaluate the likelihood of an unfavorable outcome or the range of possible loss in the event of an adverse verdict at this time.

On October 31, 2006, the Company guaranteed a secured note issued by a wholly owned subsidiary of the Company's former subsidiary, GS AgriFuels Corporation, in the principal amount of \$6,000,000 to Stillwater Asset-Backed Fund, LP. The balance due to Stillwater at December 31, 2010 was \$2,071,886. This obligation is guaranteed by the Company, however, Stillwater is party to an intercreditor agreement with the Company's senior lender which provides that no payments can be made by the Company against the balance due to Stillwater until the senior lender has been fully paid. The operations of GS AgriFuels were discontinued during 2009. Viridis Capital, LLC subsequently acquired the stock of GS AgriFuels during 2010.

The Company is also involved in various collection matters for which vendors are seeking payment for services rendered and goods provided. The Company and its subsidiaries are party to numerous matters pertaining to outstanding amounts alleged to be due. Management is unable to characterize or evaluate the probability of any outcome at this time.

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.

#### **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, 2010. 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 or incorporated by reference 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 nine months ended September 30, 2011, 9,000,000 shares of Company common stock were cancelled by Viridis Capital, LLC, the Company's majority shareholder. From time to time during the nine months September 30, 2011, the Company issued a total of 10,177,016 shares to the Company's various convertible debt holders upon their conversion of convertible debenture in the aggregate amount of \$740,678. 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 RESERVED**

#### **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 September 30, 2011:

### **INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Chief Executive 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
31.2	Certification of 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/KEVIN KREISLER  
KEVIN KREISLER  
Chief Executive Officer

Date: November 21, 2011

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

Date: November 21, 2011

**CERTIFICATION OF ANNUAL REPORT**

I, KEVIN KREISLER, 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/KEVIN KREISLER  
KEVIN KREISLER  
Chief Executive Officer

Date: November 21, 2011

**CERTIFICATION OF ANNUAL 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 Financial Officer &  
Chief Accounting Officer

Date: November 21, 2011



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 September 30, 2011 (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/KEVIN KREISLER  
KEVIN KREISLER  
Chief Executive Officer

Date: November 21, 2011

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

Date: November 21, 2011

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.