GREYSTONE LOGISTICS, INC.
Form 10-K
September 15, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2009

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 00-26331

GREYSTONE LOGISTICS, INC.

(Name of small business issuer in its charter)

Oklahoma (State or other jurisdiction of incorporation or organization)	75-2954680 (I.R.S. Employer Identification No.)
1613 East 15th Street, Tulsa, Oklahoma (Address of principal executive offices)	74120 (Zip Code)

Registrant's telephone number, including area code (918) 583-7441

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.0001 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o 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 preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
o Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o	Accelerated filer o	Non-accelerated filer o	Small reporting company x

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of November 30, 2008, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by using the average of the high and low price on such date, was $1,445,715 ($.09/share).

As of August 31, 2009, the issuer had outstanding a total of 26,111,201 shares of its $0.0001 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

GREYSTONE LOGISTICS, INC.

FORM 10-K
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PART I.

Item 1. Business

Organization

Greystone Logistics, Inc. ("Greystone" or the "Company") was incorporated in Delaware on February 24, 1969, under the name Permaspray Manufacturing Corporation. It changed its name to Browning Enterprises Inc. in April 1982, to Cabec Energy Corp. in June 1993, to PalWeb Corporation in April 1999 and became Greystone Logistics, Inc. in March 2005 as further described below. In December 1997, Greystone acquired all of the issued and outstanding stock of Plastic Pallet Production, Inc., a Texas corporation ("PPP"), and since that time, Greystone has primarily been engaged in the business of manufacturing and selling plastic pallets.

Effective September 8, 2003, Greystone acquired substantially all of the assets of Greystone Plastics, Inc., an Iowa corporation, through the purchase of such assets by Greystone's newly formed, wholly-owned subsidiary, Greystone Manufacturing, L.L.C., an Oklahoma limited liability company ("GSM"). Greystone Plastics, Inc. was a manufacturer of plastic pallets used in the beverage industry.

Effective March 18, 2005, the Company caused its newly formed, wholly owned subsidiary, Greystone Logistics, Inc., an Oklahoma corporation, to be merged with and into the Company. In connection with such merger and as of the effective time of the merger, the Company amended its certificate of incorporation by changing its name to Greystone Logistics, Inc., pursuant to the terms of the certificate of ownership and merger filed by the Company with the Secretary of State of Oklahoma. Also in connection with such merger, the Company amended its bylaws to change its name to Greystone Logistics, Inc.

Current Business

Products

Greystone's primary business is manufacturing and selling high quality, recycled plastic pallets through its wholly owned subsidiary, GSM. As of May 31, 2009, Greystone had an aggregate production capacity of approximately 70,000 pallets per month.

GSM's product line as of May 31, 2009 consists of the following:

- 40" X 32" rackable pallet,
- 37" X 37" rackable pallet,
- 48" X 40" rackable pallet,
- 48" X 44" rackable pallet,

- 48” X 40” nestable pallet,
- 24”X 24” display pallet,
- 48”X 40” monoblock (one-piece) pallet,
- 48”X 45” stackable pallet, and
- 120cm X 100cm nestable pallet.

As of May 31, 2009, GSM was also marketing the following pallets:

- Mid-duty(TM) Picture Frame – A picture frame, web-top pallet that utilizes a patented inter-locking design and is produced using a proprietary blend of recycled plastics. It has a rackable capacity of 1,500 lbs., a dynamic load of 5,000 lbs., static load of 25,000 lbs., and weighs 47.5 lbs.

- Mid-duty(TM) Stackable – A web-top pallet that is produced using a proprietary blend of recycled plastics, has a dynamic load of 5,000 lbs., static load of 7,000 lbs., and weighs 32 lbs.

- Mid-duty(TM) 3-Runner – A web-top pallet that utilizes a patented inter-locking design on a three runner bottom and is produced using a proprietary blend of recycled plastics. It has a rackable load of 1,200 lbs., dynamic load of 5,000 lbs., static load of 12,000 lbs and weighs 41 lbs.

- Mid-duty Flat Deck – This pallet is the same as the Mid-duty picture frame,(TM) except it has a solid top and weighs 55 lbs.

The principal raw materials used in manufacturing Greystone’s plastic pallets are in abundant supply, and some of these materials may be obtained from recycled plastic containers. At the present time, these materials are being purchased from local, national and international suppliers.

Other Business

In July 2006, Greystone entered into an agreement with Advanced Fiber Products (AFP) of La Crosse, Wisconsin, pursuant to which Greystone and AFP agreed to launch a beta test program involving the lease of a small pool of recycled plastic pallets by Greystone to AFP to be utilized by AFP to ship a portion of its manufactured products in a closed loop system. Pursuant to the agreement, Greystone will deliver and track throughout the logistics cycle sufficient quantities of plastic pallets for use in shipping a segment of the AFP fiberglass 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.

Pallet Industry

According to the U.S. Forest Service, as printed in the National Wooden Pallet and Container Association publication, approximately 400 million new pallets are purchased in the United States each year, and some research sources estimate that even more than 400 million new pallets are purchased each year. At an overall average selling price of $9/wood pallet, the pallet manufacturing and sales business is approximately a $4 billion industry. It is estimated that the United States wood pallet industry is served by approximately 3,600 companies, most of which are small, privately held firms that operate in only one location. The industry is generally comprised of companies that manufacture new pallets or repair and recycle pallets. New pallet manufacturing generates about 60% to 65% of the industry's revenues. The U.S. Forest Service estimates that approximately 1.9 billion wood pallets are in circulation in the United States today and that roughly 400 million of the wood pallets currently in circulation were newly manufactured. On an annual basis, approximately 175 million wood pallets are recycled through a process of retrieval, repair, re-manufacturing and secondary marketing, approximately 225 million are sent to landfills, and approximately 100 million are burned, lost, abandoned or leave the country.

Infestation is a concern in the wood pallet industry. According to Virginia Tech's Center for Unit Loan Design Center Tech Note No. 1, dated November 11, 1998, the Asian Longhorn Beetle ("ALB"), a devastating wood boring pest native to China and other Asian countries, has invaded hardwood trees in New York City and Chicago. The ALB outbreaks have been traced to solid wood packaging materials ("SWPM"), including wood pallets imported from China. As a result, the USDA Animal and Plant Health Inspection Service has proposed certain interim rules, which include upgrading treatment procedures for SWPM. These treatments are estimated to increase the cost of SWPM by at least 10%, and some treatments will double the price of SWPM.

Pallets are used in virtually all United States industries in which products are broadly distributed, including, but not limited to, the automotive, chemical, consumer products, grocery, produce and food production, paper and forest products, retailing and steel and metals industries. Forklifts, pallet trucks and pallet jacks are used to move loaded pallets, reducing the need for costly hand loading and unloading at distribution centers and warehouses.

Until very recently, plastic pallets had not penetrated the market significantly, due in part to their cost. Heavy duty plastic pallets cost $46 to $100, heavy duty wood pallets typically cost approximately $26, and less sturdy wood pallets typically cost $8 to $11. As stated in an article in the July 1996 issue of Material Handling Engineering, wood pallets have an estimated useful life of 7 to 10 trips before repair or recycling is required. A trip, or cycle, is defined as the movement of a pallet under a load from a manufacturer to a distributor (or from a distributor to a retailer) and the movement of the empty pallet back to the manufacturer. Heavy duty plastic pallets, as currently manufactured, have a useful life of 60 or more trips, on average. Greystone management believes that the trend will continue to switch from wood to plastic, with the only limiting factor being price.

Greystone intends to conduct research on pallet design strength and coefficient of friction and the materials used to make the plastic pallets as required to meet market demands.

Employees

As of May 31, 2009, Greystone had 71 full-time employees and used a temporary personnel service to provide additional production personnel as needed.

Marketing and Customers

Greystone's primary focus is to provide quality plastic pallets to its existing customers while continuing its marketing efforts to broaden its customer base. Greystone's existing customers are primarily located in the United States and engaged in the beverage, pharmaceutical and other industries. Greystone has generated and plans to continue to generate interest in its pallets by attending trade shows sponsored by industry segments that would benefit from Greystone's products. Greystone hopes to gain wider product acceptance by marketing the concept that the widespread use of plastic pallets could greatly reduce the destruction of trees on a worldwide basis.

Greystone also sells its pallets and pallet leasing services to certain large customers direct through contract distributors and its President, Senior Vice President of Sales and Marketing and other employees.

Greystone derives a substantial portion of its revenue from a national brewer. This customer currently accounts for approximately 80 to 85% of sales for its pallets. The design of Greystone's recycled plastic pallets are approved for use by the brewery and are the only plastic pallets in use for case goods at the current time There is no assurance that Greystone will retain this customer's business at the same level, or at all. The loss of a material amount of business from this customer could have a material adverse effect on Greystone.

Competition

Greystone's primary competitors are a large number of small, privately held firms that sell wood pallets in very limited geographic locations. Greystone believes that it can compete with manufacturers of wood pallets by emphasizing the cost savings realized over the longer life of its plastic pallets as well as the environmental benefits of its plastic pallets as compared to wood pallets. Greystone also competes with approximately three large and fifteen medium to small manufacturers of plastic pallets. Some of Greystone's competitors may have substantially greater financial and other resources than Greystone and, therefore, may be able to commit greater resources than Greystone in such areas of product development, manufacturing and marketing. However, Greystone believes that its proprietary designs coupled with the competitive pricing of its products gives Greystone a competitive advantage over other plastic pallet manufacturers.

Government Regulation

The business operations of Greystone are subject to existing and potential federal, state and local environmental laws and regulations pertaining to the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to the protection of the environment. In

addition, both the plastics industry and Greystone are subject to existing and potential federal, state, local and foreign legislation designed to reduce solid wastes by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements, disposal fees and limits on the use of plastic products.

Patents and Trademarks

Greystone seeks to protect its technical advances by pursuing national and international patent protection for its products and methods when appropriate.

Greystone has access to a patent-pending CJ2(TM) fire retardant formula licensed from Westgate Capital Company, L.L.C. ("WCC"), a company of which Greystone's President and CEO is a member, in connection with the potential production of fire retardant plastic pallets. Pallets produced with CJ2(TM) fire retardant have met UL 2335 classification requirements with respect to fire retardancy.

Item 2. Properties.

Greystone has approximately 3 acres of land in Bettendorf, Iowa and two buildings with a total of 120,000 square feet of manufacturing and warehouse space. The manufacturing and warehouse space is sufficiently equipped and designed to accommodate the manufacturing of plastic pallets and is currently used for grinding, processing and re-pelletizing recycled plastic.

Item 3. Legal Proceedings

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Greystone's common stock is traded on the National Association of Securities Dealers Automatic Quotation (NASDAQ) over-the-counter bulletin board system ("OTCBB"), under the symbol "GLGI." The following table sets forth the range of high and low prices at which Greystone's common stock traded during the time periods indicated, as reported by NASDAQ:

Quarter Ending	High	Low
Aug. 31, 2007	$0.35	$0.22
Nov. 30, 2007	0.30	0.13
Feb. 29, 2008	0.40	0.12
May 31, 2008	0.42	0.21
Aug. 31, 2008	0.28	0.10
Nov. 30, 2008	0.13	0.05
Feb. 28, 2009	0.11	0.04
May 31, 2009	0.28	0.08

Quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Holders

As of approximately June 1, 2009, Greystone had approximately 1,435 common shareholders of record.

