

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

GREYSTONE LOGISTICS, INC.

Form 10QSB

May 17, 2007

=====

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

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

OKLAHOMA

75-2954680

(State or other jurisdiction of
incorporation or organization)

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

1613 EAST 15TH STREET, TULSA, OKLAHOMA 74120

(Address of principal executive offices)

(918) 583-7441

(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 checkmark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: March 10, 2007 - 26,061,201

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): Yes No

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

GREYSTONE LOGISTICS, INC.
FORM 10-QSB
FOR THE PERIOD ENDED FEBRUARY 28, 2007

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS	PAGE
Condensed Consolidated Balance Sheets as of February 28, 2007 and May 31, 2006	1
Condensed Consolidated Statements of Operations For the Nine Month Periods Ended February 28, 2007 and 2006	2
Condensed Consolidated Statements of Operations For the Three Month Periods Ended February 28, 2007 and 2006	3
Condensed Consolidated Statements of Cash Flows For the Nine Month Periods Ended February 28, 2007 and 2006	4
Notes to Condensed Consolidated Financial Statements	5
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	8
ITEM 3. CONTROLS AND PROCEDURES	13
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	14
ITEM 6. EXHIBITS	14
SIGNATURES	15
ITEM 1. FINANCIAL INFORMATION	

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	February 28, 2007 -----
ASSETS -----	
CURRENT ASSETS:	
Accounts receivable, net of allowance for doubtful accounts of \$39,992 at February 28, 2007	151,860
Inventory	63,081
Prepaid expenses	31,117
TOTAL CURRENT ASSETS	----- 328,895
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$2,517,125 and \$2,060,091 at February 28, 2007 and May 31, 2006, respectively	7,164,894
OTHER ASSETS	114,990 -----

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

TOTAL ASSETS	\$ 7,608,779
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	

CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 3,192,348
Bank overdraft	--
Advances payable - related party	860,799
Accounts payable and accrued expenses:	
Third parties	1,787,800
Related party	508,247
Preferred dividends payable	942,301

TOTAL CURRENT LIABILITIES	7,291,495
LONG-TERM DEBT	9,946,663
DEFERRED INCOME	143,805
STOCKHOLDERS' DEFICIENCY:	
Preferred stock, \$0.0001 par value, 20,750,000 shares authorized, 50,000 shares outstanding, liquidation preference of \$5,000,000	5
Common stock, \$0.0001 par value, 5,000,000,000 shares authorized, 26,061,201 and 24,061,201 outstanding, respectively	2,606
Additional paid-in capital	52,574,454
Deficit	(62,350,249)

TOTAL STOCKHOLDERS' DEFICIENCY	(9,773,184)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 7,608,779
	=====

The accompanying notes are an integral part of these consolidated financial statements

1

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Nine Months Ended February 28,	
	2007	2006
	-----	-----
Sales	\$ 9,065,259	\$ 11,237,737
Cost of Sales, including depreciation expense of \$598,472 and \$544,805	8,840,652	10,777,837
	-----	-----
Gross Profit	224,607	459,900
Expenses:		
General, selling and administration expenses	1,368,902	1,733,876
	-----	-----
Operating Loss	(1,144,295)	(1,273,976)

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

Other Income (Expense):		
Other income (expense)	(472,323)	81,107
Interest expense	(953,021)	(772,745)
	-----	-----
Total Other Income (Expense)	(1,425,344)	(691,638)
	-----	-----
Net Loss	(2,569,639)	(1,965,614)
Preferred Dividends	429,041	409,629
	-----	-----
Net Loss Available to Common Stockholders	\$ (2,998,680)	\$ (2,375,243)
	=====	=====
Loss Available to Common Stockholders		
Per Share of Common Stock - Basic and Diluted	\$ (0.12)	\$ (0.10)
	=====	=====
Weighted Average Shares of Common Stock Outstanding	24,283,000	24,061,000
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

2

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three Months Ended February 28,	
	2007	2006
	-----	-----
Sales	\$ 2,574,428	\$ 4,122,947
Cost of Sales, including depreciation expense of \$197,301 and \$191,989	2,463,916	3,815,678
	-----	-----
Gross Profit (Loss)	110,512	307,269
Expenses:		
General, selling and administration expenses	466,157	566,029
	-----	-----
Operating Loss	(355,645)	(258,760)
Other Income (Expense):		
Other income (expense)	(474,536)	6,808
Interest expense	(348,140)	(266,775)
	-----	-----
Total Other Income (Expense)	(822,676)	(259,967)
	-----	-----
Net Loss	(1,178,321)	(518,727)
Preferred Dividends	141,781	130,029

