GREYSTONE LOGISTICS, INC.
Form 10QSB
January 22, 2007

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2006

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM ______ TO ________

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

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

OKLAHOMA	75-2954680
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1613 EAST 15TH STREET, TULSA, OKLAHOMA 74120

(Address of principal executive offices)

(918) 583-7441

(Issuer's telephone number)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: January 10, 2007 - 24,061,201

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): Yes [_] No [X]

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GREYSTONE LOGISTICS, INC.
FORM 10-QSB
FOR THE PERIOD ENDED NOVEMBER 30, 2006

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL INFORMATION

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	November 30, 2006	
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,723	$
Accounts receivable	654,837	
Inventory	173,177	
Prepaid expenses	27,803	
TOTAL CURRENT ASSETS	859,540	
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $2,461,262 and $2,060,091 at November 30, 2006 and May 31, 2006, respectively	8,006,977	
OTHER ASSETS	132,882	

TOTAL ASSETS	$ 8,999,399	$

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:		
Current portion of long-term debt	$ 2,055,076	$
Bank overdraft	--	
Advances payable - related party	1,291,082	
Accounts payable and accrued expenses	2,838,475	
Preferred dividends payable	800,520	
TOTAL CURRENT LIABILITIES	6,985,153	
LONG-TERM DEBT	10,638,348	
STOCKHOLDERS' DEFICIENCY:		
Preferred stock, $0.0001 par value, 20,750,000 shares authorized, 50,000 shares outstanding, liquidation preference of $5,000,000	5	
Common stock, $0.0001 par value, 5,000,000,000 shares authorized, 24,061,201 outstanding	2,406	
Additional paid-in capital	52,403,634	
Deficit	(61,030,147)	
TOTAL STOCKHOLDERS' DEFICIENCY	(8,624,102)	
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 8,999,399	$

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

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended November 30,	
	2006	2005
Sales	$ 6,490,831	$ 7,114,790
Cost of Sales, including depreciation expense of $401,171 and $352,816	6,376,736	6,962,159
Gross Profit (Loss)	114,095	152,631
Expenses:		
General, selling and administration expenses	902,745	1,167,847
Operating Loss	(788,650)	(1,015,216)
Other Income (Expense):		
Other income	2,213	74,299

Interest expense	(604,881)	(505,970)
Total Other Income (Expense)	(602,668)	(431,671)
Net Loss	(1,391,318)	(1,446,887)
Preferred Dividends	287,260	279,600
Net Loss Available to Common Stockholders	$ (1,678,578)	$ (1,726,487)
Loss Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	$ (0.07)	$ (0.07)
Weighted Average Shares of Common Stock Outstanding	24,061,000	24,061,000

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

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended November 30,	
	2006	2005
Sales	$ 2,609,697	$ 4,205,686
Cost of Sales, including depreciation expense of $212,698 and $173,320	2,875,804	3,951,513
Gross Profit (Loss)	(266,107)	254,173
Expenses:		
General, selling and administration expenses	448,765	606,285
Operating Loss	(714,872)	(352,112)
Other Income (Expense):		
Other income	24	3,283
Interest expense	(275,092)	(267,219)
Total Other Income (Expense)	(275,068)	(263,936)
Net Loss	(989,940)	(616,048)
Preferred Dividends	143,356	125,685
Net Loss Available to Common Stockholders	$ (1,133,296)	$ (741,733)

Loss Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	$ (0.05)	$ (0.03)
Weighted Average Shares of Common Stock Outstanding	24,061,000	24,061,000

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

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended November 30,	
	2006	2005
Cash Flows from Operating Activities:		
Net Loss	$ (1,391,318)	$ (1,446,887
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	419,950	363,561
Stock option compensation	125,040	--
Loss on sale of equipment	--	12,857
Changes in accounts receivable	187,538	(706,300
Changes in inventory	458,059	(145,917
Changes in prepaid expenses	(18,890)	3,290
Changes in accounts payable and accrued expenses	97,920	699,139
Net cash used in operating activities	(121,701)	(1,220,257
Cash Flows from Investing Activities:		
Purchase of property and equipment	(379,873)	(1,344,705
Net cash used in investing activities	(379,873)	(1,344,705
Cash Flows from Financing Activities:		
Proceeds from notes and advances payable	896,515	2,924,225
Payments on notes and advances payable	(392,143)	(322,656
Proceeds from issuance of common stock	--	--
Dividends paid on preferred stock	--	(34,463
Net cash provided by financing activities	504,372	2,567,106
Net Increase in Cash	2,798	2,144
Cash, beginning of period	925	1,410
Cash, end of period	$ 3,723	$ 3,554
Noncash activities:		
Sale of equipment in exchange for debt	--	20,000
Supplemental Information:		
Interest paid	$ 482,229	$ 449,760

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

GREYSTONE LOGISTICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of Greystone, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications, which are of a normal recurring nature, necessary to present fairly its financial position as of November 30, 2006, and the results of its operations and its cash flows for the six month and three month periods ended November 30, 2006 and 2005. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2006 and the notes thereto included in Greystone's Form 10-KSB. The financial statements have been prepared assuming that Greystone will continue as a going concern. The working capital deficit of $6,125,613, a stockholders' deficiency of $8,624,102 and continuing losses from operations at November 30, 2006 and its inability to obtain long term financing raises substantial doubt about Greystone's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern and do not reflect the possible effects of any adjustments that might result from Greystone's inability to continue as a going concern.