As of approximately September 1, 2009, there were approximately 2,642 beneficial owners (including those holding in street names) of Greystone's common stock.

Dividends

Greystone paid no cash dividends to its common shareholders during the last two fiscal years and does not plan to pay any cash dividends in the near future.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K includes "forward looking statements" as defined by the Securities and Exchange Commission. These statements concern Greystone's plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future are forward-looking statements. The words "believe," "plan," "intend," "anticipate," "estimate," "project" and similar expressions are intend identify forward-looking statements. These forward-looking statements include, among others, such things as:

- expansion and growth of Greystone's business and operations;

- future financial performance;
- future acquisitions and developments;
- potential sales of products;
- future financing activities; and
- business strategy.

These forward-looking statements are based on assumptions that Greystone believes are reasonable based on current expectations and projections about future events and industry conditions and trends affecting Greystone's business. However, whether actual results and developments will conform to Greystone's expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements, including those factors discussed under the section of this Form 10-K entitled "Risk Factors." In addition, Greystone's historical financial performance is not necessarily indicative of the results that may be expected in the future and Greystone believes that such comparisons cannot be relied upon as indicators of future performance.

Risk Factors

Greystone operates has recently attained operating profits and cash flow positive results but there is no assurance that it will be able to sustain profitability.

The Company was incorporated on February 24, 1969. From April 1993 to December 1997, the Company was engaged in various businesses, including the business of exploration, production, and development of oil and gas properties in the continental United States and the operation of a related service business. In December 1997, the Company acquired all of the issued and outstanding stock of Plastic Pallet Production, Inc., and its principal business changed to selling plastic pallets. Since such time, the Company has continued to incur losses from operations. However, the results of Greystone's operations for the year ended May 31, 2009 and 2008, showed an operating profit and positive cash flows from operations. There is no assurance that Greystone will maintain a positive gross profit or otherwise obtain funds to finance continued operations.

Greystone's financial statements have been qualified on a going concern basis and Greystone may not be able to secure additional financing necessary to sustain and grow its operations.

Greystone's financial statements have been qualified on a going concern basis principally due to lack of sufficient operating income or long term financing to achieve Greystone's goal of producing and marketing plastic pallets to compete with wood pallets. Greystone has funded its operations to date primarily through equity and debt financings but has recently achieved positive cash flow from operations. Greystone may need to raise additional funds to implement any expansion strategy beyond current allocation of cash flows for capital projects. There can be no assurance that additional financing will be available or, if available, that such financing will be on favorable terms. Failure to obtain such additional financing could have a material adverse effect on Greystone.

Greystone has granted security interests in substantially all of its assets in connection with certain debt financings and other transaction.

In connection with certain debt financings and other transactions, Greystone has granted third parties security interests in substantially all of its assets pursuant to agreements entered into with such third parties. Upon the occurrence of an event of default under such agreements, the secured parties may enforce their rights and Greystone may lose all or a portion of its assets. As a result, Greystone could be forced to materially reduce its business activities or cease operations.

Greystone's business could be affected by changes in availability of raw materials.

Greystone uses a proprietary mix of raw materials to produce its plastic pallets. Such raw materials are generally readily available and some may be obtained from a broad range of recycled plastic suppliers and unprocessed waste plastic. At the present time, these materials are being purchased from local, national and international suppliers. The availability of Greystone's raw materials could change at any time for various reasons. For example, the market demand for Greystone's raw materials could suddenly increase, or the rate at which plastic materials are recycled could decrease, affecting both availability and price. Additionally, the laws and regulations governing the production of plastics and the recycling of plastic containers could change and, as a result, affect the supply of Greystone's raw materials. Any interruption in the supply of raw materials or components could have a material adverse effect on Greystone. Furthermore, certain potential alternative suppliers may have pre-existing exclusive relationships with Greystone's competitors and others that may preclude Greystone from obtaining raw materials from such suppliers.

Greystone's business could be affected by competition and rapid technological change.

Greystone currently faces competition from many companies that produce wooden pallets at prices that are substantially lower than the prices Greystones charge for its plastic pallets and other companies that manufacture plastic pallets. It is anticipated that the plastic pallet industry will be subject to intense competition and rapid technological change. Greystone could potentially face additional competition from recycling and plastics companies, many of which have substantially greater financial and other resources than Greystone and, therefore, are able to spend more than Greystone in areas such as product development, manufacturing and marketing. Competitors may develop products that render Greystone's products or proposed products uneconomical or result in products being commercialized that may be superior to Greystone's products. In addition, alternatives to plastic pallets could be developed, which would have a material adverse effect on Greystone.

Greystone is dependent on one large customer.

Greystone derives, and expects that in the foreseeable future it will continue to derive, a large portion of its revenue from a few large customers. A single customer currently account for approximately 80 to 85% of its sales. There is no assurance that Greystone will retain this

customer's business at the same level, or at all. The loss of a material amount of business from this customer would have a material adverse effect on Greystone.

Greystone may not be able to effectively protect Greystone's patents and proprietary rights.

Greystone relies upon a combination of patents and trade secrets to protect its proprietary technology, rights and know-how. There can be no assurance that such patent rights will not be infringed upon, that Greystone's trade secrets will not otherwise become known to or independently developed by competitors, that non-disclosure agreements will not be breached, or that Greystone would have adequate remedies for any such infringement or breach. Litigation may be necessary to enforce Greystone's proprietary rights or to defend Greystone against third-party claims of infringement. Such litigation could result in substantial cost to, and a diversion of effort by, Greystone and its management and may have a material adverse effect on Greystone. Greystone's success and potential competitive advantage is dependent upon its ability to exploit the technology under these patents. There can be no assurance that Greystone will be able to exploit the technology covered by these patents or that Greystone will be able to do so exclusively.

Greystone's business could be affected by changing new legislation regarding environmental matters.

Greystone's business is subject to changing federal, state and local environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to the protection of the environment. As is the case with manufacturers in general, if a release of hazardous substances occurs on or from Greystone's properties or any associated off-site disposal location, or if contamination from prior activities is discovered at any of Greystone's properties, Greystone may be held liable. No assurances can be given that additional environmental issues will not require future expenditures. In addition, both the plastics industry and Greystone are subject to existing and potential federal, state, local and foreign legislation designed to reduce solid wastes by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements and disposal fees and limits on the use of plastic products. In addition, various consumer and special interest groups have lobbied from time to time for the implementation of these and other such similar measures. Although Greystone believes that the legislation promulgated to date and such initiatives to date have not had a material adverse effect on it, there can be no assurance that any such future legislative or regulatory efforts or future initiatives would not have a material adverse effect.

Greystone's business could be subject to potential product liability claims.

The testing, manufacturing and marketing of Greystone's products and proposed products involve inherent risks related to product liability claims or similar legal theories that may be asserted against Greystone, some of which may cause Greystone to incur significant defense costs. Although Greystone currently maintains product liability insurance coverage that it believes is adequate, there can be no assurance that the coverage limits of its insurance will be adequate under all circumstances or that all such claims will be covered by insurance. In addition, these policies generally must be

renewed every year. While Greystone has been able to obtain product liability insurance in the past, there can be no assurance it will be able to obtain such insurance in the future on all of its existing or future products. A successful product liability claim or other judgment against Greystone in excess of its insurance coverage, or the loss of Greystone's product liability insurance coverage could have a material adverse effect upon Greystone.

Greystone currently depends on certain key personnel.

Greystone is dependent on the experience, abilities and continued services of its current management. In particular, Warren Kruger, Greystone's President and CEO, has played a significant role in the development, management and financing of Greystone. The loss or reduction of services of Warren Kruger or any other key employee could have a material adverse effect on Greystone. In addition, there is no assurance that additional managerial assistance will not be required, or that Greystone will be able to attract or retain such personnel.

Greystone's executive officers and directors control a large percentage of Greystone's outstanding common stock, which allows them to control matters submitted to Greystone's shareholders for approval, and all of Greystone's 2003 preferred stock, which entitles them to certain voting rights, including the right to elect a majority of Greystone's Board of Directors.

Greystone's executive officers and directors (and their affiliates), in the aggregate, own over 50% of Greystone's outstanding common stock. Therefore, Greystone's executive officers and directors have the ability to decide the outcome of matters submitted to Greystone's shareholders for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all of Greystone's assets) and to control Greystone's management and affairs. In addition, an entity that is wholly owned by Greystone's executive officers and directors owns all of Greystone's outstanding 2003 preferred stock. The terms and conditions of Greystone's 2003 preferred stock provide that such holder has the right to elect a majority of Greystone's Board of Directors. Such concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, which in turn could have an adverse effect on the market price of Greystone's common stock.

Certain restricted shares of Greystone will be eligible for sale in the future and are likely to be sold in the future, which could affect the prevailing market price of Greystone's common stock.

Certain of the outstanding shares of Greystone's common stock are "restricted securities" under Rule 144 of the Securities Act, and (except for shares purchased by "affiliates" of Greystone as such term is defined in Rule 144) would be eligible for sale as the applicable holding periods expire or in the event that the Company files a registration statement relating to such shares. In the future, these shares may be sold only pursuant to a registration statement under the Securities Act or an applicable exemption, including pursuant to Rule 144. Under Rule 144, a person who has owned common stock for at least one year may, under certain circumstances, sell within any three-month

period a number of shares of common stock that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume during the four calendar weeks prior to such sale. A person who is not deemed to have been an affiliate of Greystone at any time during the three months preceding a sale, and who has beneficially owned the restricted securities for the last two years is entitled to sell all such shares without regard to the volume limitations, current public information requirements, manner of sale provisions and notice requirements. In addition, Greystone has agreed to file a registration statement in connection with some of these outstanding shares of restricted stock. Sales or the expectation of sales of a substantial number of shares of common stock in the public market by selling shareholders could adversely affect the prevailing market price of the common stock, possibly having a depressive effect on any trading market for the common stock, and may impair Greystone's ability to raise capital at that time through additional sales of its equity securities.

Greystone's stock trades in a limited public market, is subject to price volatility and there can be no assurance that an active trading market will develop or be sustained.

There has been a limited public trading market for Greystone's common stock and there can be no assurance that an active trading market will develop or be sustained. There can be no assurance that Greystone's common stock will trade at or above any particular price in the public market, if at all. The trading price of Greystone's common stock could be subject to significant fluctuations in response to variations in quarterly operating results or even mild expressions of interest on a given day. Accordingly, Greystone's common stock should be expected to experience substantial price changes in short periods of time. Even if Greystone is performing according to its plan and there is no legitimate company-specific financial basis for this volatility, it must still be expected that substantial percentage price swings will occur in Greystone's common stock for the foreseeable future. In addition, the limited market for Greystone's common stock may restrict Greystone's shareholders ability to liquidate their shares.