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

Net Loss Available to Common Stockholders	\$ (1,320,102)	\$ (648,756)
Loss Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	\$ (0.05)	\$ (0.03)
Weighted Average Shares of Common Stock Outstanding	24,728,000	24,061,000

The accompanying notes are an integral part of these consolidated financial statements

3

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Nine Months Ended Feb	
	2007	
	-----	-----
Cash Flows from Operating Activities:		
Net Loss	\$ (2,569,639)	\$ (
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	628,511	
Gain on sale of equipment and other assets	(71,472)	
Stock option compensation	196,060	
Loss on termination of long-term lease	619,061	
Changes in accounts receivable	690,515	
Changes in inventory	568,155	
Changes in prepaid expenses and other	(11,604)	
Changes in accounts payable and accrued expenses	(444,508)	
Net cash used in operating activities	(394,921)	
Cash Flows from Investing Activities:		
Purchase of property and equipment	(517,016)	
Proceeds from sale of equipment	993,234	
Net cash provided by (used in) investing activities	476,218	
Cash Flows from Financing Activities:		
Proceeds from notes and advances payable	355,603	
Payments on notes and advances payable	(211,060)	
Payment of bank overdraft	(143,928)	
Dividends paid on preferred stock	--	
Net cash provided by financing activities	615	
Net Increase (Decrease) in Cash	81,912	
Cash, beginning of period	925	
Cash, end of period	\$ 82,837	\$

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

Noncash activities:		
Sale of equipment in exchange for debt	\$	-- \$
Accrual of preferred dividends		429,041
Issuance of common stock for termination of long-term lease		100,000
Long-term payable for termination of long-term lease		519,061
Supplemental Information:		
Interest paid	\$	820,599 \$

The accompanying notes are an integral part of these consolidated financial statements

4

GREYSTONE LOGISTICS, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of Greystone, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications, which are of a normal recurring nature, necessary to present fairly its financial position as of February 28, 2007, and the results of its operations and its cash flows for the nine month and three month periods ended February 28, 2007 and 2006. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2006 and the notes thereto included in Greystone's Form 10-KSB. The financial statements have been prepared assuming that Greystone will continue as a going concern. The working capital deficit of \$(6,962,600), a stockholders' deficiency of \$(9,773,184) and continuing losses from operations at February 28, 2007 and its inability to obtain long term financing raises substantial doubt about Greystone's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern and do not reflect the possible effects of any adjustments that might result from Greystone's inability to continue as a going concern.

2. The results of operations for the nine month and three month periods ended February 28, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

3. The computation of loss per share is computed by dividing the loss available to common shareholders by the weighted average shares outstanding for the periods. Loss available to common shareholders is determined by adding preferred dividends for the periods to the net loss. For the nine month periods ended February 28, 2007 and 2006, the weighted average common shares outstanding for all periods is 24,283,000 and 24,061,000, respectively. For the three month periods ended February 28, 2007 and 2006, the weighted average common shares outstanding for all periods is 24,728,000 and 24,061,000, respectively. Convertible preferred stock, common stock options and warrants are not considered as their effect is antidilutive.

4. Inventory consists of the following:

	February 28, 2007	May 31, 2006
	-----	-----
Raw materials	\$ --	\$ 554,316
Finished goods	63,081	76,920
	-----	-----
Total inventory	\$ 63,081	\$ 631,236
	=====	=====

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

5. Effective February 1, 2007, Greystone agreed to issue 2,000,000 shares of its common stock and agreed to pay \$24,000 per month for twenty-four months to 1607 Commerce LLC to terminate a long-term lease agreement on equipment. The present value of the series of \$24,000 monthly payments at 8.5% interest or \$519,060 and the value of the common stock on the effective date of issuance of \$100,000 were recorded as a loss on the termination agreement of the long-term lease.

5

Also, effective February 1, 2007, Greystone issued a warrant to purchase up to 250,000 shares of common stock at \$0.15 per share to an individual in consideration for providing certain financing and consulting services, which facilitated the sale of certain of Greystone's equipment to Yorktown Management, LLC, a company owned by Warren Kruger, Chairman and CEO. The warrants are valued at \$8,500.

