

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

GREYSTONE LOGISTICS, INC.

Form 10KSB

August 30, 2007

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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended MAY 31, 2007

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

(Name of small business issuer 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

(Issuer's Telephone Number)

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

Title of each class

Name of each exchange on which registered

NONE

NONE

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

COMMON STOCK, \$0.0001 PAR VALUE

(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 12 or 15(d) of the Exchange Act. [ ]

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

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

The issuer's revenue for the year ended May 31, 2007, was \$12,454,293.

As of August 17, 2007, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by using the average of the high and low price on such date, was \$3,252,490.

As of August 17, 2007, the issuer had outstanding a total of 26,061,201 shares of its \$0.0001 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

NONE.

Transitional Small Business Disclosure Format (Check one): Yes  No

2

GREYSTONE LOGISTICS, INC.  
FORM 10-KSB  
TABLE OF CONTENTS

PART I

Item 1.	Description of Business	4
Item 2.	Description of Property	9
Item 3.	Legal Proceedings	9
Item 4.	Submission of Matters to a Vote of Security Holders	9

PART II

Item 5.	Market for Common Equity and Related Stockholder Matters	
---------	--	--

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

	and Small Business Issuer Purchases of Equity Securities	9
Item 6.	Management's Discussion and Analysis or Plan of Operation	11
Item 7.	Financial Statements	20
Item 8.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	20
Item 8A.	Controls and Procedures	20
Item 8B.	Other Information	21
PART III		
Item 9.	Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act	21
Item 10.	Executive Compensation	23
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	24
Item 12.	Certain Relationships and Related Transactions, and Director Independence.	27
Item 13.	Exhibits	29
Item 14.	Principal Accountant Fees and Services	35
	Signatures	36

3

### PART I.

#### ITEM 1. DESCRIPTION OF BUSINESS

##### ORGANIZATION

-----

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

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

Effective March 18, 2005, the Company caused its newly formed, wholly owned subsidiary, Greystone Logistics, Inc., an Oklahoma corporation, to be merged

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

with and into the Company. In connection with such merger and as of the effective time of the merger, the Company amended its certificate of incorporation by changing its name to Greystone Logistics, Inc., pursuant to the terms of the certificate of ownership and merger filed by the Company with the Secretary of State of Oklahoma. Also in connection with such merger, the Company amended its bylaws to change its name to Greystone Logistics, Inc.

### RECENT TRANSACTIONS

-----

On February 7, 2007, GSM entered into a Purchase Agreement and Bill of Sale with Yorktown Management & Financial Services, LLC, an Oklahoma limited liability company that is wholly owned by the Company's CEO and President ("Yorktown"), pursuant to which Yorktown purchased GSM's existing finished goods inventory (including certain Coors Brewing inventory) and certain of GSM's raw materials, grinding and peripheral equipment, resin contracts and molds for a total purchase price of \$2.2 million. In connection with the Purchase Agreement, GSM and Yorktown entered into a Pallet Molds Lease Agreement, whereby for a period of seven years, Yorktown will lease back to GSM the molds and resin equipment purchased from GSM at the lease rate of \$1.00 per pallet manufactured using the molds and \$0.03 per pound of resin provided using the resin equipment. The assets sold pursuant to the Purchase Agreement were sold to Yorktown at their fair market value and the transactions described above were approved by the disinterested member of the Company's Board of Directors. For more information

4

regarding these transactions, see the Company's Current Report on Form 8-K dated February 7, 2007, filed with the SEC on February 27, 2007.

On February 8, 2007, Greystone entered into a Settlement Agreement and Release with 1607 Commerce Limited Partnership, a Texas limited partnership, which subsequently changed its name to Commerce Plastics L.P. ("Commerce"). Pursuant to the Settlement Agreement and in exchange for full, final and complete settlement of any and all claims that Commerce has asserted, or could have asserted, in its lawsuit regarding an alleged default in the payment of rent pursuant to terms of the Equipment Lease (defined below) and the enforcement of certain related guaranties, the Company agreed to (i) to pay outstanding rental accruals by Greystone to Commerce of \$1,048,000.00, (ii) make monthly payments to Commerce of \$24,000.00 for a term of 24 months commencing March 1, 2007, which payments can be used towards the purchase price of pallets purchased from Commerce as further described below, (iii) transfer to Commerce 2,000,000 shares of the Company's common stock, and (iv) enter into an agreement with Commerce whereby, among other things, Commerce will be given floor space, utilities and regrind resin in the Company's Iowa facility and the Company will be required to purchase up to 200,000 Granada pallets at \$8.00 per pallet and 200,000 nestable pallets at \$3.00 per pallet from Commerce over a two year term. Also pursuant to the Settlement Agreement, the monthly payments to be made by the Company will be credited against the purchase price of any Granada pallets purchased from Commerce; provided, however, Commerce is not obligated to produce any pallets, but has agreed to use its best efforts to do so. The Settlement Agreement also included an immediate termination of that certain equipment lease dated as of September 8, 2003, by and between Commerce and Plastic Pallet (the "Equipment Lease"), whereby the registrant leased, for a term of 130 months commencing September 8, 2003, at a rate of \$48,000 per month, certain equipment that was previously used to produce its pallets. For more information regarding these transactions, see the Company's Current Report on Form 8-K dated February 7, 2007, filed with the SEC on February 27, 2007.

### CURRENT BUSINESS

-----  
PRODUCTS

Greystone's primary business is manufacturing and selling high quality, recycled plastic pallets through its wholly owned subsidiary GSM. As of May 31, 2007, Greystone had an aggregate production capacity of approximately 70,000 pallets per month.

GSM's product line as of May 31, 2007 consists of the following:

- o 40" X 32" rackable pallet,
- o 37" X 37" rackable pallet,

5

- o 48" X 40" rackable pallet,
- o 48" X 44" rackable pallet,
- o 48" X 40" nestable pallet

As of May 31, 2007, GSM was marketing the following pallets produced or capable of being produced by Commerce:

- o GRANADA(TM) PICTURE FRAME - A picture frame, web-top pallet that utilizes a patented inter-locking design and is produced using a proprietary blend of recycled plastics. It has a rackable capacity of 1,500 lbs., a dynamic load of 5,000 lbs., static load of 25,000 lbs., and weighs 47.5 lbs.
- o GRANADA(TM) STACKABLE - A web-top pallet that is produced using a proprietary blend of recycled plastics, has a dynamic load of 5,000 lbs., static load of 7,000 lbs., and weighs 32 lbs.
- o GRANADA(TM) 3-RUNNER - A web-top pallet that utilizes a patented inter-locking design on a three runner bottom and is produced using a proprietary blend of recycled plastics. It has a rackable load of 1,200 lbs., dynamic load of 5,000 lbs., static load of 12,000 lbs and weighs 41 lbs.
- o FLAT DECK - This pallet is the same as the Granada, (TM) except it has a solid top and weighs 55 lbs.

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

OTHER BUSINESS

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

PALLET INDUSTRY

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

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

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

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

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

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

### EMPLOYEES

As of May 31, 2007, Greystone had 85 full-time employees and used a temporary personnel service to provide additional production personnel as needed.

### MARKETING AND CUSTOMERS

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

Greystone sells its pallets through an exclusive arrangements with Decade Products whereby Decade sells Greystone's pallets nationwide through direct sales and a network of independent contractor distributors. Greystone also sells its pallets and pallet leasing services to certain large customers direct through its President, Senior Vice President of Sales and Marketing and other employees.

Greystone derives a substantial portion of its revenue from two national brewers. These two customers currently account for approximately 85% of orders for its pallets. The design of Greystone's recycled plastic pallets are approved for use by both breweries and are the only plastic pallets in use for case goods at the current time within their respective systems. There is no assurance that Greystone will retain these customers' business at the same level, or at all. The loss of a material amount of business from any one of Greystone's larger customers could have a material adverse effect on Greystone.

### COMPETITION

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

8

However, Greystone believes that its proprietary designs coupled with the competitive pricing of its products gives Greystone a competitive advantage over other plastic pallet manufacturers.

### GOVERNMENT REGULATION

The business operations of Greystone are subject to existing and potential federal, state and local environmental laws and regulations pertaining to the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to the protection of the environment. In addition, both the plastics industry and Greystone are subject to existing and potential federal, state, local and foreign legislation designed to reduce solid wastes by

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements, disposal fees and limits on the use of plastic products.

### PATENTS AND TRADEMARKS

Greystone seeks to protect its technical advances by pursuing national and international patent protection for its products and methods when appropriate.<sup>35</sup>

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

### ITEM 2. DESCRIPTION OF PROPERTY

Greystone has approximately 3 acres of land in Bettendorf, Iowa and a building with 60,000 square feet of manufacturing and warehouse space. In addition, Greystone entered in a lease agreement with Greystone Properties, LLC, for an adjacent building with 60,000 square feet of manufacturing and warehouse space. The lease is for a ten year period with monthly rental of \$25,000 plus insurance and taxes, amended January 1, 2006 to \$17,500 plus insurance and taxes. The manufacturing and warehouse space is sufficiently equipped and designed to accommodate the manufacturing of plastic pallets and is currently used for grinding, processing and re-pelletizing recycled plastic. Greystone Properties, LLC is owned by Warren Kruger, Greystone's President and CEO, and Robert Rosene, a member of Greystone's Board of Directors.