Greystone does not expect to declare or pay any dividends in the foreseeable future.

Greystone has not declared or paid any dividends on its common stock. Greystone currently intends to retain future earnings to fund the development and growth of its business, to repay indebtedness and for general corporate purposes, and, therefore, does not anticipate paying any cash dividends on its common stock in the foreseeable future. In addition, pursuant to the terms and conditions of certain loan documentation between Greystone and F&M Bank and the terms and conditions of Greystone's 2003 preferred stock, Greystone is restricted in its ability to pay dividends to holders of its common stock.

Greystone's common stock may be subject to secondary trading restrictions related to penny stocks.

Certain transactions involving the purchase or sale of Greystone's common stock may be affected by a Commission rule for "penny stocks" that imposes additional sales practice burdens and requirements upon broker-dealers that purchase or sell such securities. For transactions covered by this penny stock rule, among other things, broker-dealers must make certain disclosures to purchasers prior to the purchase or sale. Consequently, the penny stock rule may impede the ability of broker-dealers to purchase or sell Greystone's common stock for their customers and the ability of persons now owning or subsequently acquiring Greystone's common stock to resell such securities.

Greystone may issue additional equity securities, which would lead to further dilution of Greystone's issued and outstanding stock.

The issuance of additional common stock or securities convertible into common stock would result in further dilution of the ownership interest in Greystone held by existing shareholders. Greystone is authorized to issue, without shareholder approval, 20,700,000 shares of preferred stock, $0.0001 par value per share, in one or more series, which may give other shareholders dividend, conversion, voting and liquidation rights, among other rights, which may be superior to the rights of holders of Greystone's common stock. In addition, Greystone is authorized to issue, without shareholder approval, over 4,960,000,000 additional shares of its common stock and securities convertible into common stock.

Results of Operations

General

The consolidated financial statements include Greystone and its two wholly-owned subsidiaries, Greystone Manufacturing, L.L.C., or GSM, Plastic Pallet Production, Inc., or PPP, and a variable interest entity, Greystone Properties, L.L.C.

Greystone's primary business is the manufacturing and selling of plastic pallets through its wholly owned subsidiary GSM.

As of May 31, 2009, Greystone had 71 full-time employees and used temporary personnel as needed. Greystone's production capacity is about 70,000 plastic pallets per month, or 840,000 per year. Production levels have generally been governed by sales and will increase as sales dictate.

Greystone has incurred significant losses from operations and only recently achieved positive cash flow and a profit from operations, and there is no assurance that it will continue to achieve operating profitability or otherwise obtain funds necessary to finance continued operations. See "Liquidity and Capital Resources" under this Item 7.

For all years presented, Greystone's effective tax rate is 0%. Greystone has generated substantial net operating losses which would normally reflect a tax benefit in the statement of

operations and a deferred asset on the balance sheet. However, a valuation reserve has been established to offset the amount of any tax benefit available for each period presented in the consolidated statement of operations until such time as Greystone demonstrates the ability to show sustained profitability.

Year Ended May 31, 2009 Compared to Year Ended May 31, 2008

Sales were $16,690,708 for fiscal year 2009 compared to $21,081,114 for fiscal year 2008 for a decrease of $4,390,406. Sales to Greystone's major customer accounted for 83% and 86% of total sales for fiscal years 2009 and 2008, respectively. Management believes the decrease in total sales has been primarily due to a delay in deliveries due to a merger of its two large brewery customers as well as the economic recession that the United States of America has experienced during the past six to nine months. Management is in discussion with this major customer to determine the pallet needs based on its combined operations and expects to increase sales accordingly. In addition, management is working with Sonoco, a global packaging company, to develop a private label pallet for Sonoco's product line. Sales of recycled resin accounted for 4% of total sales in fiscal year 2009. There were minimal sales of recycled resin in fiscal year 2008.

Cost of sales was $13,125,041 (79% of sales) and $17,233,175 (82% of sales) in fiscal years 2009 and 2008, respectively. The 3% decrease in the relationship of cost of sales to sales in fiscal year 2009 compared to 2008 is the result of an approximate 7% decrease in the cost of materials to sales offset by an approximate 4% increase in the ratio of fixed costs to sales. The latter increase in the ratio of fixed costs to sales is primarily attributable to the decline in sales as discussed in the preceding paragraph.

General, selling and administrative expense was $1,852,126 for fiscal year 2009 compared to $1,815,469 for fiscal year 2008 for an increase of $36,657.

Other income was $187,705 in fiscal year 2009 compared to $30,876 in fiscal year 2008 for an increase of $156,829. Other income for fiscal year 2009 consists primarily of an insurance settlement stemming from a claim on a business interruption policy in the amount of $132,815 and the recognition of previously deferred revenue in the amount of $48,000. Other income for fiscal year 2008 includes recognition of previously deferred revenue in the amount of $48,000. At May 31, 2009, Greystone has unrecognized deferred income of $32,000 which will be amortized during fiscal year 2010.

Interest expense was $988,845 in fiscal year 2009 compared to $1,061,248 in fiscal year 2008 for a decrease of $72,403. Rates of interest on approximately 55% of Greystone's long-term debt is based on the prime rate of interest. The prime rate of interest declined from 5% at May 31, 2008 to 3.25% at May 31, 2009.

Consolidated net income, before the deduction for preferred dividends, in fiscal year 2009 was $842,240 compared to consolidated net income of $928,420 in fiscal year 2008 for a decrease of $86,180. This decrease results from the reasons discussed above.

After deducting dividends to preferred shareholders of $360,513 and $508,691 in fiscal years 2009 and 2008, respectively, the consolidated net income available to common stockholders was $481,727, or $0.02 per share of common stock, in fiscal year 2009 compared to net income of $419,729, or $0.02 per share of common stock, in fiscal year 2008.

Liquidity and Capital Resources

General

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 dependent on outside sources of cash to fund its operations. As of May 31, 2009, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the year ended May 31, 2009 is as follows:

Cash provided by operating activities	$1,232,170
Cash used in investing activities	(294,259)
Cash used in financing activities	(864,447)

Long term debt obligations of Greystone as of May 31, 2009 are as follows:

Total	1 year	2-3 years	4-5 years	Over 5 years
$12,589,296	$9,339,343	$ 961,071	$ 542,278	$1,746,604

To provide for the funding to meet Greystone's operating activities and contractual obligations for fiscal year 2009, Greystone will have to continue to produce positive operating results or explore various options including long-term debt and equity financing. However, there is no guarantee that Greystone will continue to create positive operating results or be able to raise sufficient capital to meet these obligations.

Greystone has a working capital deficit of $(12,944,233) at May 31, 2009, which includes advances payable to related parties of $1,010,081, current portion of long-term debt of $9,339,343 and accounts payable and accrued liabilities of $2,992,865. This deficit reflects the uncertain financial condition of Greystone resulting from its inability to obtain long-term financing from traditional financing sources. There is no assurance that Greystone will secure such financing.

As described below, substantially all of the financing that Greystone has received through May 31, 2009, 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 and through a private placement of common stock completed in March 2005.

Greystone continues to be dependent upon its officers and directors to provide and/or secure additional financing and there is no assurance that either 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 a total of $5,000,000 with a preferred dividend rate at 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.

Advances and Loans from Warren Kruger

From time to time, Warren Kruger advances working capital funds to or accepts repayments from Greystone. During fiscal year 2009, Mr. Kruger advanced no funds and accepted repayments of $221,418. During fiscal year 2008, there were no advances or repayments. Effective December 15, 2005, Greystone entered into a loan agreement with Warren Kruger to convert $527,716 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010 of which Warren Kruger has waived the first two installments until maturity. At May 31, 2009, a note payable of $527,716, advances of $1,010,081 and accrued interest of $281,766 were due to entities owned or controlled by Warren Kruger. In addition, Greystone has accounts payable to entities owned by Warren Kruger in the amount of $963,775.

Loans from F&M Bank

On March 4, 2005, Greystone entered into a loan agreement with GLOG Investment, L.L.C. (“GLOG”) and The F&M Bank & Trust Company (“F&M”), which, among other things, sets forth certain terms applicable to a $1,500,000 revolving loan extended by F&M to GSM on or about December 18, 2004 and a new $5,500,000 term loan extended by F&M to GSM on March 4, 2005. GLOG is wholly owned by the following officers and/or directors of the Registrant: Warren F. Kruger (President and CEO) and Robert B. Rosene, Jr. (Director). GLOG was a party to the loan agreement for the sole purpose of securing the funds necessary to purchase 50,000 shares of Greystone’s 2003 preferred stock previously owned by Paul A. Kruger. The revolving loan, which bears interest at prime, is renewable annually, is currently due on May 15, 2010, and has a balance as of May 31, 2009 of $1,461,000. Amounts borrowed under the term loan are represented by a promissory note, which currently bears interest at prime and GSM and is required to make monthly payments of $60,577 with any outstanding principal and all accrued and unpaid interest payable in full on March 15, 2010.

Greystone’s obligations under the loan agreement with F&M are secured by a lien in favor of F&M on substantially all of GSM’s assets pursuant to the terms of a security agreement and second mortgage. Also, pursuant to the terms of a guaranty agreement, Greystone guaranteed GSM’s performance and payment under the notes. In addition, in order to induce F&M to enter into the loan

agreement, certain officers and directors of the Company (Messrs. Kruger and Rosene) entered into a limited guaranty agreement with F&M and Mr. Rosene entered into a pledge agreement with F&M.

Advances and Loans from Robert Rosene

Effective December 15, 2005, Greystone entered into a loan agreement with Mr. Rosene to convert $2,066,000 of advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010 of which Mr. Rosene has waived the first two installments until maturity. Accrued interest due to Mr. Rosene at May 31, 2009 is $588,811.

Item 8. Financial Statements and Supplementary Data.

The financial statements of Greystone are set forth on pages F-1 through F-19 inclusive, found at the end of this report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by Greystone in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of May 31, 2009, an evaluation was performed under the supervision and with the participation of Greystone’s principal executive officer (CEO) and principal financial officer (CFO), 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 CEO and CFO have concluded that Greystone’s disclosure controls and procedures were not effective as of May 31, 2009 as a result of the three material weaknesses identified below.

Management's Report on Internal Control Over Financial Reporting

Greystone's CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Greystone's internal controls were designed to provide reasonable assurance as to the reliability of Greystone's financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles in the United States, as well as to safeguard assets from unauthorized use or disposition.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of control effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Greystone's CEO and CFO made an assessment of the effectiveness of Greystone's internal control over financial reporting as of May 31, 2009. In making this assessment, Greystone's CEO and CFO used the criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). During this evaluation, Greystone's CEO and CFO identified three material weakness. As a result of these three material weaknesses, Greystone's CEO and CFO concluded that Greystone did not maintain effective internal control over financial reporting as of May 31, 2009.

First, Greystone's inventory costing with respect to labor and overhead rates are not timely calculated and updated as necessary to ensure proper valuation of finished goods inventory. Not ensuring that appropriate labor and overhead rates are applied to finished goods inventory resulted in adjustments to Greystone's financial statements.