6. In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123(R) requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees and is effective for interim or annual periods beginning after December 15, 2005. The Company adopted SFAS No. 123(R) as of March 1, 2006, using the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified or settled after the date of adoption will be measured in accordance with SFAS No. 123(R). Unvested equity-classified awards that were granted prior to March 1, 2006 will be accounted for using the straight-line basis for recognizing compensation costs in accordance with SFAS No. 123, except that the amounts will be recognized in the Company's consolidated statements of operations. The effect of adopting SFAS No. 123(R) is a charge in the amount of \$196,060 and \$71,020, including \$8,500 for the issuance of warrants as discussed in Note 5, to compensation expense for the nine month and three month periods ending February 28, 2007, respectively.

For the nine month and three month periods ended February 28, 2006, Greystone applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations, in accounting for its stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. There was no stock option cost during the nine month and three month periods ended February 28, 2006.

7. Effective as of February 1, 2007, GSM entered into a purchase agreement with Yorktown Management & Financial Services, LLC, an entity owned by Greystone's CEO and Chairman, pursuant to which Yorktown purchased from GSM existing finished goods inventory and certain raw materials for \$1,018,582 and grinding and peripheral equipment, resin contracts and molds for \$981,418. Greystone completed this transaction with Yorktown, in part, to alleviate the working capital requirements in maintaining raw material inventory, and will purchase the raw material used in its production process at Yorktown's cost plus \$0.03 per pound.

8. On February 8, 2007, Greystone entered into a settlement agreement with 1607 Commerce Limited Partnership ("1607"), pursuant to which in exchange for final settlement of all of 1607's claims under the PIPER 600 equipment lease and certain related guaranties, Greystone agreed to (i) make a one time payment to 1607 of \$1,048,000, (ii) make monthly payments to 1607 of \$24,000 for a term

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

of 24 months commencing March 1, 2007, which payments can be used towards the purchase price of pallets purchased from 1607, (iii) transfer to 1607 2,000,000 shares of Greystone's common stock, and (iv) enter into an agreement with 1607 whereby, among other things, 1607 will be given floor space, utilities and regrind resin in Greystone's Iowa facility and Greystone

6

and its subsidiaries will be required to purchase up to 200,000 Granada pallets at \$8.00 per pallet and 200,000 nestable pallets at \$3.00 per pallet from 1607 over a two year term. Also pursuant to the settlement agreement, the monthly payments to be made by Greystone will be credited against the purchase price of any Granada pallets purchased from 1607; provided, however, 1607 is not obligated to produce any pallets, but has agreed to use it best efforts to do so. For more information regarding these transactions, see Greystone's Current Report on Form 8-K, which was filed on February 27, 2007.

7

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

The condensed consolidated statements include Greystone Logistics, Inc., or Greystone, and its wholly owned subsidiaries, Greystone Manufacturing, LLC, or GSM, and Plastic Pallet Production, Inc., or PPP.

Greystone has incurred significant losses from operations, and there is no assurance that it will achieve profitability or obtain funds necessary to finance its operations.

References to fiscal year 2007 refer to the nine month and three month periods ended February 28, 2007. References to fiscal year 2006 refer to the

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

nine month and three month periods ended February 28, 2006.

SALES

Greystone's primary business is the manufacturing and selling of plastic pallets through its wholly owned subsidiaries, GSM and PPP. Greystone distributes its pallets through an exclusive marketing arrangement with Decade Products and certain direct sales by Greystone's officers and employees.

In addition, in July 2006, Greystone launched a beta test program involving the lease of a small pool of recycled plastic pallets by Greystone to a customer to be utilized by the customer to ship a portion of its manufactured products in a closed loop system. Pursuant to the agreement with the customer, Greystone will deliver and track throughout the logistics cycle sufficient quantities of plastic pallets for use in shipping a segment of the customer's product. The pallets will stay in a closed loop environment and be continually sent back for reuse. If a pallet is damaged, Greystone will grind the pallet and reutilize the resin.

PERSONNEL

Greystone had approximately 75 full-time employees as of February 28, 2007 compared to 84 full-time employees as of February 28, 2006.

TAXES

For all years presented, Greystone's effective tax rate is 0%. Greystone has generated net operating losses since inception, which would normally reflect a tax benefit in the statement of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to Greystone's ability to achieve profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the

8

consolidated statement of operations. As the result of changes in control of Greystone during prior years, the net operating loss available to future periods may be significantly limited.

