

GREYSTONE LOGISTICS, INC.
Form 10-Q
January 17, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED November 30, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

(Exact name of registrant as specified 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 74120

(Address of principal executive offices) (Zip Code)

(918) 583-7441

(Registrant's telephone number, including area code)

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

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to post and submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: January 9, 2011 - 26,111,201

GREYSTONE LOGISTICS, INC.
FORM 10-Q

For the Period Ended November 30, 2011

PART I. FINANCIAL INFORMATION

| | |
|---|------|
| Item 1. Financial Statements | Page |
| Consolidated Balance Sheets as of November 30, 2011 (Unaudited) and May 31, 2011 | 1 |
| Consolidated Statements of Operations (Unaudited) For the Six-Month Periods Ended November 30, 2011 and 2010 | 2 |
| Consolidated Statements of Operations (Unaudited) For the Three-Month Periods Ended November 30, 2011 and 2010 | 3 |
| Consolidated Statements of Cash Flows (Unaudited) For the Six-Month Periods Ended November 30, 2011 and 2010 | 4 |
| Notes to Consolidated Financial Statements (Unaudited) | 5 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 8 |
| Item 4. Controls and Procedures | 12 |
| PART II. OTHER INFORMATION | |
| Item 6. Exhibits | 13 |
| SIGNATURES | 14 |
| Index to Exhibits | 15 |

ITEM 1. Financial Statements.

Greystone Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

| | November 30, 2011 (Unaudited) | May 31, 2011 |
|---|-------------------------------------|-----------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$598,898 | \$169,420 |
| Accounts receivable - Trade, net of allowance of \$75,000 at November 30, 2011 and May 31, 2011 | 1,700,897 | 1,769,387 |
| Related party Inventory | 444,825 | 652,402 |
| Prepaid expenses and other | 1,281,957 | 543,557 |
| Total Current Assets | 95,652 | 70,990 |
| | 4,122,229 | 3,205,756 |
| Property, Plant and Equipment | 14,801,332 | 13,900,575 |
| Less: Accumulated Depreciation | (6,759,696) | (6,186,967) |
| Property, Plant and Equipment, net | 8,041,636 | 7,713,608 |
| Other Assets | 96,733 | 100,693 |
| Total Assets | \$12,260,598 | \$11,020,057 |
| Liabilities and Deficit | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$3,967,848 | \$3,937,581 |
| Advances payable - related party | 666,080 | 725,080 |
| Current portion of variable interest entities' long-term debt | — | 135,173 |
| Preferred dividends payable | 2,762,944 | — |
| Accounts payable and accrued expenses | 2,392,821 | 1,927,162 |
| Accounts payable and accrued expenses - related parties | 1,817,121 | 1,621,838 |
| Total Current Liabilities | 11,606,814 | 8,346,834 |
| Long-Term Debt, net of current portion | 8,655,064 | 8,811,243 |
| Long-Term Debt of Variable Interest Entity, net of current portion | — | 3,566,971 |
| Deficit: | | |
| Preferred stock, \$0.0001 par value, 20,750,000 shares authorized, 50,000 shares issued and outstanding, liquidation preference of \$5,000,000 | 5 | — |
| Common stock, \$0.0001 par value Shares authorized: 5,000,000,000 Shares issued: 26,111,201 at November 30, 2011 and May 31, 2011 | 2,611 | 2,611 |
| Additional paid-in capital | 53,089,293 | 48,089,298 |
| Accumulated deficit | (62,065,476) | (62,297,986) |
| Total Greystone Stockholders' Deficit | (8,973,567) | (14,206,077) |

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| | | |
|-------------------------------|--------------|--------------|
| Noncontrolling interests | 972,287 | 4,501,086 |
| Total Deficit | (8,001,280) | (9,704,991) |
| Total Liabilities and Deficit | \$12,260,598 | \$11,020,057 |

