GREYSTONE LOGISTICS, INC.
Form 10-Q
April 16, 2012

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

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED February 29, 2012

o 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	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) (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 x No o

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 x No 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 (Do not check if a smaller reporting company)	Smaller reporting company x

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

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: April 12, 2012 - 26,111,201

GREYSTONE LOGISTICS, INC.
FORM 10-Q
For the Period Ended February 29, 2012

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

ITEM 1. Financial Statements.

Greystone Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

	February 29, 2012 (Unaudited)	May 31, 2011
Assets		
Current Assets:		
Cash	$288,537	$169,420
Accounts receivable -		
Trade, net of allowance of $75,000 at February 29, 2012 and May 31, 2011	1,830,805	1,769,387
Related party	884,986	652,402
Inventory	1,882,660	543,557
Prepaid expenses and other	153,984	70,990
Total Current Assets	5,040,972	3,205,756
Property, Plant and Equipment	14,898,812	13,900,575
Less: Accumulated Depreciation	(7,041,313)	(6,186,967)
Property, Plant and Equipment, net	7,857,499	7,713,608
Other Assets	91,354	100,693
Total Assets	$12,989,825	$11,020,057
Liabilities and Deficit		
Current Liabilities:		
Current portion of long-term debt	$1,329,410	$3,937,581
Advances payable - related party	631,580	725,080
Current portion of variable interest entities' long-term debt	—	135,173
Preferred dividends payable	2,842,190	—
Accounts payable and accrued expenses	3,160,745	1,927,162
Accounts payable and accrued expenses - related parties	1,885,872	1,621,838
Total Current Liabilities	9,849,797	8,346,834
Long-Term Debt, net of current portion	11,079,537	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 February 29, 2012 and May 31, 2011	2,611	2,611
Additional paid-in capital	53,089,293	48,089,298
Accumulated deficit	(62,031,414)	(62,297,986)
Total Greystone Stockholders' Deficit	(8,939,505)	(14,206,077)

Noncontrolling interests	999,996	4,501,086
Total Deficit	(7,939,509)	(9,704,991)
Total Liabilities and Deficit	$12,989,825	$11,020,057

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

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

	Nine Months Ended February 29, 2012	Nine Months Ended February 28, 2011
Sales	$16,872,981	$14,253,173
Cost of Sales	13,821,507	13,120,654
Gross Profit	3,051,474	1,132,519
General, Selling and Administrative Expenses	1,454,146	1,441,590
Operating Income (Loss)	1,597,328	(309,071)
Other Income (Expense):		
Other Income (Expense)	(1,909)	2,600
Interest Expense	(680,480)	(641,423)
Total Other Expense, net	(682,389)	(638,823)
Net Income (Loss)	914,939	(947,894)
Income Attributable to Noncontrolling Interests, net	(96,669)	(78,388)
Preferred Dividends	(160,274)	(243,082)
Net Income (Loss) Available to Common Stockholders	$657,996	$(1,269,364)
Income (Loss) Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	$0.03	$(0.05)
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 February 29, 2012	Three Months Ended February 28, 2011
Sales	$4,875,856	$4,206,092
Cost of Sales	3,960,606	3,600,831
Gross Profit	915,250	605,261
General, Selling and Administrative Expenses	554,801	452,809
Operating Income	360,449	152,452
Other Income (Expense):		
Other Income (Expense)	4,932	(5,050)
Interest Expense	(201,583)	(248,960)
Total Other Expense, net	(196,651)	(254,010)
Net Income (Loss)	163,798	(101,558)
Income Attributable to Noncontrolling Interests, net	(50,489)	(36,994)
Preferred Dividends	(79,247)	(80,137)
Net Income (Loss) Available to Common Stockholders	$34,062	$(218,689)
Income (Loss) Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	$—	$(0.01)
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 Cash Flows
(Unaudited)

	Nine Months Ended February 29, 2012	Nine Months Ended February 28, 2011
Cash Flows from Operating Activities:		
Net income (loss)	$914,939	$(947,894)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	867,005	801,835
Stock-based compensation	—	71,976
Changes in receivables	(294,002)	242,540
Changes in inventory	(1,339,103)	(172,465)
Changes in prepaid expenses and other	(82,994)	(697)
Change in other assets	(3,320)	320
Changes in accounts payable and accrued expenses	1,500,827	426,987
Net cash provided by operating activities	1,563,352	422,602
Cash Flows from Investing Activities:		
Purchase of property and equipment	(435,211)	(1,173,301)
Cash Flows from Financing Activities:		
Proceeds from note payable	—	2,000,000
Proceeds from note payable to related party	—	500,000
Payments on long-term debt	(935,964)	(1,658,506)
Payments on advances from related party	(93,500)	(103,501)
Capital contributions to variable interest entity	75,000	—
Distributions by variable interest entity	(54,560)	—
Net cash provided by (used in) financing activities	(1,009,024)	737,993
Net Increase in Cash	119,117	(12,706)
Cash, beginning of period	169,420	163,749
Cash, end of period	$288,537	$151,043
Non-Cash Activities:		
Acquisition of equipment by capital lease or debt	$563,026	$—
Preferred dividend accrual	160,274	243,082
Net decrease in liabilities due to deconsolidation of VIE	990,378	—
Supplemental Information:		
Interest paid	398,523	336,614

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 February 29, 2012, the results of its operations for the nine-month and three-month periods ended February 29, 2012 and February 28, 2011 and its cash flows for the nine-month periods ended February 29, 2012 and February 28, 2011. 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 nine-month and three-month periods ended February 29, 2012 and February 28, 2011 are not necessarily indicative of the results to be expected for the full fiscal year.