NINE MONTH PERIOD ENDED FEBRUARY 28, 2007 COMPARED TO NINE MONTH PERIOD ENDED FEBRUARY 28, 2006

Sales for fiscal year 2007 were \$9,065,259 compared to \$11,237,737 in fiscal year 2006, for a decrease of \$2,172,478. The decrease is the result of a reduction in pallet sales to one major customer during the second and third quarters of fiscal year 2007.

Cost of sales in fiscal year 2007 was \$8,840,652, or 98% of sales, compared to \$10,777,837, or 96% of sales, in fiscal year 2006. The overall high rate of cost of sales to sales is due in part to the lease cost associated with the PIPER 600 injection molding machine, which operated at 10% of its designed capacity. Effective February 1, 2007, this lease arrangement was terminated as further discussed below.

General and administrative expense decreased \$364,974 from \$1,733,876 in fiscal year 2006 to \$1,368,902 in fiscal year 2007. The primary factor affecting the decrease in general and administrative expense from fiscal year 2006 to fiscal year 2007 is reductions in administrative salaries, travel expense and professional fees incurred in 2006 in connection with seeking capital to provide for future growth. The reduction in administrative salaries was partially offset by a charge of \$196,060 for the cost of stock options and warrants as discussed

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

further in note 6 to the condensed consolidated financial statements under Item 1 - Financial Statements.

Effective as of February 1, 2007, GSM entered into a purchase agreement with Yorktown Management & Financial Services, LLC, an entity owned by Greystone's CEO and Chairman, pursuant to which Yorktown purchased from GSM existing finished goods inventory and certain raw materials for \$1,018,582 and grinding and peripheral equipment, resin contracts and molds for \$981,418. Greystone completed this transaction with Yorktown, in part, to alleviate the working capital requirements in maintaining raw material inventory, and will purchase the raw material used in its production process at Yorktown's cost plus \$0.03 per pound.

On February 8, 2007, Greystone entered into a settlement agreement with 1607 Commerce Limited Partnership, pursuant to which in exchange for final settlement of all of 1607's claims under the PIPER 600 equipment lease and certain related guaranties, Greystone agreed to (i) make a one time payment to 1607 of \$1,048,000, (ii) make monthly payments to 1607 of \$24,000 for a term of 24 months commencing March 1, 2007, which payments can be used towards the purchase price of pallets purchased from 1607, (iii) transfer to 1607 2,000,000 shares of Greystone's common stock, and (iv) enter into an agreement with 1607 whereby, among other things, 1607 will be given floor space, utilities and regrind resin in Greystone's Iowa facility and Greystone and its subsidiaries will be required to purchase up to 200,000 Granada pallets at \$8.00 per pallet and 200,000 nestable pallets at \$3.00 per pallet from 1607 over a two year term. Also pursuant to the settlement agreement, the monthly payments to be made by Greystone will be credited against the purchase price of any Granada pallets purchased from 1607; provided,

9

however, 1607 is not obligated to produce any pallets, but has agreed to use its best efforts to do so. For more information regarding these transactions, see Greystone's Current Report on Form 8-K, which was filed on February 27, 2007.

Other income (expense) for fiscal year 2007 includes a loss of \$(619,061) from the termination of the long-term lease on the PIPER 600 injection molding machine offset by a gain of \$79,410 on the sale of resin contract to Yorktown as discussed above.

Interest expense increased \$180,276 from \$772,745 in fiscal year 2006 to \$953,021 in fiscal year 2007 principally due to additional debt incurred to finance the acquisition of two production lines and increases in the prime rate of interest.

The net loss increased \$604,025 from \$(1,965,614) in fiscal year 2006 to \$(2,569,639) in fiscal year 2007 for the reasons discussed above.

After deducting preferred dividends, the net loss available to common shareholders was \$(2,998,680), or \$(0.12) per share, in fiscal year 2007 compared to \$(2,375,243), or \$(0.10) per share, in fiscal year 2006 for an increase in the net loss of \$623,437 for the reasons discussed above.

THREE MONTH PERIOD ENDED FEBRUARY 28, 2007 COMPARED TO THREE MONTH PERIOD ENDED FEBRUARY 28, 2006

Sales for fiscal year 2007 were \$2,574,428 compared to \$4,122,947 in fiscal year 2006, for a decrease of \$1,548,519. The decrease is the result of a reduction in pallet sales to one major customer.