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

1

Greystone Logistics, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

| | Six Months Ended November 30, | |
|---|-------------------------------|----------------|
| | 2011 | 2010 |
| Sales | \$ 11,997,125 | \$ 10,047,081 |
| Cost of Sales | 9,860,901 | 9,519,823 |
| Gross Profit | 2,136,224 | 527,258 |
| General, Selling and Administrative Expenses | 899,345 | 988,781 |
| Operating Income (Loss) | 1,236,879 | (461,523) |
| Other Income (Expense): | | |
| Other Income (Expense) | (6,841) | 7,650 |
| Interest Expense | (478,897) | (392,462) |
| Total Other Expense, net | (485,738) | (384,812) |
| Net Income (Loss) | 751,141 | (846,335) |
| Income Attributable to Variable Interest Entities, net | (46,180) | (41,394) |
| Preferred Dividends | (81,027) | (162,945) |
| Net Income (Loss) Available to Common Stockholders | \$623,934 | \$(1,050,674) |
| Income (Loss) Available to Common Stockholders Per Share of Common Stock - Basic and Diluted | \$0.02 | \$(0.04) |
| Weighted Average Shares of Common Stock Outstanding - Basic and Diluted | 26,111,201 | 26,111,201 |

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

Greystone Logistics, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended November 30, | |
|---|---------------------------------|--------------|
| | 2011 | 2010 |
| Sales | \$6,213,501 | \$5,052,873 |
| Cost of Sales | 5,140,878 | 4,781,367 |
| Gross Profit | 1,072,623 | 271,506 |
| General, Selling and Administrative Expenses | 487,358 | 497,697 |
| Operating Income (Loss) | 585,265 | (226,191) |
| Other Income (Expense): | | |
| Other Income (Expense) | (3,891) | — |
| Interest Expense | (212,544) | (202,502) |
| Total Other Expense, net | (216,435) | (202,502) |
| Net Income (Loss) | 368,830 | (428,693) |
| Income Attributable to Variable Interest Entities, net | (50,555) | (20,802) |
| Preferred Dividends | (81,027) | (81,027) |
| Net Income (Loss) Available to Common Stockholders | \$237,248 | \$(530,522) |
| Income (Loss) Available to Common Stockholders Per Share of Common Stock - Basic and Diluted | \$0.01 | \$(0.02) |
| Weighted Average Shares of Common Stock Outstanding - Basic and Diluted | 26,211,201 | 26,211,201 |

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

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

| | Six Months Ended November 30, 2011 | 2010 |
|--|---------------------------------------|--------------|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$751,141 | \$(846,335) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 581,168 | 511,552 |
| Stock-based compensation | — | 47,984 |
| Changes in receivables | 276,067 | 30,676 |
| Changes in inventory | (738,400) | 61,347 |
| Changes in prepaid expenses and other | (24,662) | 6,767 |
| Change in other assets | (4,479) | 2,740 |
| Changes in accounts payable and accrued expenses | 664,152 | 728,059 |
| Net cash provided by operating activities | 1,504,987 | 542,790 |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (337,731) | (772,193) |
| Cash Flows from Financing Activities: | | |
| Proceeds from note payable to related party | — | 500,000 |
| Payments on long-term debt | (721,998) | (190,691) |
| Payments on advances from related party | (59,000) | (69,001) |
| Capital contributions to variable interest entity | 75,000 | — |
| Distributions by variable interest entity | (31,780) | — |
| Net cash provided by (used in) financing activities | (737,778) | 240,308 |
| Net Increase in Cash | 429,478 | 10,905 |
| Cash, beginning of period | 169,420 | 163,749 |
| Cash, end of period | \$598,898 | \$174,654 |
| Non-Cash Activities: | | |
| Acquisition of equipment by capital lease or debt | \$563,026 | \$— |
| Preferred dividend accrual | 81,027 | 162,945 |
| Net decrease in liabilities due to deconsolidation of VIE | 990,378 | — |
| Supplemental Information: | | |
| Interest paid | 278,413 | 198,379 |