### ITEM 3. LEGAL PROCEEDINGS

William Hamilton d/b/a WHACO, also d/b/a Greystone Bill Hamilton Trucking Company v. Greystone Manufacturing, LLC, Law No. 107023, Iowa District Court for Scott County. William Hamilton, one of the former owners of Greystone Plastics, Inc., the entity from which Greystone purchase certain assets in 2003, claims \$104,390 in damages for Greystone's alleged breach of contract involving the provision of materials and services. Greystone has denied all allegations and has asserted a counterclaim arising from the sale by Mr. Hamilton of the Bettendorf manufacturing facility to Greystone. The action is in the early stages of discovery and is being vigorously defended.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

9

## PART II.

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

#### MARKET INFORMATION

-----

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



Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

QUARTER ENDING -----	HIGH ----	LOW ---
Aug. 31, 2005	\$0.40	\$0.14
Nov. 30, 2005	0.20	0.10
Feb. 29, 2006	0.12	0.05
May 31, 2006	0.22	0.06
Aug. 31, 2006	0.17	0.07
Nov. 30, 2006	0.37	0.14
Feb. 29, 2007	0.19	0.08
May 31, 2007	0.28	0.12

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

HOLDERS  
-----

As of May 31, 2007, Greystone had approximately 1,361 common shareholders of record.

As of May 31, 2007, there were approximately 2,906 beneficial owners (including those holding in street names) of Greystone's common stock.

DIVIDENDS  
-----

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

10

SALES OF EQUITY SECURITIES  
-----

There were no sales of equity securities by Greystone during the fiscal year ended May 31, 2007, other than previously disclosed in Greystone's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION  
-----

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

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

statements. These forward-looking statements include, among others, such things as:

- o expansion and growth of Greystone's business and operations;
- o future financial performance;
- o future acquisitions and developments;
- o potential sales of products;
- o future financing activities; and
- o business strategy.

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

### RISK FACTORS

-----

GREYSTONE OPERATES AT A LOSS BUT HAS RECENTLY ATTAINED AN OPERATING PROFIT AND CASH FLOW POSITIVE RESULTS.

The Company was incorporated on February 24, 1969. From April 1993 to December 1997, the Company was engaged in various businesses, including the business of exploration, production, and development of oil and gas properties in the continental United States and the operation of a related service business. In December 1997, the Company acquired all of the issued and outstanding stock of Plastic Pallet Production, Inc., and its principal business changed to selling plastic pallets.

11

Since such time, the Company has continued to incur losses from operations. However, the results of Greystone's operations for the quarter ended May 31, 2007 showed an operating profit and positive cash flow. There is no assurance that Greystone will continue to achieve a positive gross profit or otherwise obtain funds to finance continued operations.

GREYSTONE'S FINANCIAL STATEMENTS HAVE BEEN QUALIFIED ON A GOING CONCERN BASIS AND GREYSTONE MAY NOT BE ABLE TO SECURE ADDITIONAL FINANCING NECESSARY TO SUSTAIN AND GROW ITS OPERATIONS.

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

GREYSTONE HAS GRANTED SECURITY INTERESTS IN SUBSTANTIALLY ALL OF ITS ASSETS IN

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

CONNECTION WITH CERTAIN DEBT FINANCINGS AND OTHER TRANSACTION.

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

GREYSTONE'S BUSINESS COULD BE AFFECTED BY CHANGES IN AVAILABILITY OF RAW MATERIALS.

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

GREYSTONE'S BUSINESS COULD BE AFFECTED BY COMPETITION AND RAPID TECHNOLOGICAL CHANGE.

Greystone currently faces competition from many companies that produce wooden pallets at

12

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

GREYSTONE IS DEPENDENT ON A FEW LARGE CUSTOMERS.

Greystone derives, and expect that in the foreseeable future it will continue to derive, a large portion of its revenue from a few large customers. In fact, two of Greystone's customers currently account for approximately 85% of its orders. There is no assurance that Greystone will retain these customers' business at the same level, or at all. The loss of a material amount of business from any one of these customers could have a material adverse effect on Greystone.

GREYSTONE MAY NOT BE ABLE TO EFFECTIVELY PROTECT GREYSTONE'S PATENTS AND

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

### PROPRIETARY RIGHTS.

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

### GREYSTONE'S BUSINESS COULD BE AFFECTED BY CHANGING NEW LEGISLATION REGARDING ENVIRONMENTAL MATTERS.

Greystone's business is subject to changing federal, state and local environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to the protection of the environment. As is the case with manufacturers in general, if a release of hazardous substances occurs on or from Greystone's properties or any associated off-site disposal location, or if contamination from prior activities is discovered at any of Greystone's properties, Greystone may be held liable. No assurances can be given that additional environmental issues will not require future expenditures. In addition, both the plastics industry and Greystone are subject to existing and

13

potential federal, state, local and foreign legislation designed to reduce solid wastes by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements and disposal fees and limits on the use of plastic products. In addition, various consumer and special interest groups have lobbied from time to time for the implementation of these and other such similar measures. Although Greystone believes that the legislation promulgated to date and such initiatives to date have not had a material adverse effect on it, there can be no assurance that any such future legislative or regulatory efforts or future initiatives would not have a material adverse effect.

### GREYSTONE'S BUSINESS COULD BE SUBJECT TO POTENTIAL PRODUCT LIABILITY CLAIMS.

The testing, manufacturing and marketing of Greystone's products and proposed products involve inherent risks related to product liability claims or similar legal theories that may be asserted against Greystone, some of which may cause Greystone to incur significant defense costs. Although Greystone currently maintains product liability insurance coverage that it believes is adequate, there can be no assurance that the coverage limits of its insurance will be adequate under all circumstances or that all such claims will be covered by insurance. In addition, these policies generally must be renewed every year. While Greystone has been able to obtain product liability insurance in the past, there can be no assurance it will be able to obtain such insurance in the future on all of its existing or future products. A successful product liability claim or other judgment against Greystone in excess of its insurance coverage, or the loss of Greystone's product liability insurance coverage could have a material adverse effect upon Greystone.

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

GREYSTONE CURRENTLY DEPEND ON CERTAIN KEY PERSONNEL.

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

GREYSTONE'S EXECUTIVE OFFICERS AND DIRECTORS CONTROL A LARGE PERCENTAGE OF GREYSTONE'S OUTSTANDING COMMON STOCK, WHICH ALLOWS THEM TO CONTROL MATTERS SUBMITTED TO GREYSTONE'S SHAREHOLDERS FOR APPROVAL, AND ALL OF GREYSTONE'S 2003 PREFERRED STOCK, WHICH ENTITLES THEM TO CERTAIN VOTING RIGHTS, INCLUDING THE RIGHT TO ELECT A MAJORITY OF GREYSTONE'S BOARD OF DIRECTORS.

Greystone's executive officers and directors (and their affiliates), in the aggregate, own over 50% of Greystone's outstanding common stock. Therefore, Greystone's executive officers and directors have the ability to decide the outcome of matters submitted to Greystone's shareholders for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all of Greystone's assets) and to control Greystone's management and affairs. In addition, an entity that is wholly owned by Greystone's executive officers and directors owns all of Greystone's outstanding 2003 preferred stock. The terms and conditions of Greystone's 2003

14

preferred stock provide that such holder has the right to elect a majority of Greystone's Board of Directors. Such concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, which in turn could have an adverse effect on the market price of Greystone's common stock.

CERTAIN RESTRICTED SHARES OF GREYSTONE WILL BE ELIGIBLE FOR SALE IN THE FUTURE AND ARE LIKELY TO BE SOLD IN THE FUTURE, WHICH COULD AFFECT THE PREVAILING MARKET PRICE OF GREYSTONE'S COMMON STOCK.

Certain of the outstanding shares of Greystone's common stock are "restricted securities" under Rule 144 of the Securities Act, and (except for shares purchased by "affiliates" of Greystone as such term is defined in Rule 144) would be eligible for sale as the applicable holding periods expire or in the event that the Company files a registration statement relating to such shares. In the future, these shares may be sold only pursuant to a registration statement under the Securities Act or an applicable exemption, including pursuant to Rule 144. Under Rule 144, a person who has owned common stock for at least one year may, under certain circumstances, sell within any three-month period a number of shares of common stock that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume during the four calendar weeks prior to such sale. A person who is not deemed to have been an affiliate of Greystone at any time during the three months preceding a sale, and who has beneficially owned the restricted securities for the last two years is entitled to sell all such shares without regard to the volume limitations, current public information requirements, manner of sale provisions and notice requirements. In addition, Greystone has agreed to file a registration statement in connection with some of these outstanding shares of restricted stock. Sales or the expectation of sales of a substantial number of shares of common stock in the public market by selling shareholders could adversely affect the prevailing market price of the common

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

stock, possibly having a depressive effect on any trading market for the common stock, and may impair Greystone's ability to raise capital at that time through additional sales of its equity securities.

GREYSTONE'S STOCK TRADES IN A LIMITED PUBLIC MARKET, IS SUBJECT TO PRICE VOLATILITY AND THERE CAN BE NO ASSURANCE THAT AN ACTIVE TRADING MARKET WILL DEVELOP OR BE SUSTAINED.

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

15

GREYSTONE DOES NOT EXPECT TO DECLARE OR PAY ANY DIVIDENDS IN THE FORESEEABLE FUTURE.

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

GREYSTONE'S COMMON STOCK MAY BE SUBJECT TO SECONDARY TRADING RESTRICTIONS RELATED TO PENNY STOCKS.

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

GREYSTONE MAY ISSUE ADDITIONAL EQUITY SECURITIES, WHICH WOULD LEAD TO FURTHER DILUTION OF GREYSTONE'S ISSUED AND OUTSTANDING STOCK.

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

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

4,960,000,000 additional shares of its common stock and securities convertible into common stock.

### RESULTS OF OPERATIONS

-----

#### GENERAL

The consolidated statements include Greystone and its wholly-owned subsidiaries, Greystone Manufacturing, L.L.C., or GSM, and Plastic Pallet Production, Inc., or PPP.

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

16

As of May 31, 2007, Greystone had 85 full-time employees and used temporary personnel as needed. Greystone's production capacity is about 70,000 plastic pallets per month, or 840,000 per year. Production levels have generally been governed by sales and will increase as sales dictate.

Greystone has incurred significant losses from operations and only recently achieved positive cash flow from operations, and there is no assurance that it will achieve operating profitability or otherwise obtain funds necessary to finance continued operations. See "Liquidity and Capital Resources" under this Item 6.