Cost of sales in fiscal year 2007 was \$2,463,916, or 96% of sales, compared

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

to \$3,815,678, or 92% of sales, in fiscal year 2006. The overall high rate of cost of sales to sales is due in part to the lease cost associated with the PIPER 600 injection molding machine, which operated at 10% of its designed capacity. Effective February 1, 2007, this lease arrangement was terminated as further discussed below.

General and administrative expense decreased \$99,872 from \$566,029 in fiscal year 2006 to \$466,157 in fiscal year 2007. The primary factor affecting the decrease in general and administrative expense from fiscal year 2006 to fiscal year 2007 is reductions in administrative salaries, travel expense and professional fees incurred in 2006 in connection with seeking capital to provide for future growth. The reduction in administrative salaries was partially offset by a charge of \$71,020 for the cost of stock options and warrants as discussed further in note 5 to the condensed consolidated financial statements under Item 1 - Financial Statements.

Effective as of February 1, 2007, GSM entered into a purchase agreement with Yorktown Management & Financial Services, LLC, an entity owned by Greystone's CEO and Chairman, pursuant to which Yorktown purchased from GSM existing finished goods inventory and certain

10

raw materials for \$1,018,582 and grinding and peripheral equipment, resin contracts and molds for \$981,418. Greystone completed this transaction with Yorktown, in part, to alleviate the working capital requirements in maintaining raw material inventory, and will purchase the raw material used in its production process at Yorktown's cost plus \$0.03 per pound.

On February 8, 2007, Greystone entered into a settlement agreement with 1607 Commerce Limited Partnership, pursuant to which in exchange for final settlement of all of 1607's claims under the PIPER 600 equipment lease and certain related guaranties, Greystone agreed to (i) make a one time payment to 1607 of \$1,048,000, (ii) make monthly payments to 1607 of \$24,000 for a term of 24 months commencing March 1, 2007, which payments can be used towards the purchase price of pallets purchased from 1607, (iii) transfer to 1607 2,000,000 shares of Greystone's common stock, and (iv) enter into an agreement with 1607 whereby, among other things, 1607 will be given floor space, utilities and regrind resin in Greystone's Iowa facility and Greystone and its subsidiaries will be required to purchase up to 200,000 Granada pallets at \$8.00 per pallet and 200,000 nestable pallets at \$3.00 per pallet from 1607 over a two year term. Also pursuant to the settlement agreement, the monthly payments to be made by Greystone will be credited against the purchase price of any Granada pallets purchased from 1607; provided, however, 1607 is not obligated to produce any pallets, but has agreed to use its best efforts to do so. For more information regarding these transactions, see Greystone's Current Report on Form 8-K, which was filed on February 27, 2007.

Other income (expense) for fiscal year 2007 includes a loss of \$(619,061) from termination of the long-term lease on the PIPER 600 injection molding machine offset by a gain of \$79,409 on the sale of resin contracts to Yorktown as discussed above.

Interest expense increased \$81,365 from \$266,775 in fiscal year 2006 to \$348,140 in fiscal year 2007.

The net loss increased \$659,594 from \$(518,727) in fiscal year 2006 to \$(1,178,321) in fiscal year 2007 for the reasons discussed above.

After deducting preferred dividends, the net loss available to common shareholders was \$(1,320,102), or \$(0.05) per share, in fiscal year 2007

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

compared to \$(648,756), or \$(0.03) per share in fiscal year 2006 for an increase in the net loss of \$671,346 for the reasons discussed above.

OUTLOOK

Greystone has successfully renewed a long-standing purchase order and added several new purchase orders through its outside sales group. If plastic prices remain at current levels, Greystone anticipates significant improvements to its operating results for the remainder of 2007.