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

GREYSTONE LOGISTICS, INC.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Basis of Financial Statements

In the opinion of Greystone Logistics, Inc. ("Greystone"), the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications, which are of a normal recurring nature, necessary to present fairly its financial position as of November 30, 2011, and the results of its operations and its cash flows for the six-month and three-month periods ended November 30, 2011 and 2010. These consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the fiscal year ended May 31, 2011 and the notes thereto included in Greystone's Form 10-K for such period. The results of operations for the six-month and three-month periods ended November 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full fiscal year.

The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern. Greystone reported a net loss for the fiscal year ended May 31, 2011 and net income for the two fiscal years prior thereto. Greystone believes that it has the capacity to produce sufficient plastic pallets to achieve profitability. However, Greystone continues to be dependent on one customer. Sales to this major customer were approximately 75% of pallet sales (61% of total sales) for the six-month period ended November 30, 2011 and 76% of pallet sales (55% of total sales) for the six-month period ended November 30, 2010. To date, Greystone has received substantial advances from investors to finance its operations and will require additional substantial funding and/or personal guarantees of debt in order to attain its business plan and continue to achieve profitable operations. Historically, Greystone has been successful in financing its operations primarily through short-term loans and personal guarantees of bank loans by its officers and directors. Management has continued to seek long-term and/or permanent financing, and on March 15, 2011, Greystone entered into an amended bank loan agreement which provides for a three-year term on Greystone's primary indebtedness. While such amendment's extended terms provided important near-term relief, profitable growth will still require additional capital resources. Neither the receipt of additional funding in adequate amounts nor the successful implementation of Greystone's business plan can be assured. The combination of these factors raises substantial doubt about Greystone's ability to continue as a going concern.

Note 2. Variable Interest Entities (VIE)

The consolidated financial statements of Greystone include Greystone Real Estate, L.L.C. ("GRE"), a VIE which owns two buildings located in Bettendorf, Iowa which are leased to Greystone Manufacturing, L.L.C. ("GSM"), and until August 31, 2011, GLOG Investment, L.L.C. ("GLOG"), a VIE whose sole asset was Greystone's Series 2003 Convertible Preferred Stock in the face amount of \$5,000,000 and accrued dividends of \$2,762,944. The assets and liabilities of GLOG were transferred to GLOG's owners and GLOG was dissolved effective September 20, 2011, thereby removing the

requirement for Greystone to consolidate GLOG. Greystone initially became the primary beneficiary of GLOG's variable interests on March 15, 2011, when a bank loan amendment caused Greystone's assets to be included as collateral for GLOG's indebtedness. Greystone's assets continue to serve as collateral for the bank loan after it was assumed by GLOG's owners. The effect of GLOG's dissolution was the deconsolidation to remove GLOG's debt and to restore Greystone's preferred stock and accumulated dividends payable to Greystone's consolidated financial statements.

Note 3. Earnings Per Share

For the six-month and three-month periods ended November 30, 2011, basic and diluted EPS were the same as the effect of the stock options to purchase common stock and the convertible provisions of the Series 2003 preferred stock were anti-dilutive.

The following securities (rounded to thousands) were not included in the computation of diluted earnings per share for the six-month and three-month periods ended November 30, 2011 as their effect would have been antidilutive:

| | |
|----------------------------------|-----------|
| Options to purchase common stock | 1,940,000 |
| Convertible preferred stock | 3,333,000 |
| | 5,273,000 |

Note 4. Inventory

Inventory consists of the following:

| | November 30, 2011 (Unaudited) | May 31, 2011 |
|-----------------|-------------------------------------|-----------------|
| Raw Materials | \$ 668,378 | \$ 171,104 |
| Finished goods | 613,579 | 372,453 |
| Total inventory | \$ 1,281,957 | \$ 543,557 |