2. The results of operations for the three month periods ended November 30, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year.

3. The computation of loss per share is computed by dividing the loss available to common shareholders by the weighted average shares outstanding for the periods. Loss available to common shareholders is determined by adding preferred dividends for the periods to the net loss. For the three month periods ended November 30, 2006 and 2005, the weighted average common shares outstanding for all periods is 24,061,000. Convertible preferred stock, common stock options and warrants are not considered as their effect is antidilutive.

4. Inventory consists of the following:

	November 30, 2006	May 31, 2006
Raw materials	$132,709	$554,316
Finished goods	40,468	76,920
Total inventory	$173,177	$631,236

5. In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment." This statement is a revision of SFAS No. 123,

"Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123(R) requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees and is effective for interim or annual periods beginning after December 15, 2005. The Company adopted SFAS No. 123(R) as of

March 1, 2006, using the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified or settled after the date of adoption will be measured in accordance with SFAS No. 123(R). Unvested equity-classified awards that were granted prior to March 1, 2006 will be accounted for using the straight-line basis for recognizing compensation costs in accordance with SFAS No. 123, except that the amounts will be recognized in the Company's consolidated statements of operations. The effect of adopting SFAS No. 123(R) is a charge in the amount of $125,040 and $62,520 to compensation expense for the six month and three month periods ending November 30, 2006.

For the six month and three month periods ended November 30, 2005, Greystone applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations, in accounting for its stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. There was no stock option cost during the six month and three month periods ended November 30, 2005.

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

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

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

References to fiscal year 2007 refer to the six month and three month periods ended November 30, 2006. References to fiscal year 2006 refer to the six month and three month periods ended November 30, 2005.

SALES

Greystone's primary business is the manufacturing and selling of plastic pallets through its wholly owned subsidiaries, GSM and PPP. Greystone distributes its pallets through a combination of a network of independent contractor distributors and sales by Greystone's officers and employees.

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

Greystone also markets its own design of an injection molding machine, the PIPER 600, through a licensing agreement with ForcePro, LLC, which gives ForcePro the exclusive right to market and sell the PIPER 600. Pursuant to the terms of the licensing agreement, Greystone will receive a royalty of 5% of the gross proceeds from sales of the PIPER 600.

PERSONNEL

Greystone had approximately 75 full-time employees as of November 30, 2006 compared to 84 full-time employees as of November 30, 2005.

TAXES

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

SIX MONTH PERIOD ENDED NOVEMBER 30, 2006 COMPARED TO SIX MONTH PERIOD ENDED NOVEMBER 30, 2005

Sales for fiscal year 2007 were $6,490,831 compared to $7,114,790 in fiscal year 2006, for a decrease of $623,959. The decrease is the result of a reduction in pallet sales to one major customer during the second quarter of fiscal year 2007.

Cost of sales in fiscal year 2007 was $6,376,736, or 98% of sales, compared to $6,962,159, or 98% of sales, in fiscal year 2006. The overall high rate of cost of sales to sales is due in part to lease costs of $144,000 per quarter for the PIPER 600 production line which operates at approximately 10% of designed capacity.

General and administrative expense decreased $265,102 from $1,167,847 in fiscal year 2006 to $902,745 in fiscal year 2007. The primary factor affecting the decrease in general and administrative expense from fiscal year 2006 to fiscal year 2007 is reductions in administrative salaries, travel expense and professional fees incurred in 2006 in connection with seeking capital to provide for future growth. The reduction in administrative salaries was partially offset by a charge of $125,040 for the cost of stock options as discussed further in note 5 to the condensed consolidated financial statements under Item 1 - Financial Statements.

Interest expense increased $98,911 from $505,970 in fiscal year 2006 to $604,881 in fiscal year 2007 principally due to additional debt incurred to finance the acquisition of two production lines and increases in the prime rate of interest.

The net loss decreased $55,569 from $(1,446,887) in fiscal year 2006 to $(1,391,318) in fiscal year 2007 for the reasons discussed above.

After deducting preferred dividends, the net loss available to common shareholders was $(1,678,578), or $(0.07) per share, in fiscal year 2007 compared to $(1,726,487), or $(0.07) per share, in fiscal year 2006 for a decrease in the net loss of $47,909 for the reasons discussed above.

THREE MONTH PERIOD ENDED NOVEMBER 30, 2006 COMPARED TO THREE MONTH PERIOD ENDED NOVEMBER 30, 2005

Sales for fiscal year 2007 were $2,609,697 compared to $4,205,686 in fiscal year 2006, for a decrease of $1,595,989. The decrease is the result of a reduction in pallet sales to one major customer.