Second, Greystone lacks the necessary corporate accounting resources to maintain adequate segregation of duties. Reliance on these limited resources impairs Greystone's ability to provide for proper segregation of duties and the ability to ensure consistently complete and accurate financial reporting, as well as disclosure controls and procedures.

Three, Greystone, at the entity level, has limited resources to ensure that necessary internal controls are implemented and followed throughout the company. Because of this limitation with respect to the ability to allocate sufficient resources to internal controls, material misstatements could occur and remain undetected, implementation of new accounting standards could be hindered and risk assessment and monitoring may not be addressed in a timely manner.

This annual report does not include an attestation report of Greystone's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by Greystone's independent registered public accounting firm pursuant to temporary rules of the SEC to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

During the period covered by this report, there was no change in Greystone's internal controls over financial reporting that has materially affected or that is reasonably likely to materially affect Greystone's internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance.

Directors, Executive Officers, Promoters and Control Persons

The following lists the directors and executive officers of Greystone. Directors of Greystone are elected at annual meetings of shareholders unless appointed by the Board of Directors to fill a vacancy upon the resignation or removal of a member or an increase in the number of members of the Board of Directors. Executive officers serve at the pleasure of the Board of Directors.

Name	Position	Term as Director Expires
Warren F. Kruger	President, Chief Executive Officer and Director	2010
Robert B. Rosene, Jr.	Director	2010
Robert H. Nelson	Chief Financial Officer	N/A
Robert Noland	Senior Vice President	N/A

Warren F. Kruger, President, Chief Executive Officer and Director

Mr. Warren F. Kruger, Manager/CEO of privately held Yorktown Management & Financial Services, L.L.C., is 52 years old. Yorktown Management is involved in investment banking, real estate, manufacturing and energy endeavors. Mr. Kruger earned a Bachelor of Business Administration degree from the University of Oklahoma, and an Executive M.B.A. from Southern Methodist University. Mr. Kruger has over thirty years experience in the financial services industry. In 1980, Mr. Kruger co-founded MCM Group, Ltd., which owned and controlled United Bank Club Association, Inc. until 1996 when the firm was sold to a subsidiary of Cendant Corp. (CD-NYSE). He also owned and operated Century Ice, a manufacturer and distributor of ice products from 1996 to 1997, when Packaged Ice, Inc., acquired Century Ice in an industry rollup. Mr. Kruger is a partner with William W. Pritchard in privately held WCC, with investments in oil and gas, real estate and investment banking.

Mr. Kruger became a director of Greystone on January 4, 2002, served as President and Chief Executive Officer from January 10, 2003 to August 15, 2005 and, most recently, has served as President and Chief Executive Officer from November 18, 2006 to the present.

Mr. Robert B. Rosene, Jr., Director

Mr. Rosene, age 55, is President of Seminole Energy Services, L.L.C., a natural gas marketing and gathering company that he co-founded in 1998. Also in 1998, Mr. Rosene co-founded Summit Exploration, L.L.C., an oil and gas production company that holds oil and gas production in several states. Mr. Rosene has served as a director of publicly traded Syntroleum Corporation since 1985. Mr. Rosene has a B.A. with an emphasis in accounting from Oklahoma Baptist University.

Mr. Rosene became a director of Greystone effective June 14, 2004.

Robert H. Nelson, Chief Financial Officer

From 2001 until joining Greystone's company in 2004, Mr. Robert H. Nelson, age 63, was a financial consultant to the Key Auto Group, a retail automobile dealership chain. Mr. Nelson served as Chief Financial Officer to Fusion Telecommunications International, Inc., a provider of long distance international communication systems from 1999 to 2001. Mr. Nelson has also served as Chief Financial Officer of: United Auto Group, the second largest publicly traded retail auto group in the United States from 1996 to 1999; Trace International Holding, Inc., a privately owned company with controlling interests in a variety of public and privately owned companies from 1987 to 1999; and Ogden Allied Service and Allied Maintenance Corporation from 1982 to 1987. Prior to that, Mr. Nelson was with Coopers and Lybrand, the predecessor to PricewaterhouseCoopers from 1970 to 1981. Mr. Nelson is a certified public accountant and a graduate of Manhattan College.

Mr. Nelson was named Chief Financial Officer effective as of November 1, 2004.

Robert C. Noland, Senior Vice President of Sales and Marketing

Robert C. Noland, Senior Vice President of Sales and Marketing for Greystone Logistics has over 25 years experience in marketing, sales, and sales management. His background has incorporated High Technology Equipment, Global Positioning Software, Logistics, and Transportation.

He has been employed at Greystone for over two years, and he has added numerous Sales Partners to the Greystone team. These associates specialize in selling plastic pallets to an extensive market of Beverage, Industrial and Manufacturing Companies. He has a Marketing Degree from Kansas State University and an MBA from the University of Arkansas. He resides in Atlanta Georgia, and travels on a frequent basis to support Greystone's sales partners.

Identification of the Audit Committee; Audit Committee Financial Expert

Due to Greystone's size and stage of development, it has had difficulty recruiting individuals to serve on its Board of Directors who are qualified to serve as an audit committee financial expert on an audit committee. As of May 31, 2009, the Company had not established an audit committee and the entire Board of Directors essentially serves as Greystone's audit committee.

Code of Ethics

Effective April 8, 2008, Greystone adopted a Code of Ethics applicable to the Company's officers and directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Greystone's directors, officers and persons who beneficially own more than 10% of any class of the Company's equity securities registered under Section 12 to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of such registered securities of the Company. Officers, directors and greater than 10% beneficial owners are required by regulation to furnish to Greystone copies of all Section 16(a) reports they file.

Based solely on review of the copies of such reports furnished to Greystone and any written representations that no other reports were required during fiscal year 2009, to Greystone's knowledge, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners during fiscal year 2009 were complied with on a timely basis, except as follows:

Name	Number of Late Reports	Number of Transactions Not Reported on a Timely Basis	Number of Reports Not Filed
Warren F. Kruger	1	2	0

Item 11. Executive Compensation

The following table sets forth the compensation paid to named executive officers during the fiscal years ended May 31, 2009 and 2008:

Summary Compensation Table

Name and Principal Position	Fiscal Year Ending May 31,	Salary	Bonus	Option Awards	Nonqualified Deferred Compensation Earnings
Warren F. Kruger, President and Chief Executive Officer	2009	$120,000	-0-	-0-	120,0001
	2008	$120,000	-0-	250,000	120,0001
Robert H. Nelson, Chief Financial Officer	2009	$ 30,000	-0-	-0-	
	2008	$ 30,000	-0-	-0-	
Robert Noland Senior Vice President	2009	$130,000	-0-	-0-	
	2008	$101,386	-0-	200,000	

1 Mr. Kruger voluntarily decided to forgo half of his salary in fiscal year 2006. Greystone has agreed to pay such deferred compensation upon the separation of his services from Greystone.

The following table provides information with respect to named executive officers concerning outstanding equity awards as of May 31, 2009:

Outstanding Equity Awards at Fiscal Year End

Name	Number of Securities Underlying Unexercised Options – Exercisable	Number of Securities Underlying Unexercised Options – Unexercisable	Option Exercise Price	Option Expiration Date
Warren F. Kruger	100,000	-0-	$3.125	4/11/2012
	25,000	-0-	$1.60	6/26/2012
	150,000	-0-	$0.55	4/1/2013
	125,000	125,000	$0.40	2/28/2014
Robert H. Nelson	1,000,000	-0-	$0.50	11/1/2009
Robert Noland	100,000	100,000	$0.40	2/28/2014

Directors' and Officers' Compensation

Greystone does not pay cash compensation to the members of its Board of Directors for services on the Board. From time to time in the past, Greystone has granted options to the members of its Board of Directors under its stock option plan as compensation for serving on Greystone's Board of Directors. During the fiscal year ended May 31, 2008, Greystone issued stock options to Robert Rosene, a member of its Board of Directors, to purchase 100,000 shares of common stock as consideration for serving on its Board.

Because the Board of Directors consists of two persons of which one is an outside director, the Board has not considered it necessary create a compensation committee. Both of Greystone's directors participate in determining compensation for officers.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized for Issuance under Equity Compensation Plans

As of May 31, 2009, Greystone had one equity incentive plan under which equity securities have been authorized for issuance to Greystone's directors, officers, employees and other persons who perform substantial services for or on behalf of Greystone. The following table provides certain information relating to such stock option plan during the year ended May 31, 2009:

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,970,000	$0.84	17,005,000
Equity compensation plans not approved by security holders	-0-	N/A	-0-
Total	2,970,000	$0.84	17,005,000

Security Ownership of Certain Beneficial Owners and Management

As of August 31, 2009, Greystone had 26,111,201 shares of its common stock outstanding. Each share of the 2003 preferred stock is convertible into approximately 66.67 shares of Greystone's common stock.

The following table sets forth certain information regarding the shares of Greystone's common stock beneficially owned as of May 31, 2009, by (i) each person known by Greystone to own beneficially 5% or more of Greystone's outstanding common stock, (ii) each of Greystone's directors and officers, and (iii) all of Greystone's directors and officers as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner(1)	Percent of Class(2)
GLOG Investment, L.L.C. 1613 E. 15th Street Tulsa, OK 74160	3,333,333(3)	11.3%
Warren F. Kruger Chairman, President and CEO 1613 East 15th Street Tulsa, OK 74120	12,076,483(4)	38.7%
Robert H. Nelson Chief Financial Officer 1613 East 15th Street Tulsa, OK 74120	1,824,169(5)	6.6%
Robert B. Rosene, Jr. Director 1323 E. 71st Street, Suite 300 Tulsa, OK 74136	8,027,231(6)	25.6%
Robert C. Noland Senior Vice President of Sales and Marketing 1613 East 15th Street Tulsa, OK 74120	50,000 (7)	0.2%
William Pritchard 1437 S. Boulder Tulsa, OK 74119	1,639,847 (8)	6.1%
All Directors & Officers as a Group (4 persons)	18,644,550(9)	53.7%

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(1) The number of shares beneficially owned by each holder is calculated in accordance with the rules of the Commission, which provide that each holder shall be deemed to be a beneficial owner of a security if that holder has the right to acquire beneficial ownership of the security within 60 days through options, warrants or the conversion of another security; provided, however, if such holder acquires any such rights in connection with or as a participant in any transaction with the effect of changing or influencing control of the issuer, then immediately upon such acquisition, the holder will be deemed to be the beneficial owner of the securities. The number the shares of common stock beneficially owned by each holder includes common stock directly owned by such holder and the number of shares of common stock such holder has the right to acquire upon the conversion of 2003 preferred stock and/or upon the exercise of certain options or warrants.

(2) The percentage ownership for each holder is calculated in accordance with the rules of the Commission, which provide that any shares a holder is deemed to beneficially own by virtue of having a right to acquire shares upon the conversion of warrants, options or other rights, or upon the conversion of preferred stock or other rights are considered outstanding solely for purposes of calculating such holder's percentage ownership.