Note 5. Note Payable

Notes payable consisted of the following:

| | November 30, 2011 (Unaudited) | May 31, 2011 |
|---|-------------------------------------|-----------------|
| Greystone Debt: | | |
| Note payable to F&M Bank & Trust Company, prime rate of interest but not less than 4.5%, due March 13, 2014 | 5,517,036 | \$5,952,591 |
| Mortgage payable to F&M Bank & Trust Company, prime rate of interest but not less than 4.74%, due February 13, 2016 | 3,745,755 | 3,866,827 |
| Note payable to BancFirst, prime rate of interest plus 1%, due July 1, 2012 | 95,890 | 181,771 |
| Notes payable to Robert Rosene, 7.5% interest, due January 15, 2013 | 2,066,000 | 2,066,000 |
| Note payable to Warren Kruger, 7.5% interest, due January 15, 2013 | 527,716 | 527,716 |
| Capitalized lease obligation, 5% interest, due August 15, 2016 | 538,085 | — |
| Other | 132,430 | 153,919 |
| Total | 12,622,912 | 12,748,824 |
| Less: Current portion | 3,967,848 | 3,937,581 |
| Long-term debt | \$8,655,064 | \$8,811,243 |
| VIE Debt: | | |
| Note payable to F&M Bank & Trust Company, prime rate of interest but not less than 4.75%, due March 15, 2014 | \$— | \$3,702,144 |
| Less: Current portion | — | 135,173 |
| Long-term debt | \$— | \$3,566,971 |

Greystone, GSM, GRE and GLOG are parties to a loan agreement dated as of March 4, 2005, as amended, with F&M Bank & Trust Company (“F&M”). Effective August 31, 2011, GLOG distributed its assets, Greystone’s Series 2003 Convertible Preferred Stock, to its members, Warren F. Kruger, Greystone’s president and CEO, and Robert B. Rosene, Jr., a member of Greystone’s board of directors (collectively, the “Borrowers”). Effective as of August 31, 2011, the loan agreement was amended to (a) cause all of GLOG’s rights and obligations under the loan agreement to be transferred to Warren F. Kruger and Robert B. Rosene, Jr., (b) affirm the cross-collateralization and cross-default provisions of the loan agreement among property and debts of GSM, GLOG and Greystone Real Estate, L.L.C., an entity owned by Warren F. Kruger and Robert B. Rosene, Jr., (c) amend the cross-collateralization and cross-default provisions of the loan agreement to include Messrs. Kruger and Rosene and (d) amend certain financial covenants of the loan agreement. GLOG was dissolved effective September 20, 2011.

GLOG was a party to the March 4, 2005 amended loan agreement with F&M which contained cross-collateralization and cross-default provisions among GLOG, GSM and GRE. Effective with the August 31, 2011 loan amendment, GLOG was replaced by the Borrowers.

Note 6. Fair Value of Financial Instruments

The following methods and assumptions are used in estimating the fair-value disclosures for financial 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 of comparable loans. The carrying amounts reported in the balance sheet approximate fair value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

General to All Periods

The unaudited consolidated statements include Greystone Logistics, Inc., its two wholly-owned subsidiaries, Greystone Manufacturing, L.L.C., or GSM, and Plastic Pallet Production, Inc., or PPP. Greystone also consolidates its variable interest entities, Greystone Real Estate, L.L.C., or GRE, and, until August 31, 2011, GLOG Investment, L.L.C., or GLOG. All material intercompany accounts and transactions have been eliminated.

References to fiscal year 2012 refer to the six-month and three-month periods ended November 30, 2011, as applicable. References to fiscal year 2011 refer to the six-month and three-month periods ended November 30, 2010, as applicable.

Sales

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 and by providing a pallet leasing option. 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's marketing is conducted through contract distributors and its President and other employees.