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 $2,842,190. 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 nine-month and three-month periods ended February 29, 2012, 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 nine-month and three-month periods ended February 29, 2012 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:

	February 29, 2012 (Unaudited)	May 31, 2011
Raw Materials	$ 852,403	$ 171,104
Finished goods	1,030,257	372,453
Total inventory	$ 1,882,660	$ 543,557

Note 5. Notes Payable

Notes payable consisted of the following:

Greystone Debt:	February 29, 2012 (Unaudited)	May 31, 2011
Note payable to F&M Bank & Trust Company, prime rate of interest but not less than 4.5%, due March 13, 2014	$5,444,443	$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	3,684,118	3,866,827
Note payable to BancFirst, prime rate of interest plus 1%, due July 1, 2012	52,214	181,771
Notes payable to Robert Rosene, 7.5% interest, due January 15, 2014	2,066,000	2,066,000
Note payable to Warren Kruger, 7.5% interest, due January 15, 2014	527,716	527,716
Capitalized lease obligation, 5% interest, due August 15, 2016	512,832	—
Other	121,624	153,919
Total	12,408,947	12,748,824
Less: Current portion	1,329,410	3,937,581
Long-term debt	$11,079,537	$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.

Effective January 15, 2012, Warren Kruger and Robert Rosene granted a two year extension on the maturity of the notes payable to them by Greystone.

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.

Note 7. Risks and Uncertainties

Greystone derives a substantial portion of its revenue from a national brewer. This customer accounted for approximately 65% and 74% of Greystone's pallet sales and 54% and 56% of Greystone's total sales for the nine-month periods ended February 29, 2012 and February 28, 2011, respectively. The design of Greystone's recycled plastic pallets is approved for use by the customer and is 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.

Used and damaged pallets are a desirable source of raw material. Greystone purchases essentially all pallets from its customers at a price competitive with other sources of the same grade of raw material. These pallets are recycled and used in the manufacture of pallets. Greystone's major customer discontinued its use of a particular size of pallet which was replaced by the design discussed in the previous paragraph. Greystone repurchases these discontinued pallets for a contractual price. Greystone's willingness to accept the returned pallets has resulted in a surplus of pallets with respect to Greystone's current production needs. As of February 29, 2012, Greystone has an account payable to the major customer resulting from this transaction in the amount of approximately $1,376,000. The customer understands that the discontinued pallets are being returned at a much faster pace than needed by Greystone and, as a result, has been willing to work with Greystone to remit payment as it is capable.

Warren Kruger, Greystone's President and CEO, and Robert Rosene, a member of Greystone's board, have provided financing and guarantees on Greystone's bank debt. As of February 29, 2012, Greystone is indebted to Messrs. Kruger and Rosene in the amount of $4,480,284 for notes payable and related accrued interest. Messrs. Kruger and Rosene have agreed to a two year extension on the debt. There is no assurance that these individuals will continue to provide extensions in the future.

Greystone, GSM, GRE and Messrs. Kruger and Rosene are parties to a loan agreement dated as of March 4, 2005, as amended, with F&M Bank & Trust Company ("F&M"). The loan agreement contains cross-collateralization and cross-default provisions among property and debts of GSM, GRE and Messrs. Kruger and Rosene. The debt of Messrs. Kruger and Rosene was incurred to acquire the outstanding preferred stock of Greystone and has a balance outstanding at February29, 2012 of approximately $3,600,000.

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 nine-month and three-month periods ended February 29, 2012, as applicable. References to fiscal year 2011 refer to the nine-month and three- month periods ended February 28, 2011, 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 65% and 74% of Greystone's pallet sales and 54% and 56% of Greystone's total sales for the nine-month periods ended February 29, 2012 and February 28, 2011, respectively.

Personnel

Greystone had approximately 90 and 87 full-time employees as of February 29, 2012 and February 28, 2011, 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.