(3) The total includes 3,333,333 shares of common stock deemed to be owned directly by GLOG Investment, L.L.C. by virtue of its ownership of the 2003 Preferred Stock, which is convertible into common stock. GLOG is wholly owned by the following officers and/or directors of the Registrant: Warren F. Kruger (Chairman, President and CEO) and Robert B. Rosene, Jr. (Director). By virtue of their ownership of and control over GLOG, these shares are also included in the number of shares beneficially owned by each of Warren F. Kruger and Robert B. Rosene, Jr.

(4) The total includes: (i) 6,965,233 shares of common stock beneficially owned directly by Warren Kruger; (ii) 1,198,299 shares of common stock that Mr. Kruger has the right to acquire in connections with warrants (iii) 19,000 shares held of record by Yorktown; (iv) 400,000 shares of common stock that Warren Kruger directly has the right to acquire in connection with options; (v) 153,818 shares which Westgate has the right to acquire in connection with warrants, owned by Westgate Capital, L.L.C., an entity of which Warren Kruger owns 50%; (vi) 6,800 shares of common stock that Warren Kruger holds as custodian for minor children; and (vii) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG Investment, L.L.C., Warren Kruger is also deemed to beneficially own the shares directly owned by GLOG.

(5) The total includes: (i) 1,000,000 shares of common stock that Robert Nelson directly has the right to acquire in connection with options; (ii) 500,000 shares of common stock that Robert Nelson directly has the right to acquire in connection with warrants; (iii) 285,714 shares of common stock beneficially owned by Mr. Nelson’s wife, of which he disclaims any interest; and (iv) 38,455 shares of common stock that Mr. Nelson’s wife has the right to acquire in connection with warrants, of which he disclaims any interest.

(6) The total includes: (i) 2,770,951 shares of common stock beneficially owned directly by Robert Rosene; (ii) 1,872,947 shares of common stock that Robert Rosene directly has the right to acquire in connection with warrants; (iii) 50,000 shares of common stock that Robert Rosene has the right to acquire with options; and (iv) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG, Robert Rosene is also deemed to beneficially own the shares directly owned by GLOG.

(7) The total includes 50,000 shares of common stock Robert Nolan has the right to acquire in connection with options.

(8) The total includes: (i) 1,061,029 shares of common stock beneficially owned directly by William Pritchard; (ii) 425,000 shares of common stock that William Pritchard has the right to acquire with options; and (iii) 153,818 shares which Westgate has the right to acquire in connection with warrants, owned by Westgate Capital, L.L.C., an entity of which William Pritchard owns 50%.

(9) The total includes: (i) 10,047,698 outstanding shares, (ii) 1,500,000 shares issuable upon exercise of vested stock options, (iii) 3,763,519 shares issuable upon exercise of vested warrants; and (iv) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of their ownership of and control over GLOG, these shares are also included in the number of shares beneficially owned by the directors and officers as a group.

Change in Control

Effective March 8, 2005, GLOG Investment, L.L.C., which is currently owned by Warren F. Kruger, Chairman, President and CEO, and Robert Rosene, Jr., Director, acquired the outstanding 50,000 shares of Series 2003 Preferred Stock from Paul Kruger, a major shareholder of Greystone. In connection with such transaction, the members of GLOG, as the holder of the Series 2003 Preferred Stock, possess certain voting rights to elect a majority of the Board of Directors of Greystone. These voting rights and other material terms and conditions of the Series 2003 Preferred Stock are set forth in the Certificate of Designation relating to such Series 2003 Preferred Stock included as an exhibit to a Current Report on Form 8-K filed by Greystone on September 23, 2003.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons

Loans and Advances

For information regarding loans from Warren Kruger, see “Loans from Warren Kruger” under the heading “Liquidity and Capital Resources” in Item 7 of this Form10-K.

For information regarding an advance from Robert Rosene, see “Advances and Loans from Robert Rosene” under the heading “Liquidity and Capital Resources” in Item 7 of this Form10-K.

Technology License Agreement

In April 2001, Greystone entered into a license agreement with WCC, an entity owned by Warren Kruger and William Pritchard, providing for Greystone to have the exclusive right and license to use fire retardancy technology then being developed under the direction and expense of WCC. The license agreement was negotiated and executed 9 months before Warren Kruger,

William Pritchard, or entities with which they are affiliated became directors or beneficial owners of 10% or more of Greystone's common stock in January 2002. Under the agreement, Greystone must pay the greater of 2.5% of Greystone's gross monthly revenues derived from the sale of UL listed pallets using the technology or a minimum monthly royalty of $10,000. However, WCC also agreed in the license agreement to convey to Greystone ownership of the licensed process (as defined in the agreement) in the event that cumulative royalties paid by Greystone equaled $250,000 during the first two years of the agreement, subject to an override or carried interest in favor of WCC equal to 2.5% of the gross monthly revenues which are the same payments as would have been received under the license agreement. Subsequent to the execution of the original agreement which provided for a "coating" technology, Westgate Capital Company, L.L.C., developed an additive process which Greystone used to successfully complete UL testing. The technology is currently known as CJ2(TM).

Greystone has previously incurred $400,000 of royalty fees under the license agreement and issued its common stock to WCC in satisfaction of the debt. It is Greystone's understanding that it has a paid-up licensing agreement with Westgate Capital Company, L.L.C. WCC has not asserted that Greystone is in default under the license agreement, and WCC has indicated that it has no current intentions of asserting any default by Greystone under such agreement.

Other Transactions

For information relating to a Purchase Agreement and Bill of Sale and related Pallet Molds Lease Agreement entered into with Yorktown Management & Financial Services, LLC, an entity wholly owned by the Company's CEO and President, see "Recent Transactions" under Item 1 of this Form 10-K. Greystone completed this transaction with Yorktown, in part, to alleviate the working capital requirements in maintaining raw material inventory, by purchasing raw material as it is used in the production process. During fiscal years 2009 and 2008, GSM raw material purchases from Yorktown totaled $5,281,519and $7,526,779, respectively.

In addition, GSM pays rental to Yorktown for use of Yorktown's 48X40 mold at the rate of $1.00 per pallet. During fiscal years 2009 and 2008, GSM paid or accrued $110,597 and $-0-, respectively, in rentals for use of certain pallet molds.

Director Independence

Greystone has determined that Mr. Rosene is "independent" within the meaning of Rule 4200(a)(15) of the NASDAQ listing standards. Because of the small size of Greystone's Board of Directors, it has not established any committees. Rather, the entire Board acts as, and performs the same functions as, the audit committee, compensation committee and nominating committee. Mr. Kruger is not considered "independent" within the meaning of Rule 4200(a)(15) of the NASDAQ listing standards.

Item 14. Principal Accountant Fees and Services.

The following is a summary of the fees billed to Greystone by HoganTaylor LLP, Greystone's independent registered public accounting firm, for professional services rendered for the fiscal years ended May 31, 2009 and May 31, 2008:

Fee Category	Fiscal Year 2009 Fees	Fiscal Year 2008 Fees
Audit Fees(1)	$ 85,000	$ 83,000
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
Total Fees	$ 85,000	$ 83,000

(1)Audit Fees consist of aggregate fees billed for professional services rendered for the audit of Greystone's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements during the fiscal years ended May 31, 2009 and May 31, 2008, respectively.

The entire Board of Directors of Greystone is responsible for the appointment, compensation and oversight of the work of the independent registered public accounting firm and approves in advance any services to be performed by the independent registered public accounting firm, whether audit-related or not. The entire Board of Directors reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent registered public accounting firm. All of the fees shown above were pre-approved by the entire Board of Directors.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Exhibit No.	Description
2.1	Certificate of Ownership and Merger Merging PalWeb Corporation, a Delaware corporation, into PalWeb Oklahoma Corporation, an Oklahoma corporation, filed with the Delaware Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
2.2	Certificate of Ownership and Merger Merging PalWeb Corporation, a Delaware corporation, into PalWeb Oklahoma Corporation, an Oklahoma corporation, filed with the Oklahoma Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 2.2 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).

3.1	Certificate of Incorporation of PalWeb Oklahoma Corporation filed with the Oklahoma Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
3.2	Bylaws of PalWeb Oklahoma Corporation as adopted on May 2, 2002 (incorporated herein by reference to Exhibit 3.2 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
4.1	Certificate of Incorporation of PalWeb Oklahoma Corporation filed with the Oklahoma Secretary of State on May 2, 2002 (included in Exhibit 3.1).
4.2	Certificate of the Designation, Preferences, Rights and Limitations of PalWeb Corporation's Series 2003 Cumulative Convertible Senior Preferred Stock (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
4.3	Certificate of Ownership and Merger Merging Greystone Logistics, Inc., into PalWeb Corporation filed with the Oklahoma Secretary of State on March 18, 2005 (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K dated March 18, 2005, which was filed with the SEC on March 24, 2005).
10.1	License Agreement by and between Westgate Capital Company, L.L.C., and PalWeb Corporation dated April 20, 2001 (incorporated herein by reference to Exhibit 10.21 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.2**	Form of Indemnity Agreement between Members of the Board of Directors and PalWeb Corporation (incorporated herein by reference to Exhibit 10.30 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.3	Indemnity Agreement by and between The Union Group, Inc., and Cabec Energy Corp. dated August 31, 1998 (incorporated herein by reference to Exhibit 10.6 of Amendment No. 3 to the Company's Form 10-SB, which was filed on May 2, 2000).
10.4**	Stock Option Plan of PalWeb Corporation (effective May 11, 2001), as amended (incorporated herein by reference to Exhibit 10.32 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.5**	Form of Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 99.8 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).

10.6**	Form of Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 99.9 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.7**	Form of Nonemployee Director Stock Option Agreement (incorporated herein by reference to Exhibit 99.10 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.8 **	Form of Employee Director Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.36 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.9	Assignment and Indemnity Agreement between the Company and Paul A. Kruger (regarding transfer of stock of PP Financial, Inc.) dated May 30, 2002 (incorporated herein by reference to Exhibit 10.39 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.10	Asset Purchase Agreement between Greystone Plastics, Inc. and Greystone Manufacturing, L.L.C. dated September 3, 2003 (incorporated herein by reference to Exhibit 10.1 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.11	Senior Secured Promissory Note in the amount of $5,000,000 payable to Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.2 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.12	Real Estate Note in the amount of $2,500,000 payable to Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.3 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.13	Wraparound Promissory Note in the amount of $799,454.06 payable to Bill Hamilton (incorporated herein by reference to Exhibit 10.4 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.14	Security Agreement between Greystone Plastics, Inc. and Greystone Manufacturing, L.L.C. dated September 3, 2003 (incorporated herein by reference to Exhibit 10.5 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).