Greystone derives a substantial portion of its revenue from a national brewer. This customer accounted for approximately 75% and 76% of Greystone's pallet sales and 61% and 55% of Greystone's total sales for the six-month periods ended November 30, 2012 and 2011, respectively. The design of Greystone's recycled plastic pallets are approved for use by the customer and are the only plastic pallets in use for case goods at the current time by the customer. 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.

Personnel

Greystone had approximately 94 and 87 full-time employees as of November 30, 2011 and 2010, respectively.

Taxes

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 statements of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to Greystone's ability to achieve and sustain profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the consolidated statements of operations.

Based upon a review of its income tax filing positions, Greystone believes that its positions would be sustained upon an audit by the Internal Revenue Service 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. At November 30, 2011, Greystone had no unrecognized tax benefits.

Six-Month Period Ended November 30, 2011 Compared to Six-Month Period Ended November 30, 2010

Sales

Sales for fiscal year 2012 were \$11,997,125 compared to \$10,047,081 in fiscal year 2011 for an increase of \$1,950,044. Pallet sales were \$9,732,702 in fiscal year 2012 compared to \$7,304,594 in fiscal year 2011 for an increase of \$2,428,108. Greystone's sales to its major customer in fiscal year 2012 were 75% of total pallet sales compared to 76% of total pallet sales in fiscal year 2011. The increased pallet sales in fiscal year 2012 over 2011 was primarily due to new customer sales of approximately \$390,000 and to improvements in production output as discussed below under Cost of Sales.

Pallet sales to Greystone's major customer are generally based on the customer's need to maintain its pallet inventory and may vary by period. Greystone cannot predict the major customer's future needs to maintain or grow its pallet inventory but has been able to grow sales to new pallet customers developed through Greystone's marketing efforts to broaden its customer base.

Sales of recycled plastic resin were \$2,264,423 in fiscal year 2012 compared to \$2,742,487 in fiscal year 2011 for a decrease of \$478,064. The cost of material compared to the pricing for pelletized resin was less than favorable resulting in a reduction in fiscal year 2012 of production and sales of resin. Greystone's strategic plan is to continue to grow the sales of recycled plastic resin as gross margins improve.

Cost of Sales

Cost of sales in fiscal year 2012 was \$9,860,901, or 82% of sales, compared to \$9,519,823, or 95% of sales, in fiscal year 2011. The higher ratio of cost of sales to sales in fiscal year 2011 was primarily due to inelastic manufacturing costs for pallet production during a period of reduced product volume resulting from lost production time on the pallet production lines for necessary repair and maintenance.

The cost of sales for resin approximates the related sales. Greystone's profitability from resin sales is affected by pricing, production costs and the fees (40% of revenue less material, freight and commissions) paid or accrued to Yorktown Management, LLC, an entity owned by Warren Kruger, President and CEO of Greystone. Greystone's business plan is to increase resin sales with improved profit margins toward the realization of a positive gross margin. Yorktown's share of gross profits from resin sales totaled approximately \$75,000 and \$254,000 in fiscal years 2012 and 2011, respectively.

General, Selling and Administrative Expenses

General, selling and administrative expenses were \$899,345 in fiscal year 2012 compared to \$988,781 in fiscal year 2011 for a decrease of \$89,436. The decrease in selling, general and administrative expenses was primarily due to the salary and related expenses associated with the resignation of the Senior Vice President for Sales and Marketing in April, 2011.

Interest Expense

Interest expense was \$478,897 in fiscal year 2012 compared to \$392,462 in fiscal year 2011 for an increase of \$86,435. In January 2011, Greystone sold its plant in Bettendorf, Iowa to Greystone Real Estate and used the proceeds to retire the related debt on the facility and Greystone Real Estate financed the acquisition with a mortgage note payable. As a result, for fiscal year 2012 over 2011, there was an increase in interest expense of approximately \$62,000 for Greystone Real Estate and a decrease of approximately \$25,000 for Greystone. In addition, the interest expense in fiscal year 2012 included \$45,000 for the variable interest entity, GLOG which was included in the consolidation of Greystone for the period from June 1, 2011 through August 31, 2011. GLOG was not included in the consolidation for the six-month period ended November 30, 2010.