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

#### YEAR ENDED MAY 31, 2007, COMPARED TO YEAR ENDED MAY 31, 2006

Sales were \$12,454,293 for fiscal year 2007 compared to \$15,956,386 for fiscal year 2006 for a decrease of \$3,502,093. The decrease is due to a decrease in sales to a principal customer, barrel and screw work on an injection equipment line, and delayed production startup due to the pushback of the delivery of the new 48x40 molds and the retooling of the 48x44 mold. The new 48x40 molds were put into service in the last month of the fourth quarter

Cost of sales was \$11,588,057 (93% of sales) and \$15,030,690 (94% of sales) in fiscal years 2007 and 2006, respectively.

General and administrative expense was \$1,828,395 for fiscal year 2007 compared to \$2,248,719 for fiscal year 2006 for a decrease of \$420,324. The primary factor affecting the decrease in general and administrative expense from fiscal year 2006 to fiscal year 2007 was reductions in principally in administrative salaries and travel expense incurred in 2006 in connection with seeking capital to provide for future growth.

Other expenses of \$452,276 in fiscal year 2007 includes a charge of \$619,060 resulting from a settlement for termination of the operating lease for the PIPER injection molding machines and a charge of \$45,000 in settlement of an employment claim by a former employee. Effective February 1, 2007, Greystone issued 2,000,000 shares of its common stock and agreed to pay \$24,000 per month for twenty-four months to 1607 Commerce LLC to terminate a long-term lease

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

agreement on equipment. The \$619,060 charge included the present value of the series of \$24,000 monthly payments at 8.5% interest or \$519,060 plus the value of the common stock on the effective date of issuance or \$100,000.

17

Interest expense was \$1,185,541 in fiscal year 2007 compared to \$1,013,830 in fiscal year 2006 for an increase of \$171,711. The increase is primarily attributable to debt incurred in the acquisition of equipment and funding provided by related parties for working capital.

The consolidated net loss, before the deduction for preferred dividends, in fiscal year 2007 was \$(2,599,976) compared to \$(2,335,153) in fiscal year 2006 for an increase in its loss of \$264,823. This increase results from the reasons discussed above.

After deducting dividends to preferred shareholders of \$575,548 and \$513,938 in fiscal years 2007 and 2006, respectively, the consolidated net loss available to common shareholders was \$(3,175,524) (\$0.13 per share of common stock) in fiscal year 2007 compared to \$(2,849,091) (\$0.12 per share of common stock) in fiscal year 2006.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Greystone's cash requirements for operating activities consist principally of accounts receivable, inventory, accounts payable, operating leases and scheduled payments of interest on outstanding indebtedness. Greystone is dependent on outside sources of cash to fund its operations. As of May 31, 2007, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the year ended May 31, 2007 is as follows:

Cash provided by operating activities	\$ 197,539
Cash provided by investing activities	412,984
Cash used in financing activities	(271,114)

Contractual obligations of Greystone are as follows:

	TOTAL	1 YEAR	2-3 YEARS	4-5 YEARS	OVER 5 YEARS
	-----	-----	-----	-----	-----
Long-term debt	\$12,952,945	\$8,655,518	\$ 2,894,658	\$ 333,336	\$1,069,433
Operating leases	1,522,500	210,000	420,000	420,000	472,500
	-----	-----	-----	-----	-----
Total	\$14,475,445	\$8,865,518	\$ 3,314,658	\$ 753,336	\$1,541,933
	=====	=====	=====	=====	=====

To provide for the funding to meet Greystone's operating activities and contractual obligations for fiscal 2007, Greystone will have to continue to produce positive operating results or explore various options including long-term debt and equity financing. However, there is no



guarantee that Greystone will continue to create positive operating results or be able to raise sufficient capital to meet these obligations.

Greystone has accumulated a working capital deficit of \$(12,525,733) at May 31, 2007, which includes advances payable to related parties of \$618,959, current portion of long-term debt of \$8,655,518 and accounts payable and accrued liabilities of 3,817,619. This deficit reflects the uncertain financial condition of Greystone resulting from its inability to obtain long term financing from traditional financing sources. There is no assurance that Greystone will secure such financing.

As described below, substantially all of the financing that Greystone has received through May 31, 2007, has been provided by loans or through loan guarantees from the officers and directors of Greystone, the offerings of preferred stock to current and former officers and directors of Greystone in 2001 and 2003 and through a private placement of common stock completed in March 2005.

Greystone continues to be dependent upon its officers and directors to provide and/or secure additional financing and there is no assurance that either will do so. As such, there is no assurance that funding will be available for Greystone to continue operations.

Greystone has 50,000 outstanding shares of cumulative 2003 Preferred Stock for a total of \$5,000,000 with a preferred dividend rate 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.

#### ADVANCES AND LOANS FROM WARREN KRUGER

During 2007, Warren Kruger advanced working capital funds to Greystone in the amount of \$745,682 and Greystone repaid Warren Kruger the amount of \$509,041. During 2006, Warren Kruger advanced \$429,100 to Greystone. Effective December 15, 2005, Greystone entered into a loan agreement with Warren Kruger to convert \$527,716 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010. At May 31, 2007, note payable of \$527,716, advances of \$618,951 and accrued interest of \$206,117 were due to entities owned or controlled by Warren Kruger.

#### LOANS FROM F&M BANK

On March 4, 2005, Greystone entered into a loan agreement with GLOG Investment, L.L.C. ("GLOG") and The F&M Bank & Trust Company ("F&M"), which, among other things, sets forth certain terms applicable to a \$1,500,000 revolving loan extended by F&M to GSM on or about December 18, 2004 and a new \$5,500,000 term loan extended by F&M to GSM on March 4, 2005. GLOG is wholly owned by the following officers and/or directors of the Registrant: Warren F.

Kruger (President and CEO) and Robert B. Rosene, Jr. (Director). GLOG was a party to the loan agreement for the sole purpose of securing the funds necessary to purchase 50,000 shares of Greystone's 2003 preferred stock previously owned by Paul A. Kruger. The revolving loan, which bears interest at the prime rate

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

plus 1%, is renewable annually and is currently due on January 5, 2008. Substantially all of the proceeds available under the revolving note have been used to retire the loan from another bank. Amounts borrowed under the term loan are represented by a promissory note, which bears interest at the prime rate plus 2% and GSM is required to make monthly payments based upon a full fifteen year amortization of the outstanding principal balance under the term note with any outstanding principal and all accrued and unpaid interest payable in full on March 15, 2008. Substantially all of the proceeds from the term loan have been used to refinance certain short-term debt of GSM, including the repayment of the notes issued by GSM to Greystone Plastics, Inc. and Bill Hamilton that were the subject of dispute as further described under the heading "Acquisition of Greystone Plastics, Inc." in Item 1 of this Form 10-KSB.

Greystone's obligations under the loan agreement with F&M are secured by a lien in favor of F&M on substantially all of GSM's assets pursuant to the terms of a security agreement and second mortgage. Also, pursuant to the terms of a guaranty agreement, Greystone guaranteed GSM's performance and payment under the notes. In addition, in order to induce F&M to enter into the loan agreement, certain officers and directors of the Company (Messrs. Kruger and Rosene) entered into a limited guaranty agreement with F&M and Mr. Rosene entered into a pledge agreement with F&M.

### ADVANCES AND LOANS FROM ROBERT ROSENE

In May 2005, Robert Rosene, a member of Greystone's Board of Directors, advanced \$500,000 to Greystone. During fiscal year 2006, Mr. Rosene advanced an additional amount of \$1,578,249. Effective December 15, 2005, Greystone entered into a loan agreement with Mr. Rosene to convert \$2,066,000 of the advances into a note payable at 7.5% interest and payable in three equal annual installments of principal and accrued interest beginning January 15, 2008 and ending January 15, 2010. Accrued interest due to Mr. Rosene as of May 31, 2007 is \$175,295.

### ITEM 7. FINANCIAL STATEMENTS

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

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 8A. CONTROLS AND PROCEDURES

As of May 31, 2007, Greystone carried out an evaluation under the supervision of Greystone's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design

20

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 May 31, 2007 were effective.

During the quarter ended May 31, 2007, there was no change in Greystone's internal controls over financial reporting that has materially affected, or that is reasonably likely to materially affect, Greystone's internal control over financial reporting.

### ITEM 8B. OTHER INFORMATION

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

None.

PART III.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

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

NAME	POSITION	TERM AS DIRECTOR EXPIRES
----	-----	-----
Warren F. Kruger	President, Chief Executive Officer and Director	2007
Robert B. Rosene, Jr.	Director	2007
Robert H. Nelson	Chief Financial Officer	N/A

WARREN F. KRUGER, PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

Mr. Warren F. Kruger, Manager/CEO of privately held Yorktown Management & Financial Services, L.L.C., is 50 years old. Yorktown Management is involved in investment banking, real estate, manufacturing and energy endeavors. Mr. Kruger earned a Bachelor of Business Administration degree from the University of Oklahoma, and an Executive M.B.A. from Southern Methodist University. Mr. Kruger has over thirty years experience in the financial services industry. In 1980, Mr. Kruger co-founded MCM Group, Ltd., which owned and controlled United Bank Club Association, Inc. until 1996 when the firm was sold to a subsidiary of Cendant Corp. (CD-NYSE).

21

He also owned and operated Century Ice, a manufacturer and distributor of ice products from 1996 to 1997, when Packaged Ice, Inc., acquired Century Ice in an industry rollup. Mr. Kruger is a partner with William W. Pritchard in privately held WCC, with investments in oil and gas, real estate and investment banking.

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

MR. ROBERT B. ROSENE, JR., DIRECTOR

Mr. Rosene, age 52, is President of Seminole Energy Services, L.L.C., a natural gas marketing and gathering company that he co-founded in 1998. Also in 1998, Mr. Rosene co-founded Summit Exploration, L.L.C., an oil and gas production company that holds oil and gas production in several states. Mr. Rosene has served as a director of publicly traded Syntroleum Corporation since 1985. Mr. Rosene has a B.A. with an emphasis in accounting from Oklahoma Baptist

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

University.