Cost of sales in fiscal year 2007 was $2,875,804, or 110% of sales, compared to $3,951,513, or 94% of sales, in fiscal year 2006. The increase in the ratio of cost of sales to sales in fiscal year 2007 is due primarily to the reduction in sales. In addition, the overall high rate of cost of sales to sales for both fiscal year 2007 and 2006 is due in part to lease costs of $144,000 per quarter for the PIPER 600 production line which operates at approximately 10% of designed capacity.

General and administrative expense decreased $157,520 from $606,285 in fiscal year 2006 to $448,765 in fiscal year 2007. The primary factor affecting the decrease in general and administrative expense from fiscal year 2006 to fiscal year 2007 is reductions in administrative salaries, travel expense and professional fees incurred in 2006 in connection with seeking capital to provide for future growth. The reduction in administrative salaries was partially offset by a charge of $62,520 for the cost of stock options as discussed further in note 5 to the condensed consolidated financial statements under Item 1 - Financial Statements.

Interest expense increased $7,873 from $267,219 in fiscal year 2006 to $275,092 in fiscal year 2007.

The net loss increased $373,892 from $(616,048) in fiscal year 2006 to $(989,940) in fiscal year 2007 for the reasons discussed above.

After deducting preferred dividends, the net loss available to common shareholders was $(1,133,296), or $(0.05) per share, in fiscal year 2007 compared to $(741,733), or $(0.03) per share in fiscal year 2006 for an increase in the net loss of $394,563 for the reasons discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Greystone's cash requirements for operating activities consist principally of accounts receivable, inventory, accounts payable, operating leases and scheduled payments of interest on outstanding indebtedness. Greystone is currently dependent on outside sources of cash to fund its operations. As of November 30, 2006, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the six months ended November 30, 2006 is as follows:

Net cash used in operating activities	$ (121,701)
Net cash used in investing activities	(379,873)
Net cash provided by financing activities	504,372

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	$12,693,424	$2,055,076	$8,287,673	$1,197,908	$1,152,767
Operating leases	5,415,000	786,000	1,572,000	1,572,000	1,485,000
Total	$18,108,424	$2,841,076	$9,859,673	$2,769,908	$2,637,767

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

Greystone has accumulated a working capital deficit of approximately $6,125,613 at November 30, 2006, which includes current portion of long-term debt of $2,055,076 and $2,838,475 in accounts payable and accrued liabilities. The working capital deficit reflects the uncertain financial condition of Greystone resulting from its inability to obtain long term financing until such time as it is able to achieve profitability. There is no assurance that Greystone will secure such financing or achieve profitability.

Substantially all of the financing that Greystone has received through November 30, 2006, 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 an aggregate stated value of $5,000,000 and with a preferred dividend rate of the prime rate of interest plus 3.25%. Greystone does not anticipate that it will make cash dividend payments to any holders of its preferred stock or its common stock unless and until the financial position of Greystone improves through increased revenues, another financing or otherwise.

FORWARD LOOKING STATEMENTS AND MATERIAL RISKS

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

ITEM 3. CONTROLS AND PROCEDURES

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

During the quarter ended November 30, 2006, 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

EXCELSIOR CAPITAL MARKETING AND HOWELL MERGERS AND ACQUISITIONS, LLC VS. 1607 COMMERCE LIMITED PARTNERSHIP, PLASTIC PALLET PRODUCTION, INC., AND PALWEB CORPORATION, Case No. DC-06-10375-E, filed in the District Court of Dallas County, Texas, E-101st Judicial District.

The petition in the above referenced litigation was filed on October 5, 2006. The litigation involves a building in Dallas, Texas, which is owned by 1607 Commerce and was formerly leased to one of Greystone's wholly owned subsidiaries, Plastic Pallet Production, Inc., or PPP. The plaintiffs allege, among other things, that: (a) the defendants were obligated to repair the building after it was burglarized and vandalized; (b) the plaintiffs agreed to repair the building, subject to PPP's insurance carrier paying for the cost of the repairs; (c) the plaintiffs caused the building to be repaired; (d) PPP's insurance carrier issued checks for the costs of the repairs, but that one of Greystone's lenders claimed that it was entitled to the insurance proceeds; and (e) the plaintiffs have suffered damages in excess of $250,000, for which the defendants are jointly and severally liable, based upon the following causes of action: (i) breach of contract, (ii) fraud, (iii) negligent misrepresentation, (iv) unjust enrichment and (v) conspiracy.

Greystone and PPP have filed an answer generally denying most of the allegations in the petition and asserting certain defenses to the plaintiffs' claims. Greystone and PPP intend to vigorously defend the suit.

ITEM 6. EXHIBITS

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

SIGNATURE

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

GREYSTONE LOGISTICS, INC.

(Registrant)

Date: January 22, 2007 /s/ Warren F. Kruger

President and Chief Executive Officer