Net Income (Loss)

Greystone recorded net income of \$751,141 in fiscal year 2012 compared to a net loss of \$(846,335) in fiscal year 2011 for the reasons discussed above.

Net Income (Loss) Available to Common Stockholders

Net income available to common stockholders for fiscal year 2012 was \$623,934, or \$0.02 per share, compared to the net loss attributable to common stockholders of \$(1,050,674), or \$(0.04) per share, in fiscal year 2011 for the reasons discussed above.

Three Month Period Ended November 30, 2011 Compared to Three Month Period Ended November 30, 2010

Sales

Sales for fiscal year 2012 were \$6,213,501 compared to \$5,052,873 in fiscal year 2011 for an increase of \$1,160,628. Pallet sales were \$5,443,783 in fiscal year 2012 compared to \$3,564,963 in fiscal year 2011 for an increase of \$1,878,820. Greystone's sales to its major customer in fiscal year 2012 were 76% of total pallet sales compared to 74% of total pallet sales in fiscal year 2011. The increased pallet sales in fiscal year 2012 over 2011 was due primarily to new customer sales of approximately \$344,000 to improvements in production output as discussed below under Cost of Sales.

Pallet sales to Greystone's major customer are generally based on the customer's need to maintain its pallet inventory and may vary by period. Greystone cannot predict the major customer's future needs to maintain or grow its pallet inventory but has been able to grow sales to new pallet customers developed through Greystone's marketing efforts to broaden its customer base.

Sales of recycled plastic resin were \$769,718 in fiscal year 2012 compared to \$1,487,910 in fiscal year 2011 for a decrease of \$718,192. The cost of material compared to the pricing for pelletized resin was less than favorable resulting in a reduction in fiscal year 2012 of production and sales of resin. Greystone's strategic plan is to continue to grow the sales of recycled plastic resin as gross margins improve.

Cost of Sales

Cost of sales in fiscal year 2012 was \$5,140,878, or 83% of sales, compared to \$4,781,367, or 95% of sales, in fiscal year 2011. The higher ratio of cost of sales to sales in fiscal year 2011 was primarily due to inelastic manufacturing costs for pallet production during a period of reduced product volume resulting from lost production time on the pallet production lines for necessary repair and maintenance.

The cost of sales for resin approximates the related sales. Greystone's profitability from resin sales is affected by pricing, production costs and the fees (40% of revenue less material, freight and commissions) paid or accrued to Yorktown Management, LLC, an entity owned by Warren Kruger, President and CEO of Greystone. Greystone's business plan is to increase resin sales with improved profit margins toward the realization of a positive gross margin. Yorktown's share of gross profits from resin sales totaled approximately \$22,000 and \$160,000 in fiscal years 2012 and 2011, respectively.

Net Income (Loss)

Greystone recorded net income of \$368,830 compared to a net loss of \$(428,693) in fiscal year 2011 for the reasons discussed above.

Net Income (Loss) Available to Common Stockholders

Net income available to common stockholders for fiscal year 2012 was \$237,248, or \$0.01 per share, compared to the net loss attributable to common stockholders of \$(530,522), or \$(0.02) per share, in fiscal year 2011 for the reasons discussed above.

Liquidity and Capital Resources

Greystone's operations have provided positive cash flows for each of the years beginning in fiscal year 2007 through the six-month period ended November 30, 2011. While the aforementioned amendment to the loan agreement provided important near-term relief, Greystone will require additional cash to achieve growth and to meet Greystone's contractual obligations, and Greystone continues to explore various options including refinancing long-term debt and equity financing. However, there is no guarantee that Greystone will be able to raise sufficient capital to meet these obligations.