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

ROBERT H. NELSON, CHIEF FINANCIAL OFFICER

From 2001 until joining Greystone's company in 2004, Mr. Robert H. Nelson, age 61, was a financial consultant to the Key Auto Group, a retail automobile dealership chain. Mr. Nelson served as Chief Financial Officer to Fusion Telecommunications International, Inc., a provider of long distance international communication systems from 1999 to 2001. Mr. Nelson has also served as Chief Financial Officer of: United Auto Group, the second largest publicly traded retail auto group in the United States from 1996 to 1999; Trace International Holding, Inc., a privately owned company with controlling interests in a variety of public and privately owned companies from 1982 to 1999; and Ogden Allied Service and Allied Maintenance Corporation from 1982 to 1987. Prior to that, Mr. Nelson was with Coopers and Lybrand, the predecessor to PricewaterhouseCoopers from 1970 to 1981. Mr. Nelson is a certified public accountant and a graduate of Manhattan College.

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

IDENTIFICATION OF THE AUDIT COMMITTEE; AUDIT COMMITTEE FINANCIAL EXPERT

Due to Greystone's size and stage of development, it has had difficulty recruiting individuals to serve on its Board of Directors who are qualified to serve as an audit committee financial expert on an audit committee. As of May 31, 2007, the Company had not established an audit committee and the entire Board of Directors essentially serves as Greystone's audit committee.

CODE OF ETHICS

As of May 31, 2007, Greystone has not adopted a Code of Ethics applicable to the Company's officers. Through May 31, 2007, Greystone's primary focus has been on achieving profitability. Greystone intends to adopt a Code of Ethics during fiscal year 2008.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on review of the copies of such reports furnished to Greystone and any written representations that no other reports were required during fiscal 2007, to Greystone's knowledge, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners during fiscal 2007 were complied with on a timely basis, except as follows:

NUMBER OF TRANSACTIONS

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

NAME	NUMBER OF LATE REPORTS	NOT REPORTED ON A TIMELY BASIS	NUMBER OF REPORTS NOT FILED
Warren F. Kruger	3	5	0

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation paid to named executive officers during the fiscal years ended May 31, 2007 and 2006:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDING MAY 31	SALARY	BONUS	OPTION AWARDS
Warren F. Kruger, President and Chief Executive Officer	2007	\$124,615	-0-	-0-
	2006	\$198,462	-0-	-0-
Robert H. Nelson, Chief Financial Officer	2007	\$ 61,615	-0-	-0-
	2006	\$151,754	-0-	1,000,000

23

The following table provides information with respect to named executive officers concerning outstanding equity awards as of May 31, 2007:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS UNEXERCISABLE	OPTION EXERCISE PRICE	OPTION EXPIRATION DATE
Warren F. Kruger	100,000	-0-	\$3.125	4/11/2012
	25,000	-0-	\$1.60	6/26/2012
	150,000	-0-	\$0.55	4/1/2013
Robert H. Nelson	1,000,000	-0-	\$0.50	11/1/2014

DIRECTORS' COMPENSATION

Greystone does not pay cash compensation to the members of its Board of Directors for service on the Board. From time to time in the past, Greystone has granted options to the members of its Board of Directors under its stock option plan as compensation for serving on Greystone's Board of Directors. There were no options granted to any members of its Board of Directors during the fiscal year ended May 31, 2007 as consideration for serving on its Board.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

As of May 31, 2007, Greystone had one equity incentive plan under which equity securities have been authorized for issuance to Greystone's directors, officers, employees and other persons who perform substantial services for or on behalf of Greystone. The following table provides certain information relating to such stock option plan during the year ended May 31, 2007:

24

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	(A)	(B)
-----	-----	-----
PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS
-----	-----	-----
Equity compensation plans approved by security holders	2,360,000	\$1.35
Equity compensation plans not approved by security holders	-0-	N/A
Total	2,360,000	\$1.35

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of August 17, 2007, Greystone had 26,061,201 shares of its common stock and 50,000 shares of its 2003 preferred stock outstanding. Each share of the 2003 preferred stock is convertible into approximately 66.67 shares of Greystone's common stock.

The following table sets forth certain information regarding the shares of Greystone's common stock beneficially owned as of May 31, 2007, by (i) each person known by Greystone to own beneficially 5% or more of Greystone's outstanding common stock, (ii) each of Greystone's directors and officers, and (iii) all of Greystone's directors and officers as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner(1)	Percent of Class(2)
-----	-----	-----
Paul A. Kruger 2500 South McGee, Ste. 147 Norman, OK 73072	4,317,598(3)	16.4%
Hildalgo Trading Company, LC 2500 South McGee Norman, OK 73072	1,767,014(4)	6.8%

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Commerce Plastics Norman, OK 73072	2,000,000 (5)	7.7%
	25	
GLOG Investment, L.L.C. 1613 E. 15th Street Tulsa, OK 74160	3,333,333 (6)	11.3%
Warren F. Kruger Chairman, President and CEO 1613 East 15th Street Tulsa, OK 74120	11,621,183 (7)	37.5%
Robert H. Nelson Chief Financial Officer 1613 East 15th Street Tulsa, OK 74120	1,824,169 (8)	6.6%
Marshall S. Cogan New York, NY	2,120,844 (9)	7.9%
Robert B. Rosene, Jr. Director Tulsa, OK	7,977,231 (10)	25.5%
All Directors & Officers as a Group (3 persons)	18,089,250 (11)	52.5%

- 
- (1) The number of shares beneficially owned by each holder is calculated in accordance with the rules of the Commission, which provide that each holder shall be deemed to be a beneficial owner of a security if that holder has the right to acquire beneficial ownership of the security within 60 days through options, warrants or the conversion of another security; provided, however, if such holder acquires any such rights in connection with or as a participant in any transaction with the effect of changing or influencing control of the issuer, then immediately upon such acquisition, the holder will be deemed to be the beneficial owner of the securities. The number the shares of common stock beneficially owned by each holder includes common stock directly owned by such holder and the number of shares of common stock such holder has the right to acquire upon the conversion of 2003 preferred stock and/or upon the exercise of certain options or warrants.
  - (2) The percentage ownership for each holder is calculated in accordance with the rules of the Commission, which provide that any shares a holder is deemed to beneficially own by virtue of having a right to acquire shares upon the conversion of warrants, options or other rights, or upon the conversion of preferred stock or other rights are considered outstanding solely for purposes of calculating such holder's percentage ownership.
  - (3) The total includes: (i) 325,584 shares of common stock beneficially owned directly or indirectly; (ii) 225,000 shares of common stock that Paul Kruger directly has the right to acquire in connection with options; (iii) 1,767,014 shares held of record by Hildalgo Trading Company, LC, an entity wholly owned by Paul Kruger; and (iv) 2,000,000 shares of common stock held of record by Commerce Plastics, an entity owned by Paul Kruger.
  - (4) The total includes 1,767,014 shares of common stock beneficially owned directly by Hildalgo Trading Company, LC. By virtue of his ownership of and

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

control over Hildalgo Trading Company, LC, these shares are also included in the number of shares beneficially owned by Paul Kruger.

- (5) The total is 2,000,000 shares of common stock beneficially owned directly by Commerce Plastics. By virtue of his ownership of and control of Commerce Plastics, these shares are also included in the number of shares beneficially owned by Paul Kruger.
- (6) The total includes 3,333,333 shares of common stock deemed to be owned directly by GLOG Investment, L.L.C. by virtue of its ownership of the 2003 Preferred Stock, which is convertible into common stock. GLOG is wholly owned by the following officers and/or directors of the Registrant: Warren F. Kruger (Chairman, President and CEO) and Robert B. Rosene, Jr. (Director). By virtue of their ownership of and control over GLOG, these shares are also included in the number of shares beneficially owned by each of Warren F. Kruger and Robert B. Rosene, Jr.

26

- (7) The total includes: (i) 6,557,233 shares of common stock beneficially owned directly by Warren Kruger; (ii) 1,198,299 shares of common stock that Mr. Kruger has the right to acquire in connections with warrants (iii) 19,000 shares held of record by Yorktown; (iv) 275,000 shares of common stock that Warren Kruger directly has the right to acquire in connection with options; (v) 153,818 shares which Westgate has the right to acquire in connection with warrants, owned by Westgate Capital, L.L.C., an entity of which Warren Kruger owns 50%; (vi) 84,500 shares of common stock that Warren Kruger holds on behalf of his minor children, of which he only holds the power to vote; and (vii) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG Investment, L.L.C., Warren Kruger is also deemed to beneficially own the shares directly owned by GLOG.
- (8) The total includes: (i) 1,000,000 shares of common stock that Robert Nelson directly has the right to acquire in connection with options; (ii) 500,000 shares of common stock that Robert Nelson directly has the right to acquire in connection with warrants; (iii) 285,714 shares of common stock beneficially owned by Mr. Nelson's wife, of which he disclaims any interest; and (iv) 38,455 shares of common stock that Mr. Nelson's wife has the right to acquire in connection with warrants, of which he disclaims any interest..
- (9) The total includes: (i) 1,428,571 shares of common stock beneficially owned directly by Marshall Cogan; and (ii) 692,273 shares of common stock that Mr. Cogan directly has the right to acquire in connection with warrants.
- (10) The total includes: (i) 2,770,951 shares of common stock beneficially owned directly by Robert Rosene; (ii) 1,872,947 shares of common stock that Robert Rosene directly has the right to acquire in connection with warrants; and (iii) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG, Robert Rosene is also deemed to beneficially own the shares directly owned by GLOG.
- (11) The total includes: (i) 9,717,398 outstanding shares, (ii) 1,275,000 shares issuable upon exercise of vested stock options, (iii) 3,763,519 shares issuable upon exercise of vested warrants and (iv) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of their ownership of and control over GLOG, these shares are also included in the number of shares beneficially owned by the directors and officers as a group.



## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

### CHANGE IN CONTROL

-----

Effective March 8, 2005, GLOG Investment, L.L.C., which is currently owned by Warren F. Kruger, Chairman, President and CEO, and Robert Rosene, Jr., Director, acquired the outstanding 50,000 shares of Series 2003 Preferred Stock from Paul Kruger, a major shareholder of Greystone. In connection with such transaction, the members of GLOG, as the holder of the Series 2003 Preferred Stock, possess certain voting rights to elect a majority of the Board of Directors of Greystone. These voting rights and other material terms and conditions of the Series 2003 Preferred Stock are set forth in the Certificate of Designation relating to such Series 2003 Preferred Stock included as an exhibit to a Current Report on Form 8-K filed by Greystone on September 23, 2004.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

#### TRANSACTIONS WITH RELATED PERSONS

-----

#### LOANS AND ADVANCES

For information regarding loans from Warren Kruger, see "Loans from Warren Kruger" under the heading "Liquidity and Capital Resources" in Item 6 of this Form10-KSB.

For information regarding an advance from Robert Rosene, see "Advances and Loans from Robert Rosene" under the heading "Liquidity and Capital Resources" in Item 6 of this Form10-KSB.

27

### TECHNOLOGY LICENSE AGREEMENT

In April 2001, Greystone entered into a license agreement with WCC, an entity owned by Warren Kruger and William Pritchard, providing for Greystone to have the exclusive right and license to use fire retardancy technology then being developed under the direction and expense of WCC. The license agreement was negotiated and executed 9 months before Warren Kruger, William Pritchard, or entities with which they are affiliated became directors or beneficial owners of 10% or more of Greystone's common stock in January 2002. Under the agreement, Greystone must pay the greater of 2.5% of Greystone's gross monthly revenues derived from the sale of UL listed pallets using the technology or a minimum monthly royalty of \$10,000. However, WCC also agreed in the license agreement to convey to Greystone ownership of the licensed Process (as defined in the agreement) in the event that cumulative royalties paid by Greystone equaled \$250,000 during the first two years of the agreement, subject to an override or carried interest in favor of WCC equal to 2.5% of the gross monthly revenues which are the same payments as would have been received under the license agreement. Subsequent to the execution of the original agreement which provided for a "coating" technology, Westgate Capital Company, L.L.C., developed an additive process which Greystone used to successfully complete UL testing. The technology is currently known as CJ2(TM).

During fiscal year 2005, Greystone accrued \$400,000 of past monthly royalty fees under the license agreement and accordingly Greystone has entered into a paid-up licensing agreement with Westgate Capital Company, L.L.C. However, as of May 31, 2003, Greystone recorded expenses of approximately \$126,000 associated with the license agreement. WCC has not asserted that Greystone is in default

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

under the license agreement, and WCC has indicated that it has no current intentions of asserting any default by Greystone under such agreement. Greystone is exploring the possibility of purchasing the technology from WCC.

### OTHER TRANSACTIONS

For information relating to a Purchase Agreement and Bill of Sale and related Pallet Molds Lease Agreement entered into with Yorktown Management & Financial Services, LLC, an entity wholly owned by the Company's CEO and President, see "Recent Transactions" under Item 1 of this Form 10-KSB. Greystone completed this transaction with Yorktown, in part, to alleviate the working capital requirements in maintaining raw material inventory, by purchasing raw material as it is used in the production process. During the fiscal year ended May 31, 2007, GSM's raw material purchases from Yorktown totaled \$3,049,368.

For information relating to a Settlement Agreement entered into with Commerce Plastics L.P., an entity wholly owned by Paul Kruger, a beneficial owner of more than five percent of Greystone's common stock, see "Recent Transactions" under Item 1 of this Form 10-KSB.

For information relating to a Lease Agreement entered into with Greystone Properties, LLC, a limited liability company owned by Robert B. Rosene, Jr., a member of Greystone's Board of Directors, and Warren Kruger, Greystone's President and CEO, see Item 2 of the Form 10-KSB.

### DIRECTOR INDEPENDENCE

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

28

### ITEM 13. EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Certificate of Ownership and Merger Merging PalWeb Corporation, a Delaware corporation, into PalWeb Oklahoma Corporation, an Oklahoma corporation, filed with the Delaware Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
2.2	Certificate of Ownership and Merger Merging PalWeb Corporation, a Delaware corporation, into PalWeb Oklahoma Corporation, an Oklahoma corporation, filed with the Oklahoma Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 2.2 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
3.1	Certificate of Incorporation of PalWeb Oklahoma Corporation filed with the Oklahoma Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

- 3.2 Bylaws of PalWeb Oklahoma Corporation as adopted on May 2, 2002 (incorporated herein by reference to Exhibit 3.2 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
- 4.1 Certificate of Incorporation of PalWeb Oklahoma Corporation filed with the Oklahoma Secretary of State on May 2, 2002 (included in Exhibit 3.1).
- 4.2 Certificate of the Designation, Preferences, Rights and Limitations of PalWeb Corporation's Series 2003 Cumulative Convertible Senior Preferred Stock (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 4.3 Certificate of Ownership and Merger Merging Greystone Logistics, Inc., into PalWeb Corporation filed with the Oklahoma Secretary of State on March 18, 2005 (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K dated March 18, 2005, which was filed with the SEC on March 24, 2005).
- 10.1 License Agreement by and between Westgate Capital Company, L.L.C., and PalWeb Corporation dated April 20, 2001 (incorporated herein by reference to Exhibit 10.21 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).

29

EXHIBIT NO.	DESCRIPTION
10.2**	Form of Indemnity Agreement between Members of the Board of Directors and PalWeb Corporation (incorporated herein by reference to Exhibit 10.30 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.3	Indemnity Agreement by and between The Union Group, Inc., and Cabec Energy Corp. dated August 31, 1998 (incorporated herein by reference to Exhibit 10.6 of Amendment No. 3 to the Company's Form 10-SB, which was filed on May 2, 2000).
10.4**	Stock Option Plan of PalWeb Corporation (effective May 11, 2001), as amended (incorporated herein by reference to Exhibit 10.32 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.5**	Form of Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 99.8 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.6**	Form of Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 99.9 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.7**	Form of Nonemployee Director Stock Option Agreement (incorporated herein by reference to Exhibit 99.10 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2001, which was filed with the

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

SEC on September 13, 2001).

- 10.8\*\* Form of Employee Director Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.36 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
- 10.9 Assignment and Indemnity Agreement between the Company and Paul A. Kruger (regarding transfer of stock of PP Financial, Inc.) dated May 30, 2002 (incorporated herein by reference to Exhibit 10.39 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
- 10.10 Asset Purchase Agreement between Greystone Plastics, Inc. and Greystone Manufacturing, L.L.C. dated September 3, 2003 (incorporated herein by reference to Exhibit 10.1 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).

30

EXHIBIT NO.	DESCRIPTION
10.11	Senior Secured Promissory Note in the amount of \$5,000,000 payable to Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.2 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.12	Real Estate Note in the amount of \$2,500,000 payable to Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.3 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.13	Wraparound Promissory Note in the amount of \$799,454.06 payable to Bill Hamilton (incorporated herein by reference to Exhibit 10.4 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.14	Security Agreement between Greystone Plastics, Inc. and Greystone Manufacturing, L.L.C. dated September 3, 2003 (incorporated herein by reference to Exhibit 10.5 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.15**	Employment Agreement between PalWeb Corporation and Warren Kruger dated August 13, 2003 (incorporated herein by reference to Exhibit 10.35 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2004, which was filed with the SEC on August 30, 2004).
10.16**	Employment Agreement dated as of November 1, 2004, by and between PalWeb Corporation and Robert H. Nelson (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.17	Letter Agreement dated January 3, 2005, by and between Greystone Manufacturing, L.L.C., and Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.4 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

with the SEC on January 19, 2005).

10.18 Loan Agreement dated March 4, 2005, by and among Greystone Manufacturing, L.L.C., GLOG Investment, L.L.C., The F&M Bank & Trust Company and PalWeb Corporation (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).

31

EXHIBIT NO.	DESCRIPTION
10.19	Promissory Note dated November 30, 2004, in the amount of \$1,500,000 issued by Greystone Manufacturing, L.L.C., to The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.20	Term Note dated March 4, 2005, in the amount of \$5,500,000 issued by Greystone Manufacturing, L.L.C., to The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.3 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.21	Security Agreement dated March 4, 2005, by and between Greystone Manufacturing, L.L.C., and The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.4 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.22	Mortgage Agreement dated March 4, 2005, by and between Greystone Manufacturing, L.L.C., and The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.5 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.23	Guaranty of PalWeb Corporation dated March 4, 2005 (incorporated herein by reference to Exhibit 10.6 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.24	Industrial Lease dated as of July 1, 2004, by and between Greystone Properties, LLC, and Greystone Manufacturing, L.L.C. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).
10.25	Equipment Rental Contract dated as of November 1, 2004, by and between NYOK Partners and Greystone Manufacturing, L.L.C. relating to certain grinding equipment (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).
10.26	Equipment Rental Contract dated as of November 1, 2004, by and between NYOK Partners and Greystone Manufacturing, L.L.C. relating to plastic injection molding machine (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

32

EXHIBIT NO.	DESCRIPTION
10.27	Promissory Note dated as of June 17, 2005 in the amount of \$500,100 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Robert B. Rosene, Jr. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.28	Promissory Note dated as of December 15, 2005 in the amount of \$2,066,000 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Robert B. Rosene, Jr. (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.29	Promissory Note dated as of December 15, 2005 in the amount of \$527,716 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Warren F. Kruger, Jr. (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.30	Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Robert B. Rosene, Jr. relating to Promissory Note in the amount of \$500,100 (incorporated herein by reference to Exhibit 10.4 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.31	Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Robert B. Rosene, Jr. relating to Promissory Note in the amount of \$2,066,000 (incorporated herein by reference to Exhibit 10.5 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).
10.32	Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Warren F. Kruger, Jr. relating to Promissory Note in the amount of \$527,716 (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

33

EXHIBIT NO.	DESCRIPTION
10.33	Yorktown Management & Financial Services, LLC Molds, Grinder, Ancillary Resin Handling Equipment, Bumper Contract, Raw Materials and Finished Goods Inventory Purchase Agreement and Bill of Sale dated as of February 7, 2007, by and between Greystone Logistics, Inc. and Yorktown Management & Financial Services, LLC (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007).

