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GREYSTONE LOGISTICS, INC.

Form 10QSB

October 17, 2005

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

FORM 10-QSB

(Mark One)

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2005
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

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

OKLAHOMA

75-2954680

(State or other jurisdiction of
incorporation or organization)

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

1613 EAST 15TH STREET, TULSA, OKLAHOMA 74120

(Address of principal executive offices)

(918) 583-7441

(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: October 7, 2005 - 24,061,201

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

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GREYSTONE LOGISTICS, INC.
FORM 10-QSB
FOR THE PERIOD ENDED AUGUST 31, 2005

PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL INFORMATION

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	AUGUST 31, 2005	-----	-----
			ASSETS

CURRENT ASSETS:			
Cash	\$	74,353	\$
Accounts receivable, net of allowance for doubtful accounts of \$190,364 at August 31, 2005 and May 31, 2005		1,526,836	
Inventory		797,947	
Prepaid expenses		--	
		-----	-----
TOTAL CURRENT ASSETS		2,399,136	
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$1,481,944 and \$1,312,056 at August 31, 2005 and May 31, 2005, respectively		8,258,729	
OTHER ASSETS:			
Patents, net of accumulated amortization		162,486	
		-----	-----
TOTAL ASSETS	\$	10,820,351	\$

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	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		

CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 2,424,180	\$
Advances payable - related party	2,127,716	
Accounts payable and accrued expenses	2,637,419	
Preferred dividends payable	153,237	
	-----	-----
TOTAL CURRENT LIABILITIES	7,342,552	
LONG-TERM DEBT	8,748,088	
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	52,214,532	5
Deficit	(57,487,232)	(5
	-----	-----
TOTAL STOCKHOLDERS' DEFICIENCY	(5,270,289)	(
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 10,820,351	\$
	=====	=====

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

	2005

Sales	\$ 2,909,104
Cost of Sales, including depreciation expense of \$179,496 and \$281,920	3,010,646

Gross Profit (Loss)	(101,542)
Expenses:	
General, selling and administration expenses	561,562

Operating Loss	(663,104)
Other Income (Expense):	
Other income	71,016
Interest expense	(238,751)

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Total Other Income (Expense)	(167,735)

Net Loss	(830,839)
Preferred Dividends	153,915

Net Loss Available to Common Stockholders	\$ (984,754)
	=====
Loss Available to Common Stockholders	
Per Share of Common Stock - Basic and Diluted	\$ (0.04)
	=====
Weighted Average Shares of Common Stock Outstanding	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

	THREE MONTHS ENDED
	2005

Cash Flows from Operating Activities:	
Net Loss	\$ (830,839)
Adjustments to reconcile net loss to cash used	
in operating activities	
Depreciation and amortization	179,496
Loss on sale of equipment	12,857
Changes in accounts receivable	46,799
Changes in inventory	(262,424)
Changes in prepaid expenses	10,932
Changes in accounts payable and accrued expenses	25,743
Changes in preferred dividends payable	119,452

Net cash used in operating activities	(697,984)
Cash Flows from Investing Activities:	
Purchase of property and equipment	(1,278,965)

	(1,278,965)
Cash Flows from Financing Activities:	
Proceeds from notes and advances payable	2,344,225
Payments on notes and advances payable	(140,418)
Dividends paid on preferred stock	(153,915)

Cash provided by financing activities	2,049,892

Net Increase (Decrease) in Cash	72,943
Cash, beginning of period	1,410

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Cash, end of period	\$ 74,353
	=====
Supplemental Information:	
Interest paid	\$ 165,135
	=====

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

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GREYSTONE LOGISTICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of the Company, 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 August 31, 2005, and the results of its operations for the three month periods ended August 31, 2005 and 2004 and its cash flows for the three month periods ended August 31, 2005 and 2004. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2005 and the notes thereto included in the Company's Form 10-KSB. The financial statements have been prepared assuming that Greystone will continue as a going concern. The working capital deficit of approximately \$4,943,416, a stockholders' deficiency of \$5,270,289 and continuing losses from operations at August 31, 2005, reflect the uncertain financial condition of Greystone and its inability to obtain long term financing until it is able to attain profitable operations.

2. The results of operations for the three month periods ended August 31, 2005 and 2004 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 August 31, 2005 and August 31, 2004, the weighted average common shares outstanding are 24,061,000 and 12,790,000. Convertible preferred stock and warrants are not considered as their effect is antidilutive.

4. As discussed in Greystone's Form 10-KSB as of May 31, 2005, Greystone's Board of Directors concluded that the accounting treatment for the acquisition of the assets of Greystone Plastics, Inc., as of September 8, 2003, should have provided for an allocation of a portion of the purchase price to place a value on the customer's purchase order in effect at the time of the acquisition. The accounting treatment for the value of the customer's purchase order should also provide for the amortization of such cost over the estimated life based on unit sales. The related amortization expense for the three months ended August 31, 2004 is \$169,150. Accordingly, the statements of operations and cash flows for the three months ended August 31, 2004 have been restated. The remaining unamortized portion of the value of the customer's purchase order was deemed to be fully impaired at May 31, 2005 and, accordingly, was charged to expense at that time.