Nine-Month Period Ended February 29, 2012 Compared to Nine-Month Period Ended February 28, 2011

Sales

Sales for fiscal year 2012 were $16,872,981 compared to $14,253,173 in fiscal year 2011 for an increase of $2,619,808. Pallet sales were $14,064,681 in fiscal year 2012 compared to $10,730,570 in fiscal year 2011 for an increase of $3,334,111. Greystone's sales to its major customer in fiscal year 2012 were 65% of total pallet sales compared to 74% of total pallet sales in fiscal year 2011. Sales to Greystone's major customer increased approximately $1,430,000 over fiscal year 2011, with the increase primarily occurring during the first six months of fiscal year 2012. New customer sales in fiscal year 2012 were approximately $1,055,000. The increase in pallet sales in fiscal year 2012 over fiscal year 2011 was due primarily 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 $2,808,300 in fiscal year 2012 compared to $3,522,603 in fiscal year 2011 for a decrease of $714,303. Greystone curtailed its sales of resin during fiscal year 2011 due to unfavorable margins with respect to the cost of material compared to the resale pricing. Greystone intends to place more emphasis on the sale of resin as market conditions improve.

Cost of Sales

Cost of sales in fiscal year 2012 was $13,821,507, or 82% of sales, compared to $13,120,654, or 92% 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 $100,000 and $254,000 in fiscal years 2012 and 2011, respectively.

Interest Expense

Interest expense was $680,480 in fiscal year 2012 compared to $641,423 in fiscal year 2011 for an increase of $39,057. In January 2011, Greystone sold its plant in Bettendorf, Iowa to Greystone Real Estate ("GRE") and used the proceeds to retire the related debt on the facility. GRE 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 $72,000 for GRE and a decrease of approximately $78,000 for Greystone. In addition, the interest expense in fiscal year 2012 included $45,000 for the variable interest entity, GLOG, which was dissolved effective August 31, 2011.

Net Income (Loss)

Greystone recorded net income of $914,939 in fiscal year 2012 compared to a net loss of $(947,894) 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 $657,996, or $0.03 per share, compared to the net loss attributable to common stockholders of $(1,269,364), or $(0.05) per share, in fiscal year 2011 for the reasons discussed above.

Three Month Period Ended February 29, 2012 Compared to Three Month Period Ended February 28, 2011

Sales

Sales for fiscal year 2012 were $4,875,856 compared to $4,206,092 in fiscal year 2011 for an increase of $669,764. Pallet sales were $4,331,979 in fiscal year 2012 compared to $3,425,976 in fiscal year 2011 for an increase of $906,003. Greystone's sales to its major customer in fiscal year 2012 were 54% of total pallet sales compared to 69% 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 $665,000. Improvements in production output as discussed below under Cost of Sales were also a primary reason for the increased sales in fiscal year 2012.

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 $543,877 in fiscal year 2012 compared to $780,116 in fiscal year 2011 for a decrease of $236,239. Greystone curtailed its sales of resin during fiscal year 2012 due to unfavorable margins with respect to the cost of material compared to the resale pricing. Greystone intends to place more emphasis on the sale of resin as market conditions improve.

Cost of Sales

Cost of sales in fiscal year 2012 was $3,960,606, or 81% of sales, compared to $3,600,831, or 86% 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 $25,000 and $160,000 in fiscal years 2012 and 2011, respectively.

General, Selling and Administrative Expenses

General, selling and administrative expenses were $554,801 in fiscal year 2012 compared to $452,809 in fiscal year 2011 for an increase of $101,992. The increase in general, selling and administrative expenses is due to an increase of approximately $75,000 in commission expenses. During fiscal year 2012, Greystone added certain independent contractors to market pallets on a commission basis.

Net Income (Loss)

Greystone recorded net income of $163,798 compared to a net loss of $(101,558) 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 $34,062, or $0.00 per share, compared to the net loss attributable to common stockholders of $(218,689), or $(0.01) 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 nine-month period ended February 29, 2012. 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. 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 February 29, 2012 is as follows:

Cash provided by operating activities	$ 1,563,352
Cash used in investing activities	(435,211)
Cash used in financing activities	(1,009,024)

The cash flows provided by operating activities was affected in part by an increase in the carrying value of inventory in the amount of $1,339,103 which was funded by an increase in accounts payable due to Greystone's suppliers in the amount of $1,500,827.

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	$12,408,947	$1,329,410	$8,024,548	$3,054,989	$—

Greystone had a working capital deficit of $4,808,825 at February 29, 2012. Excluding preferred dividends payable, current portion of long-term debt to related parties and accrued interest payable to related parties, Greystone's working capital deficit was reduced from $925,524 at May 31, 2011 to $80,763 at February 29, 2012. 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 business relationship with its major customer. In addition, 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 in Greystone's internal control over financial reporting. As of the end of the period covered by this Quarterly Report on Form 10-Q, such material weaknesses had not been rectified. As a result of the continuation of these two material weaknesses, Greystone’s CEO and Chief Financial Officer concluded that Greystone's disclosure controls and procedures were not effective at February 29, 2012.

During the three-month period ended February 29, 2012, 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: April 16, 2012	By:	/s/ Warren F. Kruger Warren F. Kruger President and Chief Executive Officer
Date: April 16, 2012	By:	/s/ William W. Rahhal William W. Rahhal Chief Financial Officer

Index to Exhibits

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