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

- 10.34 Pallet Molds Lease Agreement dated as of February 7, 2007, by and between Greystone Manufacturing, LLC and Yorktown Management & Financial Services, LLC (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007).
- 10.35 Settlement Agreement and Release dated as of February 8, 2007, by and among Greystone Logistics, Inc., 1607 Commerce Limited Partnership, Plastic Pallet Production, Inc. and Greystone Manufacturing, LLC (incorporated herein by reference to Exhibit 10.3 of the Company's Form 8-K dated February 7, 2007, which was filed with the SEC on February 27, 2007).
- 11.1 Computation of Loss Per Share is in Note 1 in the Notes to the Financial Statements.
- 21.1 Subsidiaries of Greystone Logistics, Inc. (submitted herewith).
- 23.1 Consent of Murrell, Hall, McIntosh & Co., PLLP (submitted herewith).
- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-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).

34

EXHIBIT NO.	DESCRIPTION
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

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

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to Greystone by Murrell, Hall & McIntosh, PLLP, Greystone's independent registered public accounting firm, for professional services rendered for the fiscal years ended May 31, 2006 and May 31, 2005:

Fee Category	Fiscal 2007 Fees	Fiscal 2006 Fees
	-----	-----

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Audit Fees(1)	\$ 57,690	\$ 46,450
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
	-----	-----
Total Fees	\$ 57,690	\$ 46,450
	=====	=====

-----  
 (1) Audit Fees consist of aggregate fees billed for professional services rendered for the audit of Greystone's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements during the fiscal years ended May 31, 2007 and May 31, 2006, respectively.

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

35

SIGNATURES

In accordance with Section 13 or 15(d) 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: 08/29/07 /s/ Warren F. Kruger  
 -----  
 Warren F. Kruger, Chairman, President and  
 Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: 08/29/07 /s/ Warren F. Kruger  
 -----  
 Warren F. Kruger, Chairman, President and  
 Chief Executive Officer

Date: 08/29/07 /s/ Robert B. Rosene, Jr.  
 -----  
 Robert B. Rosene, Jr., Director



Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Date: 08/29/07

/s/ Robert H. Nelson

-----  
Robert H. Nelson, Chief Financial Officer

36

INDEX TO FINANCIAL STATEMENTS  
-----

CONSOLIDATED FINANCIAL STATEMENTS OF GREYSTONE LOGISTICS, INC.

Report of Independent Registered Public Accounting Firm.....	F-1
Consolidated Balance Sheets.....	F-2
Consolidated Statements of Operations .....	F-3
Consolidated Statements of Changes in Stockholders' Deficit.....	F-4
Consolidated Statements of Cash Flows .....	F-5
Notes to Consolidated Financial Statements.....	F-6

37

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders  
of Greystone Logistics, Inc.

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

We have audited the accompanying consolidated balance sheet of Greystone Logistics, Inc. (an Oklahoma corporation) and its subsidiaries as of May 31, 2007, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for each of the years ended May 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required, nor have we been engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greystone Logistics, Inc. and its subsidiaries as of May 31, 2007, and the consolidated results of their operations and cash flows for each of the years ended May 31, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered significant losses from operations. Substantial additional funding will be required to implement its business plan and to attain profitable operations. The lack of adequate funding to maintain working capital and stockholders' deficits at May 31, 2007 raises substantial doubt about its ability to continue as a going concern unless additional funds from outside sources, its president or other board members are obtained. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

MURRELL, HALL, MCINTOSH & CO., PLLP

Oklahoma City, Oklahoma  
August 29, 2007

F-1

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
MAY 31, 2007

ASSETS  
-----

CURRENT ASSETS:

Cash	\$	340,334
Accounts receivable		1,019,415

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Inventory	237,769	
Prepaid expenses	57,653	
		-----
TOTAL CURRENT ASSETS	1,655,171	
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	7,037,764	
OTHER ASSETS:		
Patents, net of accumulated amortization	127,140	
		-----
TOTAL ASSETS	\$ 8,820,075	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
-----		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 8,655,518	
Advances payable - related party	618,959	
Accounts payable and accrued expenses	3,153,473	
Accounts payable to related parties	709,146	
Preferred dividends payable	1,088,808	
		-----
TOTAL CURRENT LIABILITIES	14,225,904	
LONG-TERM DEBT	4,297,427	
DEFERRED INCOME	128,000	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
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, 26,061,201 outstanding	2,606	
Additional paid-in capital	52,693,226	
Deficit	(62,527,093)	
		-----
TOTAL STOCKHOLDERS' DEFICIT	(9,831,256)	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 8,820,075	=====

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

F-2

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED MAY 31,	
	2007	2006
	-----	-----
Sales	\$ 12,454,293	\$ 15,956

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Cost of Sales, including depreciation expense of \$816,722 and \$745,244	11,588,057	15,030
	-----	-----
Gross Profit	866,236	925
Expenses:		
General, selling and administration expenses	1,828,395	2,248
	-----	-----
Operating Loss	(962,159)	(1,323)
Other Income (Expense):		
Other income (expense)	(452,276)	1
Interest expense	(1,185,541)	(1,013)
	-----	-----
Total Other Income (Expense)	(1,637,817)	(1,012)
	-----	-----
Net Loss	(2,599,976)	(2,335)
Preferred Dividends	575,548	513
	-----	-----
Net Loss Available to Common Stockholders	\$ (3,175,524)	\$ (2,849)
	=====	=====
Loss Available to Common Stockholders		
Per Share of Common Stock - Basic and Diluted	\$ (0.13)	\$ (
	=====	=====
Weighted Average Shares of Common Stock Outstanding	24,728,000	24,061
	=====	=====

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

F-3

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

	Preferred Stock		Common Stock		Addition Paid-In Capital
	Shares	Amount	Shares	Amount	
	-----	-----	-----	-----	-----
BALANCES, MAY 31, 2005	50,000	\$ 5	24,061,201	\$ 2,406	\$ 52,214,
Compensation cost of stock options/warrants	--	--	--	--	64,
Preferred dividends paid or accrued	--	--	--	--	
Net loss	--	--	--	--	
	-----	-----	-----	-----	-----

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

BALANCES, MAY 31, 2006	50,000	5	24,061,201	2,406	52,278,
Stock in settlement of lease	--	--	2,000,000	200	99,
Compensation cost of stock options/warrants	--	--	--	--	314,
Preferred dividends accrued	--	--	--		
Net loss	--	--	--	--	
	-----	-----	-----	-----	-----
BALANCES, MAY 31, 2007	50,000	\$ 5	26,061,201	\$ 2,606	\$ 52,693,
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

F-4

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

	YEAR ENDED MAY 31,	
	2007	2006
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (2,599,976)	\$ (2,335,153)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	806,725	768,438
Settlement costs on termination of operating lease	619,061	--
Stock option compensation cost	314,832	64,062
(Gain) Loss on sale of equipment	(71,472)	12,887
Changes in accounts receivable	(177,040)	731,260
Changes in inventory	393,467	(95,713)
Changes in prepaid expenses	(48,740)	2,019
Changes in accounts payable and accrued expenses	965,887	128,879
Other	(5,205)	--
	-----	-----
Net cash provided (used) by operating activities	197,539	(723,321)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(580,250)	(1,626,658)
Proceeds from sale of equipment	993,234	--
	-----	-----
Net cash provided (used) by investing activities	412,984	(1,626,658)
Cash Flows from Financing Activities:		
Proceeds from notes and advances payable	745,682	2,960,267
Payments on notes and advances payable	(872,868)	(720,238)
Proceeds (repayment) of bank overdraft	(143,928)	143,928
Dividends paid on preferred stock	--	(34,463)
	-----	-----
Cash provided (used) by financing activities	(271,114)	2,349,494
	-----	-----

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Net Increase (Decrease) in Cash	339,409	(485)
Cash, beginning of year	925	1,410
	-----	-----
Cash, end of year	\$ 340,334	\$ 925
	=====	=====

Supplemental Information (Note 12)

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

F-5

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

PRINCIPLES OF CONSOLIDATION

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

STATEMENT OF CASH FLOWS

Greystone considers all short-term investments with an original maturity of three months or less to be cash equivalents.

USE OF ESTIMATES

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

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Greystone carries its accounts receivable at their face value less an allowance for doubtful accounts. On a periodic basis, Greystone evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions and based on a history of

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

collections. There is no allowance for doubtful accounts at May 31, 2007.

### INVENTORY

-----

Inventory consists of finished pallets and raw materials and is stated at the lower of cost (first-in, first-out) or market value.

F-6

### PROPERTY, PLANT AND EQUIPMENT

-----

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

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

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

### PATENTS

-----

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

### STOCK OPTIONS

-----

In 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 has 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

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

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 \$64,062 to compensation

F-7

expense during the quarter ended and the year ended May 31, 2006. During fiscal year 2007, Greystone charged \$314,832 to general and administrative expense. As of May 31, 2007, there were no unamortized cost related to stock options.

Prior to March 1, 2006, 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. SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, established accounting and disclosure requirements for stock-based employee compensation plans. As allowed by SFAS No. 123, Greystone used the intrinsic value-based method of accounting under APB No. 25, through March 1, 2006, the adoption date of SFAS No. 123(R).

### RECOGNITION OF REVENUES

-----

Revenue is recognized when the product is shipped.