10.15**	Employment Agreement between PalWeb Corporation and Warren Kruger dated August 13, 2003 (incorporated herein by reference to Exhibit 10.35 of the Company's Form 10-K for the Fiscal Year Ended May 31, 2004, which was filed with the SEC on August 30, 2004).
10.16**	Employment Agreement dated as of November 1, 2004, by and between PalWeb Corporation and Robert H. Nelson (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.17	Letter Agreement dated January 3, 2005, by and between Greystone Manufacturing, L.L.C., and Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.4 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.18	Loan Agreement dated March 4, 2005, by and among Greystone Manufacturing, L.L.C., GLOG Investment, L.L.C., The F&M Bank & Trust Company and PalWeb Corporation (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.19	Promissory Note dated November 30, 2004, in the amount of $1,500,000 issued by Greystone Manufacturing, L.L.C., to The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.20	Term Note dated March 4, 2005, in the amount of $5,500,000 issued by Greystone Manufacturing, L.L.C., to The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.3 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.21	Security Agreement dated March 4, 2005, by and between Greystone Manufacturing, L.L.C., and The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.4 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.22	Mortgage Agreement dated March 4, 2005, by and between Greystone Manufacturing, L.L.C., and The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.5 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.23	Guaranty of PalWeb Corporation dated March 4, 2005 (incorporated herein by reference to Exhibit 10.6 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).

10.24	Industrial Lease dated as of July 1, 2004, by and between Greystone Properties, LLC, and Greystone Manufacturing, L.L.C. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).
10.25	Equipment Rental Contract dated as of November 1, 2004, by and between NYOK Partners and Greystone Manufacturing, L.L.C. relating to certain grinding equipment (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).
10.26	Equipment Rental Contract dated as of November 1, 2004, by and between NYOK Partners and Greystone Manufacturing, L.L.C. relating to plastic injection molding machine (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).
10.27	Promissory Note dated as of June 17, 2005 in the amount of $500,100 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Robert B. Rosene, Jr. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.28	Promissory Note dated as of December 15, 2005 in the amount of $2,066,000 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Robert B. Rosene, Jr. (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.29	Promissory Note dated as of December 15, 2005 in the amount of $527,716 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Warren F. Kruger, Jr. (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.30	Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Robert B. Rosene, Jr. relating to Promissory Note in the amount of $500,100 (incorporated herein by reference to Exhibit 10.4 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

10.31	Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Robert B. Rosene, Jr. relating to Promissory Note in the amount of $2,066,000 (incorporated herein by reference to Exhibit 10.5 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.32	Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Warren F. Kruger, Jr. relating to Promissory Note in the amount of $527,716 (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.33	Yorktown Management & Financial Services, LLC Molds, Grinder, Ancillary Resin Handling Equipment, Bumper Contract, Raw Materials and Finished Goods Inventory Purchase Agreement and Bill of Sale dated as of February 7, 2007, by and between Greystone Logistics, Inc. and Yorktown Management & Financial Services, LLC (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007).
10.34	Pallet Molds Lease Agreement dated as of February 7, 2007, by and between Greystone Manufacturing, LLC and Yorktown Management & Financial Services, LLC (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007).
10.35	Settlement Agreement and Release dated as of February 8, 2007, by and among Greystone Logistics, Inc., 1607 Commerce Limited Partnership, Plastic Pallet Production, Inc. and Greystone Manufacturing, LLC (incorporated herein by reference to Exhibit 10.3 of the Company's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007).
11.1	Computation of Income Per Share is in Note 1 in the Notes to the Financial Statements.
21.1	Subsidiaries of Greystone Logistics, Inc. (submitted herewith).
23.1	Consent of HoganTaylor LLP (submitted herewith).
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-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

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-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
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 (submitted herewith).
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 (submitted herewith).

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

SIGNATURES

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

GREYSTONE LOGISTICS, INC.
(Registrant)

Date: 09/15/09

/s/ Warren F. Kruger
Warren F. Kruger, Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: 09/15/09

/s/ Warren F. Kruger
Warren F. Kruger, Chairman, President and Chief Executive Officer

Date: 09/15/09

/s/ Robert B. Rosene, Jr.
Robert B. Rosene, Jr., Director

Date: 09/15/09

/s/ Robert H. Nelson
Robert H. Nelson, Chief Financial Officer

Index to Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS OF GREYSTONE LOGISTICS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Greystone Logistics, Inc.

We have audited the consolidated balance sheets of Greystone Logistics, Inc. and subsidiaries as of May 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. Tullius Taylor Sartain & Sartain LLP audited the consolidated financial statements of Greystone Logistics, Inc. as of and for the year ended May 31, 2008, and merged with Hogan & Slovacek P.C. to form HoganTaylor LLP effective January 7, 2009.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to examine management's assessment of the effectiveness of the Company's internal control over financial reporting as of May 31, 2009, included in Item 9A. and, accordingly, we do not express an opinion thereon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greystone Logistics, Inc. and subsidiaries as of May 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. At May 31, 2009, the Company has a stockholders' deficit of $8,701,672 and a working capital deficit of $12,944,233. These deficits raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/S/ HOGANTAYLOR LLP

Tulsa, Oklahoma
September 15, 2009

Greystone Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

	May 31, 2009	May 31, 2008
Assets		
Current Assets:		
Cash	$ 274,765	$ 201,301
Accounts receivable, net of allowance for doubtful accounts of $60,578 and $-0- at May 31, 2009 and 2008, respectively	952,352	1,286,948
Inventory	1,061,569	899,485
Prepaid expenses	67,382	61,114
Total Current Assets	2,356,068	2,448,848
Property, Plant and Equipment, net of accumulated depreciation	8,208,888	8,878,716
Other Assets:		
Patents, net of accumulated amortization	103,655	118,440
Total Assets	$ 10,668,611	$ 11,446,004
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Current portion of long-term debt	$ 9,339,343	$ 9,013,395
Advances payable - related party	1,010,081	1,231,499
Accounts payable and accrued expenses	1,158,513	1,138,735
Accounts payable and accrued expenses - related parties	1,834,352	2,490,080
Preferred dividends payable	1,958,012	1,597,499
Total Current Liabilities	15,300,301	15,471,208
Long-Term Debt, net of current portion	3,249,953	4,465,291
Deferred Income	32,000	80,000
Minority Interest	788,029	708,872
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred stock, $0.0001 par value, cumulative, 20,750,000 shares authorized, 50,000 shares issued and outstanding, liquidation preference of $5,000,000	5	5
Common stock, $0.0001 par value, 5,000,000,000 shares authorized, 26,111,201 issued and outstanding	2,611	2,611
Additional paid-in capital	52,921,349	52,825,381
Accumulated deficit	(61,625,637)	(62,107,364)
Total Stockholders' Deficit	(8,701,672)	(9,279,367)
Total Liabilities and Stockholders' Deficit	$ 10,668,611	$ 11,446,004

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

Greystone Logistics, Inc. and Subsidiaries
Consolidated Statements of Income

	Year Ended May 31,	
	2009	2008
Sales	$ 16,690,708	$ 21,081,114
Cost of Sales	13,125,041	17,233,175
Gross Profit	3,565,667	3,847,939
General, Selling and Administration Expenses	1,852,126	1,815,469
Operating Income	1,713,541	2,032,470
Other Income (Expense):		
Other income	187,705	30,876
Interest expense	(988,845)	(1,061,248)
Total Other Expense, net	(801,140)	(1,030,372)
Income Attributable to Minority Interest	(70,161)	(73,678)
Net Income	842,240	928,420
Preferred Dividends	360,513	508,691
Net Income Available to Common Stockholders	$ 481,727	$ 419,729
Income Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	$ 0.02	$ 0.02
Weighted Average Shares of Common Stock Outstanding		
Basic	26,111,000	26,065,000
Diluted	26,111,000	26,171,000

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

Greystone Logistics, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficit

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balances, May 31, 2007	50,000	$ 5	26,061,201	$ 2,606	$ 52,693,226	$ (62,527,093)	$ (9,831,256)
Stock based compensation	—	—	—	—	119,660	—	119,660
Stock issued for services	—	—	50,000	5	12,495	—	12,500
Preferred dividends accrued	—	—	—	—	—	(508,691)	(508,691)
Net income	—	—	—	—	—	928,420	928,420
Balances, May 31, 2008	50,000	5	26,111,201	2,611	52,825,381	(62,107,364)	(9,279,367)
Stock based compensation	—	—	—	—	95,968	—	95,968
Preferred dividends accrued	—	—	—	—	—	(360,513)	(360,513)
Net income	—	—	—	—	—	842,240	842,240
Balances, May 31, 2009	50,000	$ 5	26,111,201	$ 2,611	$ 52,921,349	$ (61,625,637)	$ (8,701,672)

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

Greystone Logistics, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended May 31,	
	2009	2008
Cash Flows from Operating Activities:		
Net Income	$ 842,240	$ 928,420
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	975,577	846,828
Stock based compensation	95,968	119,660
Increase in minority interest	79,157	76,222
Provision for doubtful accounts	60,578	—
Changes in accounts receivable	274,018	(267,533)
Changes in inventory	(162,084)	(661,716)
Changes in prepaid expenses	(6,268)	(3,461)
Changes in accounts payable and accrued expenses	(882,311)	(258,680)
Other	(44,705)	(35,500)
Net cash provided by operating activities	1,232,170	744,240
Cash Flows from Investing Activities:		
Purchase of property and equipment	(294,259)	(362,882)
Net cash used in investing activities	(294,259)	(362,882)
Cash Flows from Financing Activities:		
Proceeds from notes and advances payable	376,092	383,069
Payments on notes and advances payable	(1,240,539)	(903,460)
Cash used in financing activities	(864,447)	(520,391)
Net Increase (Decrease) in Cash	73,464	(139,033)
Cash, beginning of year	201,301	340,334
Cash, end of year	$ 274,765	$ 201,301

Supplemental Information (Note 12)

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

Greystone Logistics, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
May 31, 2009 and 2008

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Greystone Logistics, Inc. ("Greystone"), through its two wholly-owned subsidiaries, Greystone Manufacturing, LLC ("GSM"), and Plastic Pallet Production, Inc. ("PPP"), is engaged in the manufacture and marketing of plastic pallets.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Greystone and its subsidiaries and variable interests. All material intercompany accounts and transactions have been eliminated.

Greystone consolidates all entities that it controls by ownership of a majority voting interest as well as variable interest entities for which Greystone is the primary beneficiary. In determining if Greystone is the primary beneficiary of variable interest entities includes an assessment of Greystone's level of involvement in setting up the entity, determining if the activities of the entity are substantially conducted on behalf of Greystone, determining whether Greystone provides more than half of the subordinated financial support to the entity, and determining if Greystone absorbs the majority of the entity's expected losses or returns.

Greystone's consolidated variable interest is Greystone Properties, LLC, which is owned by Warren Kruger, President and CEO, and Robert Rosene, a member of the Board of Directors. By virtue of the fact that Warren Kruger and Robert Rosene have personally guaranteed the mortgage note payable of Greystone Properties, the entity is considered by management to be a variable interest.

Use of Estimates

The preparation of Greystone's financial statements in conformity with accounting principles generally accepted in the United States of America requires Greystone's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ materially from those estimates.

Accounts Receivable and Allowance for Doubtful Accounts

Greystone carries its accounts receivable at their face value less an allowance for doubtful accounts. On a periodic basis, Greystone evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions and based on a history of collections. Based on periodic reviews of outstanding accounts receivable, Greystone writes off balances deemed to be uncollectible.

Inventory

Inventory consists of finished pallets and raw materials and is stated at the lower of average cost or market value.