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

The 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 2006 ("2006") refer to the three month period ended August 31, 2005. References to fiscal year 2005 ("2005") refer to the three month period ended August 31, 2004.

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 the combination of a network of independent contractor distributors and sales by Greystone's officers and employees.

Greystone also markets its own design of 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 has approximately 84 full-time employees as of August 31, 2005 compared to 62 full-time employees as of August 31, 2004.

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.

THREE MONTH PERIOD ENDED AUGUST 31, 2005, COMPARED TO THREE MONTH PERIOD ENDED AUGUST 31, 2004

Sales for fiscal year 2006 are \$2,909,104 compared to \$2,170,230 in fiscal year 2005, for a increase of \$738,874. The increase is primarily attributable to the addition of the fourth GSM production line during the quarter ended August

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31, 2005.

Cost of sales in fiscal year 2006 is \$3,010,646, or 104% of sales, compared to \$1,910,568 or 88% of sales, in fiscal year 2005. Expansion of manufacturing capacity through operating leases is the primary cause for the increase in cost of sales in fiscal year 2006. These expansions are fixed costs which are necessary, in the opinion of management, for the long term growth of the company. Because these rental costs are fixed in nature, the impact on cost of sales will decline as production and sales continue to increase.

General and administrative expenses increased \$54,492 from \$507,070 in fiscal year 2005 to \$561,562 in fiscal year 2006. The increase is primarily attributable to an increase in payroll costs offset in fiscal 2005 by a decrease in amortization expense. As Greystone has continued to expand its operations, it has added personnel. Greystone added Bobby Moore as President and Chief Executive Officer effective August 15, 2005, Robert Nelson as Chief Financial Officer effective October 1, 2004 and other administrative personnel for the GSM plant. The fiscal year 2005 general and administrative expense includes amortization expense of \$169,150 for an intangible asset which was written off in the fourth quarter of fiscal year 2005 by a charge to expense as an impairment.

Interest expense increased \$51,351 from \$187,400 in fiscal year 2005 to \$238,751 in fiscal year 2006. The increase is the result of additional borrowings to finance equipment acquisitions and working capital.

The net loss increased \$404,037 from \$(426,802) in fiscal year 2005 to \$(830,839) in fiscal year 2006 for the reasons discussed above.

Preferred dividends increased \$61,826 from \$92,089 in fiscal year 2005 to \$153,915 in fiscal year 2006. The dividend rate on the Series 2003 preferred stock is the prime rate of interest plus 3.25%. The increase in the prime rate of interest is the basis for the increase.

After deducting preferred dividends, the net loss available to common shareholders is \$(984,754), or \$(0.04) per share, in fiscal year 2006 compared to \$(518,891), or \$(0.04) per share, in fiscal year 2005 for an increase of \$465,863.

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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 August 31, 2005, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the nine months ended August 31, 2005 is as follows:

Cash used in operating activities	\$ (697,984)
Cash used in investing activities	(1,278,965)
Cash provided by financing activities	2,049,892

The cash used in investing activities was primarily for the acquisition in

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June 2005 of an additional plastic injection molding machine. Financing for this machine principally came from two loans - a \$424,000 note payable to NYOK Partners, a general partnership owned equally by Marshall Cogan, Greystone's Non-Executive Chairman, and Warren Kruger, Greystone's Vice Chairman at prime plus 1% rate of interest due June 2012 and a \$500,000 note payable to Robert Rosene, a director of Greystone, at prime plus 1% due June 2012. In addition, Robert Rosene also advanced \$1,100,000 to Greystone during the quarter ended August 31, 2005 which was used for working capital and equipment acquisitions.

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	\$11,172,268	\$2,424,180	\$6,281,395	\$ 816,775	\$1,649,918
Operating leases	8,193,000	876,000	1,752,000	1,752,000	3,813,000
	-----	-----	-----	-----	-----
Total	\$19,365,268	\$3,300,180	\$8,033,395	\$2,568,775	\$5,462,918
	=====	=====	=====	=====	=====

Greystone anticipates that the cash necessary for funding its operating activities will continue to decline based on projected increases in sales activity relating to the increased production from the two additional production lines - one in April 2005 and the other in August 2005. To provide for the additional cash to meet Greystone's operating activities and contractual obligations for fiscal 2006, 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 \$4,943,000 at August 31, 2005, which includes approximately \$4,552,000 of advances from related parties and current portion of long-term debt and \$2,637,000 in accounts payable and accrued liabilities. The

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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.

Greystone has had difficulty in obtaining financing from traditional financing sources. Substantially all of the financing that Greystone has received through August 31, 2005, has been provided by loans, loan guarantees and equity financing from its officers and directors and common stock sales to its officers, directors and unrelated third parties. There is no assurance that the officers and directors will continue to provide loans or loan guarantees or purchase of equity securities of Greystone in the future.

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 facts, that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future, including decreased costs, the profitability of Greystone, potential sales of pallets or other possible business developments, are forward-looking statements. Such statements are

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subject to a number of assumptions, risks and uncertainties. The forward-looking statements contained in the 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, 2005, which was filed on September 15, 2005. 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 August 31, 2005, 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.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

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

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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: October 17, 2005

/s/ Robert H. Nelson

Chief Financial Officer

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