### RESEARCH AND DEVELOPMENT COSTS

-----

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

### INCOME TAXES

-----

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

### EARNINGS (LOSS) PER SHARE

-----

Basic loss per share is computed by dividing the loss available to common stockholders by the weighted average number of common shares outstanding for the year. In arriving at income (loss) available to common stockholders, preferred stock dividends are added to the net loss for the year. Convertible preferred stock, warrants and stock options are not considered as their effect is antidilutive.

NOTE 2. CONTINUATION AS A GOING CONCERN



Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

-----

The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern. Greystone has suffered significant losses from operations. Currently, management believes that Greystone has the capacity to produce sufficient

F-8

plastic pallets to achieve profitability; however, sales have not reached such level. To date, Greystone has received substantial advances from investors but will require additional substantial funding in order to attain its business plan and have an opportunity to achieve profitable operations. Historically, management has been successful in financing its operations primarily through short-term loans and personal guarantees on bank loans by its officers and directors. Management continues to seek long-term and/or permanent financing. Neither the receipt of additional funding in adequate amounts nor the successful implementation of its business plan can be assured. The combination of these factors raises substantial doubt about Greystone's ability to continue as a going concern. It is management's opinion that (1) based upon expressions of interest from potential customers, adequate sales will be attained to reach a profitable status, (2) the funding for working capital required to reach necessary production levels will be obtained and (3) Greystone will continue as a going concern.

NOTE 3. INVENTORY

-----

Inventory at May 31, 2007 consists of:

Raw materials	\$ 66,832
Finished goods	170,937
	-----
Total inventory	\$ 237,769
	=====

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

-----

A summary of the property, plant and equipment at May 31, 2007, is as follows:

Production machinery and equipment	\$ 6,869,287
Building and land	2,709,323
Furniture and fixtures	166,643
	-----
	9,745,253
Less: accumulated depreciation	(2,707,489)
	-----
	\$ 7,037,764
	=====

Depreciation expense for the years ended May 31, 2007 and 2006 is \$792,804 and \$755,148, respectively.

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

NOTE 5. OTHER ASSETS  
-----

At May 31, 2007 other assets totaling \$127,140 consist of patents, net of accumulated amortization of \$52,878. Amortization of intangibles was \$13,291 and \$13,290 for 2007 and 2006, respectively.

F-9

NOTE 6. LONG-TERM DEBT AND ADVANCES PAYABLE  
-----

Long-term debt at May 31, 2007 consists of the following:

Note payable to F&M Bank & Trust Company, prime rate of interest plus 2%, due March 18, 2008, payable in monthly installments of \$51,472	\$ 5,140,302
Note payable to F&M Bank & Trust Company, prime rate of interest plus 1%, due January 5, 2007	1,400,000
Note payable to Greystone Plastics, Inc., 7% interest, due September 7, 2018, payable in monthly installments of \$13,889 plus accrued interest	1,902,773
Note payable to First Bartlesville Bank, prime rate of interest plus 1%, due July 1, 2008, payable in monthly installments of \$6,441	347,745
Note payable to Robert Rosene, 7.5% interest, due January 15, 2010, payable in three equal annual installments of principal and interest beginning January 15, 2008	2,066,000
Note payable to Robert Rosene, prime rate of interest plus 0.5%, due July 1, 2008, payable in monthly installments of \$7,546	406,371
Note payable to Warren Kruger, 7.5% interest, due January 15, 2010, payable in three equal annual installments of principal and interest beginning January 15, 2007	527,716
Lease settlement obligation to 1607 Commerce LLC, 8.5% interest, payable in monthly installments for principal and interest of \$24,000 per month, due February 1, 2009	448,268
Capitalized lease purchase agreement with related party, 7.5% interest, due February 18, 2009, payable in monthly installments of \$21,136	713,770
	-----
Total	12,952,945
Less: Current portion	8,655,518
	-----
Long-term debt	\$ 4,297,427
	=====

F-10

The prime rate of interest as of May 31, 2007 was 8.25%.

The note payable to Greystone Plastics is secured by land and building with a net book value of \$2,367,283.

The note payable to First Bartlesville Bank is secured by equipment with a net book value of \$1,000,048.

The notes payable to F&M Bank and Trust Company are secured by Greystone's property and equipment, accounts receivable and cash balances. The loans are guaranteed by the officers and directors of Greystone in effect at May 31, 2007.

Maturities of long-term debt for the five years after May 31, 2007 are \$8,655,518, \$1,863,418, \$1,031,240, \$166,668, \$166,668, and \$1,069,433 thereafter.

NOTE 7. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH GREYSTONE PROPERTIES, LLC

Effective as of July 1, 2004, Greystone Properties, LLC, a limited liability company owned by Robert B. Rosene, Jr., a member of Greystone's Board of Directors, and Warren Kruger, Vice Chairman, entered into an industrial lease with GSM, pursuant to which Greystone Properties, LLC agreed to lease a building containing 60,000 square feet of space to GSM for ten years in exchange for lease payments of \$25,000 per month, amended to \$17,500 beginning January 1, 2006. Greystone paid Greystone Properties, LLC, rent of \$20,000 per month for the period from beginning August 1, 2004, \$25,000 per month beginning November 30, 2004 and \$17,500 beginning January 1, 2006. The industrial building is located adjacent to Greystone's plant in Bettendorf, Iowa.

TRANSACTIONS WITH PAUL KRUGER, A SIGNIFICANT STOCKHOLDER

On February 8, 2007, Greystone entered into a Settlement Agreement and Release with 1607 Commerce Limited Partnership, a Texas limited partnership, which subsequently changed its name to Commerce Plastics L.P. ("Commerce"). Pursuant to the Settlement Agreement and in exchange for full, final and complete settlement of any and all claims that Commerce has asserted, or could have asserted, in its lawsuit regarding an alleged default in the payment of rent pursuant to terms of the Equipment Lease (defined below) and the enforcement of certain related guaranties, Greystone agreed to (i) to pay outstanding rental accruals by Greystone to Commerce of \$1,048,000, (ii) make monthly payments to Commerce of \$24,000 for a term of 24 months commencing March 1, 2007, which payments can be used towards the purchase price of pallets purchased from Commerce as further described below, (iii) transfer to Commerce 2,000,000 shares of the Company's common stock, and (iv) enter into an agreement with Commerce whereby,

among other things, Commerce will be given floor space, utilities and regrind resin in the Company's Iowa facility and the Company will be required to purchase up to 200,000 Granada pallets at \$8.00 per pallet and 200,000 nestable pallets at \$3.00 per pallet from Commerce over a two year term. Also pursuant to the Settlement Agreement, the monthly payments to be made by the Company will be credited against the purchase price of any Granada pallets purchased from Commerce; provided, however, Commerce is not obligated to produce any pallets, but has agreed to use its best efforts to do so. The Settlement Agreement also included an immediate termination of that certain equipment lease dated as of September 8, 2003, by and between Commerce and Plastic Pallet (the "Equipment Lease"), whereby the registrant leased, for a term of 130 months commencing September 8, 2003, at a rate of \$48,000 per month, certain equipment that PPP previously used to produce its pallets.

Rental payments pursuant to the equipment lease agreement totaled \$384,000 and \$576,000 for fiscal years 2007 and 2006, respectively.

TRANSACTIONS WITH WARREN KRUGER, VICE CHAIRMAN  
-----

Effective June 1, 2006, Yorktown Management & Services LLC, an entity owned by Warren Kruger, Chairman and CEO, commenced selling plastic raw material to GSM primarily as a sole provider. Effective February 1, 2007, GSM entered into a purchase agreement with Yorktown pursuant to which Yorktown purchased from GSM existing finished goods inventory and certain raw materials for \$1,018,582 and grinding and peripheral equipment, resin contracts and molds for \$981,418. Greystone completed this transaction with Yorktown, in part, to alleviate the working capital requirements in maintaining raw material inventory, by purchasing raw material as it is used in the production process. GSM pays Yorktown's cost plus \$0.03 per pound. During 2007, GSM raw material purchases from Yorktown totaled \$3,049,368. During 2006, Warren Kruger through NYOK, as discussed in the following paragraph, provided to GSM grinding services on reclaimed plastic for use in the production of plastic pallets. GSM paid \$44,000 to NYOK for this grinding service.

Effective as of November 1, 2004, NYOK Partners, an entity of which Warren Kruger, Chairman and CEO, had an ownership interest, entered into an equipment rental contract with GSM to lease a Cincinnati Milacron Plastics Injection Molding Machine for a five-year term at the rate of \$21,136 per month. At the end of such five-year term, GSM has the right to purchase the machine from NYOK for \$100,000. The lease is reflected on Greystone's financial statements as a capitalized lease. About June 1, 2006, NYOK was dissolved and the equipment lease is now owned by Yorktown Management & Services, LLC, an entity owned by Warren Kruger. Effective June 1, 2006, Yorktown verbally agreed to receive interest only payments on the outstanding balance of the capitalized lease.

During 2007, Warren Kruger advanced working capital funds to Greystone in the amount of \$745,682 and Greystone repaid Warren Kruger the amount of \$509,041. During 2006, Warren Kruger advanced \$429,100 to Greystone. Effective December 15, 2005, Greystone entered into a loan agreement with Warren Kruger to convert \$527,716 of the advances into

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010. At May 31, 2007, note payable of \$527,716, advances of \$618,951 and accrued interest of \$206,117 were due to entities owned or controlled by Warren Kruger.

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

TRANSACTIONS WITH ROBERT ROSENE, DIRECTOR  
-----

During fiscal year 2006, Mr. Rosene advanced working capital funds to Greystone in the amount of \$1,578,249 in addition to \$500,000 advanced in the prior year. Effective December 15, 2005, Greystone entered into a loan agreement with Mr. Rosene to convert \$2,066,000 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010. Accrued interest due to Mr. Rosene as May 31, 2007 is \$175,295.