11

LIQUIDITY AND CAPITAL RESOURCES

Greystone's cash requirements for operating activities consist principally of accounts receivable, inventory, accounts payable, operating leases and scheduled payments of interest on outstanding indebtedness. Greystone is currently dependent on outside sources of cash to fund its operations. As of February 28, 2007, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the nine months ended February 28, 2007 is as follows:

Net cash used in operating activities	\$ (394,921)
Net cash provided by investing activities	476,218
Net cash provided by financing activities	615

The contractual obligations of Greystone are as follows:

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	OVER 5 YEARS
	-----	-----	-----	-----	-----
Long-term debt	\$ 13,139,011	\$ 3,192,348	\$ 8,502,227	\$ 333,336	\$ 1,111,000
Operating leases	1,958,000	264,000	528,000	528,000	638,000
Total	\$ 15,097,011	\$ 3,456,348	\$ 9,030,227	\$ 861,336	\$ 1,749,000
	=====	=====	=====	=====	=====

Greystone continues to require outside sources of cash to fund its operating activities. To provide for the additional cash to meet Greystone's operating activities and contractual obligations for fiscal 2007, Greystone is exploring various options including long-term debt and equity financing. However, there is no guarantee that Greystone will be able to raise sufficient capital to meet these obligations.

Greystone has accumulated a working capital deficit of approximately \$6,962,600 at February 28, 2007, which includes current portion of long-term debt of \$3,192,348 and \$2,296,047 in accounts payable and accrued liabilities. The working capital deficit reflects the uncertain financial condition of Greystone resulting from its inability to obtain long term financing until such time as it is able to achieve profitability. There is no assurance that Greystone will secure such financing or achieve profitability.

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

Substantially all of the financing that Greystone has received through February 28, 2007, has been provided by loans or through loan guarantees from the officers and directors of Greystone, the offerings of preferred stock to current and former officers and directors of Greystone in 2001 and 2003, through a private placement of common stock completed in March 2005 and through the sales arrangement with Yorktown Management and Financial Services, LLC, in February 2007.

12

Greystone continues to be dependent upon its officers and directors to provide and/or secure additional financing and there is no assurance that any of them will do so. As such, there is no assurance that funding will be available for Greystone to continue operations.

Greystone has 50,000 outstanding shares of cumulative 2003 Preferred Stock for an aggregate stated value of \$5,000,000 and with a preferred dividend rate of the prime rate of interest plus 3.25%. Greystone does not anticipate that it will make cash dividend payments to any holders of its preferred stock or its common stock unless and until the financial position of Greystone improves through increased revenues, another financing or otherwise.

FORWARD LOOKING STATEMENTS AND MATERIAL RISKS

This Quarterly Report on Form 10-QSB includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical fact, that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future, including decreased costs, securing financing, the profitability of Greystone, potential sales of pallets or other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-QSB could be affected by any of the following factors: Greystone's prospects could be affected by changes in availability of raw materials, competition, rapid technological change and new legislation regarding environmental matters; Greystone may not be able to secure additional financing necessary to sustain and grow its operations; and a material portion of Greystone's business is and will be dependent upon a few large customers and there is no assurance that Greystone will be able to retain such customers. These risks and other risks that could affect Greystone's business are more fully described in Greystone's Form 10-KSB for the fiscal year ended May 31, 2006, which was filed on September 13, 2006. Actual results may vary materially from the forward-looking statements. Greystone undertakes no duty to update any of the forward-looking statements contained in this Quarterly Report on Form 10-QSB.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this Current Report on Form 10-QSB, Greystone carried out an evaluation under the supervision of Greystone's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of Greystone's disclosure controls and procedures pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, Greystone's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of the end of the period covered by this Current Report on Form 10-QSB were effective.

During the quarter ended February 28, 2007, there was no change in Greystone's internal controls over financial reporting that has materially

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

affected, or that is reasonably likely to materially affect, Greystone's internal control over financial reporting.

13

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

1607 COMMERCE LIMITED PARTNERSHIP, A TEXAS LIMITED PARTNERSHIP, VS. PLASTIC PALLET PRODUCTION, INC., A TEXAS CORPORATION, GREYSTONE LOGISTICS, INC., AN OKLAHOMA CORPORATION, F/K/A PALWEB CORPORATION, AND GREYSTONE MANUFACTURING, L.L.C., AN OKLAHOMA LIMITED LIABILITY COMPANY, Case No. CJ-06-489W, District Court of Cleveland County, State of Oklahoma.

The above referenced litigation was settled and dismissed. For more information regarding the settlement, see Greystone's Current Report on Form 8-K, which was filed on February 27, 2007.

ITEM 6. EXHIBITS

- 11.1 Computation of Loss per Share is in Note 3 in the Notes to the financial statements.
- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b) (31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b) (31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

14

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREYSTONE LOGISTICS, INC.

(Registrant)

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10QSB

Date: May 17, 2007

/s/ Warren F. Kruger

President and Chief Executive Officer