Property, Plant and Equipment

Greystone's property, plant and equipment is stated at cost. Depreciation expense is computed on the straight-line method over the estimated useful lives, as follows:

Plant buildings	39 years
Production machinery and equipment	5-10 years
Office equipment & furniture & fixtures	3-5 years

Upon sale, retirement or other disposal, the related costs and accumulated depreciation of items of property, plant or equipment are removed from the related accounts and any gain or loss is recognized. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount. If the asset carrying amount exceeds the cash flows, a write-down to market value or discounted cash flow value is required. As discussed in Note 2, Continuation as a Going Concern, the financial statements have been prepared assuming that Greystone will continue operations as a going concern and, accordingly, do not include any adjustments to the carrying value of its property and equipment relating to any potential outcome of such uncertainties.

Patents

Amortization expense for the costs incurred by Greystone to obtain the patents on the modular pallet system and accessories is computed on the straight-line method over the estimated life of 15-17 years.

Stock Options

In accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," Greystone recognizes in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees.

Recognition of Revenues

Greystone's sales agreements to customers other than its primary customer generally provide for risk of loss to pass to the customers upon shipment from Greystone's plant in Bettendorf, Iowa. Revenue is recognized for these customers at date of shipment.

Greystone's agreement with its major customer provides that (1) risk of loss or damages for product in transit remain with Greystone or (2) product is subject to approval at the buyer's premises. Accordingly, Greystone recognizes revenue when product has been delivered to the customer's sites and risk of loss has passed to the customer.

For sales to all customers, cost of goods sold is recognized when the related revenue is recognized.

Research and Development Costs

Research and development costs are charged to operations in the period incurred.

Income Taxes

Greystone accounts for income taxes under the liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Earnings Per Share

Basic earnings per share is computed by dividing the earnings available to common stockholders by the weighted average number of common shares outstanding for the year. In arriving at income available to common stockholders, preferred stock dividends are deducted from net income for the year. For fiscal year 2009, convertible preferred stock, warrants and stock options are not considered as their effect is antidilutive. For fiscal year 2008, diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and dilutive potential common shares outstanding during the period.

The following is a reconciliation of the number of shares used in the calculation of basic earnings per share and diluted earnings per share for the fiscal years ended May 31, 2009 and 2008:

	2009	2008
Weighted-average number of common shares outstanding	26,111,000	26,065,000
Incremental shares from the assumed exercise of dilutive stock options	–	106,000
Dilutive potential common shares	26,111,000	26,171,000

The following securities (rounded to thousands) were not included in the computation of diluted earnings per share as their effect would have been antidilutive:

	2009	2008
Options to purchase common stock	2,970,000	2,970,000
Warrants to purchase common stock	5,263,000	55,013,000
Convertible preferred stock	3,333,000	3,333,000
	11,566,000	11,566,000

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The issuance of this standard is meant to increase consistency and comparability in fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delayed until January 1, 2009, the effective date of SFAS 157 for all non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active. Effective June 1, 2008, Greystone adopted SFAS 157 as disclosed in Note 11.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to

measure many financial instruments and certain other items at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Effective June 1, 2008, Greystone adopted SFAS 159 with no material effect on its consolidated financial statements and related disclosures.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 was issued to establish accounting and reporting standards for the noncontrolling interest in a subsidiary (formerly called minority interests) and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FAS No. 160 is effective for Greystone in fiscal years beginning after December 15, 2008. Greystone does not expect the adoption of SFAS 160 to have a material effect on its consolidated financial statements and related disclosures, except for the presentation of non-controlling interests in the financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. In April 2009, the FASB issued FASB Staff Position No. 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, to deal with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value on the date of acquisition can be determined. This Statement is effective prospectively to 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, 2008. Greystone does not expect the adoption of SFAS 141R to have a material effect on its consolidated financial statements and related disclosures.

In April 2009, the FASB issued FASB Staff Position No. 107-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1) which increases the frequency of fair value disclosures to a quarterly basis instead of an annual basis. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. FSP 107-1 is effective for interim and annual periods ending after June 15, 2009, but entities may choose to adopt the it for the interim and annual periods ending after March 15, 2009. Greystone will provide this disclosure commencing with the three month period ending August 31, 2009.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before the date the financial statements are issued or available to be issued. SFAS No. 165 requires an entity to reflect in their financial statements the effects of

subsequent events that provide additional evidence about conditions at the balance sheet date including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that arose after the balance sheet date should be disclosed. Disclosures should include the nature of the event and either an estimate of its financial effect or a statement that an estimate cannot be made. SFAS No. 165 also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 is effective for interim and annual financial periods ending after June 15, 2009. Therefore, SFAS No. 165 is effective for Greystone beginning with the first quarter of fiscal year 2010. The adoption of FAS No. 165 will not have a material impact on Greystone's consolidated financial position and results of operations as the requirements under this statement are consistent with Greystone's current practice.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140, which provides guidance to improve transparency about transfers of financial assets and a transferor's continuing involvement, if any, with transferred financial assets. SFAS No. 166, among other items, amends various provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125," by removing the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosures. SFAS No. 166 is effective for Greystone beginning June 1, 2010. SFAS No. 166 is not expected to have a material impact on Greystone's consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46R. SFAS No. 167 amends certain requirements of FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities — an interpretation of ARB No. 51," to improve the financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS No. 167 is effective for Greystone in the fiscal year beginning July 1, 2010. FAS No. 167 is not expected to have a material impact on the Greystone's consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162. SFAS No. 168 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the FASB Accounting Standards Codification™ ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. All existing accounting standard documents are superseded by the Codification and any accounting

literature not included in the Codification will not be authoritative. However, rules and interpretive releases of the SEC issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for interim and annual reporting periods ending after September 15, 2009. Therefore, beginning with Greystone's first fiscal quarter of 2010, all references made by it to GAAP in its consolidated financial statements will use the new Codification numbering system. The Codification does not change or alter existing GAAP and, therefore, it is not expected to have a material impact on Greystone's consolidated financial position and results of operations.

Note 2. CONTINUATION AS A GOING CONCERN

The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern. Greystone has achieved profitability from operations and currently, management believes that Greystone has the capacity to produce sufficient plastic pallets to maintain such profitability. However, Greystone is currently dependent on one customer for approximately 80% to 85% of its sales. To date, Greystone has received substantial advances from investors to finance its operations and will require additional substantial funding and/or personal guarantees on debt in order to attain its business plan and continue to achieve profitable operations. Historically, management has been successful in financing its operations primarily through short-term loans and personal guarantees on bank loans by its officers and directors. Management continues to seek long-term and/or permanent financing. Neither the receipt of additional funding in adequate amounts nor the successful implementation of its business plan can be assured. The combination of these factors raises substantial doubt about Greystone's ability to continue as a going concern. It is management's opinion that (1) based upon expressions of interest from potential customers, adequate sales will be attained to reach a profitable status, (2) the funding for working capital required to reach necessary production levels will be obtained and (3) Greystone will continue as a going concern.

Note 3. INVENTORY

Inventory at May 31, 2009 and 2008 consists of:

	2009	2008
Raw materials	$ 376,328	$ 341,937
Finished goods	685,241	557,548
Total inventory	$ 1,061,569	$ 899,485

Note 4. PROPERTY, PLANT AND EQUIPMENT

A summary of the property, plant and equipment at May 31, 2009 and 2008, is as follows:

	2009	2008
Production machinery and equipment	$ 7,827,149	$ 7,587,315
Building and land	4,803,368	4,800,444
Furniture and fixtures	235,856	184,355
	12,866,373	12,572,114
Less: accumulated depreciation	(4,657,485)	(3,693,398)
Total	$ 8,208,888	$ 8,878,716

Depreciation expense for the years ended May 31, 2009 and 2008 is $964,087 and $838,128, respectively.

Note 5. OTHER ASSETS

At May 31, 2009 and 2008, other assets consist of the following:

	2009	2008
Patents	$ 190,738	$ 190,738
Deposits	263	3,558
Accumulated amortization	(87,346)	(75,856)
Total	$ 103,655	$ 118,440

Amortization of intangibles was $11,490 and $8,700 for 2009 and 2008, respectively. Future amortization will be $11,490 per year for the next five fiscal years and $45,942 thereafter.

Note 6. LONG-TERM DEBT

Long-term debt at May 31, 2009 consists of the following:

	2009	2008
Note payable to F&M Bank & Trust Company, prime rate of interest but not less than 4.5%, due May 15, 2010, payable in monthly installments of $60,577	$ 4,705,846	$ 4,783,963
Note payable to F&M Bank & Trust Company, prime rate of interest but not less than 4.5%, due May 15, 2010	1,461,000	1,617,460
Mortgage payable to Greystone Plastics, Inc., 7% interest, due September 7, 2018, payable in monthly installments of $13,889 plus accrued interest, secured by building	1,569,417	1,736,105
Mortgage payable to Kansas City Life Insurance, 6.25% interest, due July 1, 2014, payable in monthly installments of $10,781, secured by building	1,265,616	1,314,228

Note payable to BancFirst, prime rate of interest plus 1%, due July 1, 2012 payable in monthly installments of $14,858, secured by equipment	507,676	—
Note payable to First Bartlesville Bank, prime rate of interest plus 1%, refinanced in fiscal year 2009	—	297,433
Note payable to Robert Rosene, prime rate of interest plus 0.5%, refinanced in fiscal year 2009	—	344,968
Note payable to F&M Bank & Trust Company, prime rate of interest, due March 15, 2011, payable in monthly installments of $12,205	237,063	378,843
Note payable to Robert Rosene, 7.5% interest, due January 15, 2010, unsecured	2,066,000	2,066,000
Note payable to Warren Kruger, 7.5% interest, due January 15, 2010, unsecured	527,716	527,716
Other	248,962	411,970
Total	12,589,296	13,478,686
Less: Current portion	9,339,343	9,013,395
Long-term debt	$3,249,953	$4,465,291

The prime rate of interest as of May 31, 2009 was 3.25%.

The notes payable to F&M Bank and Trust Company are secured by Greystone's property and equipment, accounts receivable and cash balances. The loans are guaranteed by the directors of Greystone in effect at May 31, 2009.

Maturities of long-term debt for the five years after May 31, 2009 are $9,339,343, $538,017, $423,054, $269,077 and $273,201 with $1,746,604 payable thereafter.

Note 7. RELATED PARTY TRANSACTIONS

Transactions with Warren Kruger, Chairman

Effective June 1, 2006, Yorktown Management & Services LLC, an entity owned by Warren Kruger, Chairman and CEO, commenced selling plastic raw material to GSM primarily as a sole provider. During fiscal years 2009 and 2008, GSM raw material purchases from Yorktown totaled $5,281,519 and $7,526,779, respectively.

In addition, GSM pays rental to Yorktown for use of certain molds at the rate of $1.00 per pallet. During fiscal years 2009 and 2008, GSM paid or accrued $110,597 and $-0-, respectively, in rentals for use of certain pallet molds.