A summary of cash flows for the three months ended November 30, 2011 is as follows:

| | |
|---------------------------------------|-------------|
| Cash provided by operating activities | \$1,504,987 |
| Cash used in investing activities | (337,731) |
| Cash used in financing activities | (737,778) |

The contractual obligations of Greystone are as follows:

| | Total | Less than 1 year | 1-3 years | 4-5 years | Over 5 years |
|------------------|--------------|---------------------|-------------|-------------|-----------------|
| Long-term debt | \$12,622,912 | \$3,967,848 | \$5,495,945 | \$3,159,119 | \$— |
| Operating leases | 4,844,226 | 523,338 | 1,046,677 | 1,046,677 | 2,227,534 |

Greystone had a working capital deficit of \$7,484,585 at November 30, 2011, which includes the current portion of long-term debt of \$3,967,848 of which \$2,593,716 is payable to related parties, and accounts payable and accrued liabilities of \$4,209,942 of which \$1,817,121 is payable to related parties. The working capital deficit reflects the uncertain financial condition of Greystone resulting from its limitations on its ability to obtain long-term financing. There is no assurance that Greystone will secure additional long-term financing.

Substantially all of the financing that Greystone has received through the last few fiscal years has been provided by loans or through loan guarantees from the officers and directors of Greystone.

Greystone continues to be dependent upon its officers and directors to provide and/or secure additional financing and there is no assurance that its officers and directors will continue to 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 with a liquidation preference of \$5,000,000 and a preferred dividend rate of the prime rate of interest plus 3.25%. Greystone does not anticipate that it will make cash dividend payments to any holders of its preferred stock or its common stock unless and until the financial position of Greystone improves through increased revenues, another financing transaction or otherwise.

Forward Looking Statements and Material Risks

This Quarterly Report on Form 10-Q includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical fact, that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future, including decreased costs, securing financing, the profitability of Greystone, potential sales of pallets or other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q could be affected by any of the following factors: Greystone's prospects could be affected by changes in availability of raw materials, competition, rapid technological change and new legislation regarding environmental matters; Greystone may not be able to secure additional financing necessary to sustain and grow its operations; and a material portion of Greystone's business is and will be dependent upon a few large customers and there is no assurance that Greystone will be able to retain such customers. These risks and other risks that could affect Greystone's business are more fully described in Greystone's Form 10-K for the fiscal year ended May 31, 2011, which was filed on September 16, 2011. Actual results may vary materially from the forward-looking statements. Greystone undertakes no duty to update any of the forward-looking statements contained in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, Greystone carried out an evaluation under the supervision of Greystone's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of Greystone's disclosure controls and procedures pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based on an evaluation as of May 31, 2011, Warren F. Kruger, Greystone's Chief Executive Officer, and William W. Rahhal, Greystone's Chief Financial Officer, identified two material weaknesses. As a result of these two material weaknesses, Greystone's CEO and Chief Financial Officer concluded that Greystone did not maintain effective internal control over financial reporting as of November 30, 2011. The material weaknesses as of November 30, 2011 were as follows:

- (i) 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.
- (ii) Greystone, at the parent entity level, has limited resources to ensure that necessary internal controls are implemented and followed throughout the company, including its subsidiaries. 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.

During the three-month period ended November 30, 2011, there were no changes in Greystone's internal controls over financial reporting that have materially affected, or that are reasonably likely to materially affect, Greystone's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits.

11.1 Computation of Income per Share is in Note 3 in the Notes to the financial statements.

31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREYSTONE LOGISTICS, INC.
(Registrant)

Date: January 17, 2012

By: /s/ Warren F. Kruger
Warren F. Kruger
President and Chief Executive
Officer

Date: January 17, 2012

By: /s/ William W. Rahhal
William W. Rahhal
Chief Financial Officer

Index to Exhibits

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