NOTE 8. FEDERAL INCOME TAXES  
-----

Deferred taxes as of May 31, 2007 and 2006 are as follows:

F-13

	2007	2006
	-----	-----
Deferred Tax Assets:		
Net operating loss	\$ 10,337,124	\$ 9,358,497
Amortization of intangibles	1,579,890	1,725,005
Capital loss carryover	1,059,440	1,059,440
Depreciation, financial reporting		
in excess of tax	24,056	--
Accrued expenses	14,123	145,349
	-----	-----
Total deferred tax assets	13,014,633	12,288,291
Deferred Tax Liabilities:		
Depreciation of property and		
equipment, Tax in excess of		
financial reporting	--	(5,455)
	-----	-----
	13,014,633	12,282,836

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Less: Valuation allowance	(13,014,633)	(12,282,836)
	-----	-----
Total	\$ --	\$ --
	=====	=====

Management has provided a valuation allowance for the full amount of the deferred tax asset as Greystone continues to incur substantial losses from its operations. While management projects that the products being developed will be profitable and the deferred asset will ultimately be realized, Greystone has not yet reached sufficient reliability on product acceptance and marketability to reduce the valuation allowance.

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

	2007	2006
	-----	-----
Net operating loss	\$ 978,627	\$ 951,317
Depreciation of property and equipment	29,511	40,181
Amortization of intangibles	(145,115)	(137,645)
Accrued expenses	(131,226)	14,123
Loss on investments	--	1,700
Allowance for doubtful accounts	--	(64,724)
Change in valuation allowance	(731,797)	(804,952)
	-----	-----
Total	\$ --	\$ --
	=====	=====

Greystone's effective tax rate for the year ended May 31, differs from the federal statutory rate as follows:

F-14

	2007	2006
	-----	-----
Tax benefit using statutory rates	\$ 868,692	\$ 793,952
Net change in valuation allowance	(731,797)	(804,952)
Compensation cost of stock options	(107,043)	(21,781)
Other	(29,852)	32,781
	-----	-----
Tax benefit, per financial statements	\$ --	\$ --
	=====	=====

Greystone has a net operating loss (NOL) for Federal income tax purposes as of May 31, 2007 of \$30,403,000 expiring in fiscal year 2012 through fiscal year 2027.

Pursuant to Internal Revenue Code Section 382 and due to a change in control of Greystone, the amount of operating loss which may be applied in any one year will be substantially limited.

NOTE 9. STOCKHOLDERS' EQUITY

-----

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

	2007	2006
--	------	------

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Beginning of year	5,012,914	\$ 0.59	5,012,914	\$ 0.59
Additions	--	--	250,000	0.15
End of year	5,012,914	\$ 0.59	5,262,914	\$ 0.56

All warrants issued and outstanding have a term of five years expiring in fiscal years 2009 and 2012.

Effective February 1, 2007, Greystone issued a warrant to purchase up to 250,000 shares of common stock at \$0.15 per share to an individual in consideration for providing certain financing and consulting services, which facilitated the sale of certain of Greystone's equipment to Yorktown Management, LLC, a company owned by Warren Kruger, Chairman and CEO. The warrants are valued at \$8,500.

Effective February 1, 2007, Greystone agreed to issue 2,000,000 shares of its common stock and agreed to pay \$24,000 per month for twenty-four months to 1607 Commerce LLC to terminate a long-term lease agreement on equipment. The present value of the series of \$24,000 monthly payments at 8.5% interest or \$519,060 and the value of the common stock on the effective date of issuance of \$100,000 were recorded as a loss on the termination agreement of the long-term lease.

F-15

NOTE 10. STOCK OPTIONS

Greystone has a stock option plan that provides for the granting of options to key employees and non-employee directors. The options are to purchase common stock at not less than fair market value at the date of the grant. The maximum number of shares of common stock for which options may be granted is 20,000,000 of which 16,015,000 are available for grant as of May 31, 2007. Stock options generally expire in ten years from date of grant or upon termination of employment and are generally exercisable one year from date of grant in cumulative annual installments of 25%, except that the options granted in fiscal 2001 were 100% vested at the date of grant. Following is a summary of option activity for the three years ended May 31, 2007:

	Shares (000's)	Weighted Average Exercise Price
Options outstanding at May 31, 2004	1,935	1.68
Options granted	2,250	0.50
Options cancelled	(225)	0.50
Options outstanding at May 31, 2005	3,960	1.01
Options cancelled	(350)	0.62

Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Options outstanding at May 31, 2006	3,610	1.06
Options cancelled	(1,250)	0.54
	-----	-----
Options outstanding at May 31, 2007	2,360	\$ 1.35
	=====	=====
Exercisable as of May 31, 2005	2,045	\$ 1.41
	=====	=====
Exercisable as of May 31, 2006	2,404	\$ 1.33
	=====	=====
Exercisable as of May 31, 2007	2,360	\$ 1.35
	=====	=====

With respect to options outstanding at May 31, 2007:

Range	Options Outstanding	Weighted Average Life	Weighted Average Price	Exercisable
-----	-----	-----	-----	-----
\$0.50-\$0.55	1,450,000	6.9 years	\$0.52	1,450,000
\$1.60	185,000	5.1 years	\$1.60	185,000
\$2.00	135,000	3.9 years	\$2.00	135,000
\$3.125-\$4.00	590,000	4.8 years	\$3.18	590,000
	-----			-----
Total	2,360,000	6.1 years	\$1.06	2,360,000

F-16

For the period from June 1, 2005 through February 28, 2006, Greystone applied APB Opinion No. 25 in accounting for its stock options and, accordingly, no compensation cost was recognized for its stock options in the financial statements. As discussed in Note 1, Greystone adopted SFAS No. 31, and, accordingly, recorded compensation expense in the amount of \$64,062 in the financials statements for the period from March 1, 2006 through May 31, 2006. Had Greystone, prior to March 1, 2006, determined compensation cost at the grant date based on fair value under SFAS No. 123, Greystone's net loss for fiscal year 2006 would have been increased to the pro forma amount indicated below:

Net loss to common shareholders:	
As reported	\$ (2,849,091)
Pro forma	\$ (3,055,960)
Per share:	
As reported	\$ (0.12)
Pro Forma	\$ (0.13)

The fair value of the options used to compute the compensation cost is estimated using the Black-Scholes option pricing model using the following assumptions:

Dividend Yield	None
Expected Volatility	136%
Risk Free Interest Rate	4%
Expected Holding Period	5 years



## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

There are no future costs under existing stock options agreements as of May 31, 2007.

NOTE 11. FINANCIAL INSTRUMENTS  
-----

Greystone's financial instruments consist principally of accounts payable, accrued liabilities and notes and mortgages payable. Management estimates the market value of the notes and mortgage payable based on expected cash flows and believes these market values approximate carrying values at May 31, 2007 and 2006.

F-17

NOTE 12. SUPPLEMENTAL INFORMATION OF CASH FLOWS  
-----

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

	2007	2006
	-----	-----
Non-cash activities		
Common stock issued in		
settlement of lease agreement	\$ 100,000	\$ --
Debt in settlement of lease	1,205,475	519,060
Preferred dividend accrual	575,938	479,475
Sale of equipment for debt	--	20,000
Interest paid	930,095	893,129
Taxes paid	--	--

NOTE 13. OPERATING LEASES  
-----

Rental expense on operating leases totaled \$594,000 and \$725,522 during 2007 and 2006, respectively. Commitments for operating leases for the five years after May 31, 2007 are \$210,000, \$210,000, \$210,000, \$210,000, and \$210,000 and \$472,500 thereafter. Operating leases are described further in Note 7, under the headings "Transactions with Paul Kruger, a significant stockholder," for the equipment lease and Transactions with "Transactions with Greystone Properties, LLC," for the industrial lease.

NOTE 14. CONCENTRATIONS OF CREDIT RISK  
-----

Financial instruments that potentially subject Greystone to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits. As of May 31, 2007, Greystone's bank balances exceeded federally insured limits \$313,574.

NOTE 15. CONTINGENCIES  
-----

A court action was filed by William Hamilton dba WHACO and dba

## Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB

Greystone Bill Hamilton Trucking against GSM alleging damages in the amount of \$104,390 for breach of contract involving provision of materials and services. William Hamilton is an owner in Greystone Plastics, Inc. from whom GSM purchased certain manufacturing assets in 2003. GSM has denied all allegations and has asserted a counterclaim arising from the sale of manufacturing assets by Greystone Plastics, Inc. to GSM. The action is in the early stages of discovery and is being vigorously defended by GSM. However, GSM management cannot predict or guarantee the outcome of the action.

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

F-18

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

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

Excelsior aCapital Marketing and Howell Mergers and Acquisitions, LLC v. 1607 Commerce Limited Partnership, Plastic Pallet Production, Inc. and Palweb Corporation. On October 5, 2006 Excelsior Capital Marketing and Howell Mergers and Acquisitions, LLC ("HMA") filed suit against 1607 Commerce Limited Partnership, Plastic Pallet Production, Inc. ("PPP") and Palweb HMA, under which PPP agreed to assign the insurance proceeds from Mt. Hawley to HMA if HMA repaired the damage to the real property located at 1607 Commerce Street, Dallas, Texas (the "Building"). Plaintiffs allege that they allowed the Salvation Army to use the required repairs on the Building in exchange for being allowed by Plaintiffs to use the Building free of rent. Plaintiffs concede that they paid no rent on the Building during the period that they allowed the Salvation Army to use the Building. Plaintiffs also concede that, upon receiving the insurance checks from Mt. Hawley, Defendants endorsed the insurance checks over to Plaintiffs.

Plaintiffs allege claims for breach of contract, fraud, negligent misrepresentation, unjust enrichment, and civil conspiracy. Plaintiffs seeks actual damages in the amount of \$267,487.48 which represent the amount of insurance proceeds paid by Mt. Hawley Insurance Company for damage done to the Building. Plaintiffs also seek punitive damage, attorneys' fees, and prejudgment and post-judgment interest. The case

**Edgar Filing: GREYSTONE LOGISTICS, INC. - Form 10KSB**

is set for trial on February 11, 2008, and discover and pretrial motion practice are ongoing. Defendants intend to vigorously defend against the claims asserted by Plaintiffs.

F-19