From time to time, Warren Kruger advances working capital funds to or accepts repayments from Greystone. During fiscal year 2009, Mr. Kruger advanced no funds and accepted repayments of $221,418. During fiscal year 2008, there were no advances or repayments. Effective December 15, 2005, Greystone entered into a loan agreement with Warren Kruger to convert $527,716 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010 of which Warren Kruger has waived the first two installments until maturity. At May 31, 2009, a note payable of $527,716, advances of $1,010,081 and accrued interest of $281,766 were due to entities owned or controlled by Warren Kruger. In addition, Greystone has accounts payable to entities owned by Warren Kruger in the amount of $963,775.

Greystone also reimburses an entity owned by Warren Kruger for office rent at the rate of $1,500 per month.

Pursuant to Mr. Kruger's employment contract with Greystone, he is entitled to be paid an annual salary of $240,000. However, effective November 2006, Mr. Kruger voluntarily elected to temporarily defer the payment of half of such salary until such time as Greystone's operating results further improve.

Transactions with Robert Rosene, Director

Effective December 15, 2005, Greystone entered into a loan agreement with Mr. Rosene to convert $2,066,000 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010 of which Mr. Rosene has waived the first two installments until maturity. Accrued interest due to Mr. Rosene at May 31, 2009 is $588,811.

Note 8. FEDERAL INCOME TAXES

Deferred taxes as of May 31, 2009 and 2008 are as follows:

	2009	2008
Deferred Tax Assets:		
Net operating loss	$ 2,436,452	$ 2,779,058
Amortization of intangibles	1,297,563	1,438,882
Deferred compensation accrual	129,200	–
Depreciation, financial reporting in excess of tax	34,112	59,376
Provision for doubtful accounts	20,597	–
Total deferred tax assets	3,917,924	4,277,316
Less: Valuation allowance	(3,917,924	(4,277,316)
Total	$ –	$ –

Management has provided a valuation allowance for the full amount of the deferred tax asset as Greystone due to the uncertainty regarding Greystone's ability to continue to maintain profitability from its operations. While management anticipates that the products being developed will improve profitability and, as a result, some or all of the deferred assets would ultimately be realized. Greystone has not yet reached sufficient reliability on product acceptance and marketability to reduce the valuation allowance.

The net change in deferred taxes for the year ended May 31, 2009 and 2008 is as follows:

	2009	2008
Net operating loss	$ (342,606)	$ (232,220)
Depreciation of property and equipment	(25,264)	35,320
Amortization of intangibles	(141,319)	(141,008)
Accrued expenses	–	(14,123)
Deferred compensation accrual	129,200	–
Allowance for doubtful accounts	20,597	–
Change in valuation allowance	359,392	352,031
Total	$ –	$ –

Greystone's effective tax rate for the years ended May 31, 2009 and 2008 differs from the federal statutory rate as follows:

	2009	2008
Tax provision using statutory rates	$ (286,362)	$ (315,663)
Net change in valuation allowance	359,392	352,031
Compensation cost of stock options	(32,629)	(40,684)
Other	(40,401)	4,316
Tax benefit, per financial statements	$ –	$ –

Greystone has net operating losses (NOL) for Federal income tax purposes as of May 31, 2009 of $7,166,000 expiring in fiscal year 2012 through fiscal year 2027, as follows:

Cumulative as of May 31, 2005	$2,731,000	2012 through 2025
Year ending May 31, 2006	1,557,000	2026
Year ending May 31, 2007	2,878,000	2027

Pursuant to Internal Revenue Code Section 382 and due to a change in control of Greystone during the fiscal year ended May 31, 2005, the utilization of operating losses accumulated through fiscal year 2005 is limited to approximately $225,000 per year.

Based upon a review of its income tax filing positions, Greystone believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. Greystone recognizes interest related to income taxes as interest expense and penalties as operating expenses. The statute of limitations has not expired for federal income tax returns for fiscal years 2005 through 2009.

Note 9. STOCKHOLDERS' EQUITY

Warrants

A summary of outstanding warrants for the years ending May 31 is as follows:

	2009		2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Beginning of year	5,262,914	$ 0.56	5,262,914	$ 0.56
Additions	-	-	-	-
End of year	5,262,914	$ 0.56	5,262,914	$ 0.56

All warrants issued and outstanding have a term of five years expiring in fiscal years 2010 through 2012.

Common Stock

Effective April 29, 2008, Greystone issued 50,000 shares of common stock in exchange for services. The issuance was valued at the market value of the stock on the date of issue or $12,500.

Convertible Preferred Stock

In September 2003, Greystone issued 50,000 shares of Series 2003, cumulative, convertible preferred stock, par value $0.0001, for a total purchase price of $5,000,000. Each share of the preferred stock has a stated value of $100 and a dividend rate equal to the prime rate of interest plus 3.25% and may be converted into common stock at the conversion rate of $1.50 per share or an aggregate of 3,333,333 shares of common stock. The holder of the preferred stock has been granted certain voting rights so that such holder has the right to elect a majority of the Board of Directors of Greystone. The holder of the preferred stock waived its right to compounded dividends on unpaid interest during the period from March 4, 2005 through May 31, 2009, totaling approximately $425,000.

Note 10. STOCK OPTIONS

Greystone has a stock option plan that provides for the granting of options to key employees and non-employee directors. The options are to purchase common stock at not less than fair market value at the date of the grant. The maximum number of shares of common stock for which options may be granted is 20,000,000 of which 17,005,000 are available for grant as of May 31, 2009. Stock options generally expire in ten years from date of grant or upon termination of employment and are generally exercisable one year from date of grant in cumulative annual installments of 25%, except that the options granted in fiscal year 2001 were 100% vested at the date of grant. Following is a summary of option activity for the two years ended May 31, 2009:

	Number	Exercise Price	Fair Value	Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding, May 31, 2007	2,360,000	$ 1.35			
Granted		0.40			
	1,050,000	2.56	$ 0.37		$ 388,500
Cancelled	(440,000)				
Outstanding, May 31, 2008	2,970,000	0.84			
Granted	–	–			
Outstanding, May 31, 2009	2,970,000	$ 0.84		2.9	
Exercisable, May 31, 2009	2,445,000	$ 0.93		2.5	
Non-vested options, May 31, 2007	–				
Options vested in fiscal year 2008	262,500	$ 0.40	$ 0.37		$ 97,125
Non-vested options, May 31, 2008	787,500	$ 0.40	$ 0.37	5.8	$ 291,375
Options vested in fiscal year 2009	262,500	$ 0.40	$ 0.37		$ 91,125
Non-vested options, May 31, 2009	525,000	$ 0.40	$ 0.37	4.8	$ 194,250

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The fair value of the options used to compute the compensation cost for new option grants and at year-end is estimated using the Black-Scholes option pricing model using the following assumptions:

	Grants
Dividend Yield	None
Expected Volatility	203%
Risk Free Interest Rate	4%
Expected Holding Period	6 years

Share-based compensation cost for fiscal years 2009 and 2008 totals $95,968 and $119,960, respectively. As of May 31, 2009, there is a total of $172,572 of unrecognized compensation expense related to non-vested share-based compensation for the management grants. That cost is expected to be recognized on a straight-line basis over a period of 1.75 years.

Note 11. FINANCIAL INSTRUMENTS

The following methods and assumptions are used in estimating the fair-value disclosures for financial instruments:

Cash: The carrying amounts reported in the balance sheet approximate fair value due to the short-term maturity of these instruments.

Accounts Receivable and Accounts Payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments.

Long-Term Debt: The carrying amount of loans with floating rates of interest approximate fair value. Fixed rate loans are valued based on cash flows using estimated rates comparable loans. The carrying amounts reported in the balance sheet approximate fair value.

Note 12. SUPPLEMENTAL INFORMATION OF CASH FLOWS

Supplemental information of cash flows for the years ended May 31:

	2009	2008
Non-cash activities:		
Preferred dividend accrual	$ 360,513	$ 508,691
Supplemental information:		
Interest paid	651,915	1,001,365
Taxes paid	–	–

Note 13. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject Greystone to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits. As of May 31, 2008, Greystone's bank balances were within federally insured limits.

For the fiscal year ended May 31, 2009 and 2008, one customer accounted for approximately 83% and 85% of sales, respectively. The account receivable from this customer at May 31, 2009 totaled $775,833.

As of the fiscal year ended May 31, 2009 and 2008, Greystone purchased 100% of its raw materials from Yorktown Management & Financial Services LLC, an entity owned by Warren Kruger, Chairman and CEO. However, the raw materials for Greystone's products are readily available and may be purchased from other suppliers

Note 14. CONTINGENCIES

Rental expense on operating lease totaled $36,600 and $-0- during 2009 and 2008, respectively. The equipment lease is between Yorktown Management, a company owned by Warren Kruger, is dated March 1, 2008 and has a term of 36 months. The lease has remaining lease payments of $73,200, $73,200 and $36,600 for fiscal years 2010, 2011 and 2012, respectively.

Effective January 1, 2009, Greystone entered into a production lease agreement to acquire mid-duty pallets from a supplier with a minimum monthly payment of $25,000. The lease has a term of one year with the option of renewing or terminating the lease at the end of each year.

Note 15. CONTINGENCIES

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to Greystone but which will only be resolved when one or more future events occur or fail to occur. Greystone's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against Greystone or unasserted claims that may result in such proceedings, Greystone's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in Greystone's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Note 16. VARIABLE INTEREST ENTITY

Greystone Properties, LLC is owned by Warren Kruger, President and CEO, and Robert Rosene, a member of the Board of Directors. It was created solely to own and lease one of the two buildings GSM occupies in Bettendorf, Iowa. An implicit variable interest exists given the related party nature of the lease. The lease terms are based on factors other than the lease's market value and the outstanding mortgage on the building is guaranteed by Greystone's President and CEO.

The building, having a carrying value of $1,816,040 and $1,953,046 at May 31, 2009 and 2008, respectively, serves as collateral for Greystone Properties' debt. The debt has a carrying value of $1,265,616 and $1,314,228 at May 31, 2009 and 2008, respectively, and has no recourse to the general credit of Greystone.

Note 17. SUBSEQUENT AND OTHER EVENTS

On June 15, 2009, Greystone and Sonoco Products Company ("Sonoco") entered into a Raw Materials/Goods Purchase Contract (the "Contract") relating to the purchase by Sonoco from the Company of pallets made from 100% recycled plastic. The Contract does not obligate Sonoco to purchase any particular quantity, volume or value of pallets. The term of the Contract ends on March 31, 2010, subject to the extension of the Contract by agreement of Greystone and Sonoco.

On May 20, 2009, Greystone and Diageo Americas Supply ("Diageo") entered into a contract whereby Diageo will purchase pallets for a total of $2,000,000.

During fiscal year 2009, Greystone entered into a settlement agreement with William Hamilton and Greystone Bill Hamilton Trucking Company pursuant to which Greystone agreed to pay $72,000 in exchange for a complete release of all claims against Greystone and its subsidiary, Greystone Manufacturing, LLC, with $15,000 of the settlement payment being paid immediately and the remaining $57,000 being paid in 11 equal monthly installments. This settlement was recorded in cost of sales as the case related primarily to freight charges.