

GREYSTONE LOGISTICS, INC.

Form 10KSB/A

January 11, 2006

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

FORM 10-KSB/A
(AMENDMENT NO. 1)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended MAY 31, 2005

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

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

COMMON STOCK, \$0.0001 PAR VALUE

(Title of class)

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

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.

The issuer's revenue for the year ended May 31, 2005, was \$9,305,534.

As of August 25, 2005, 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 \$1,887,851.

As of August 18, 2005, the issuer had outstanding a total of 24,061,201 shares of its \$0.0001 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

NONE.

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

GREYSTONE LOGISTICS, INC.
FORM 10-KSB
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This Form 10-KSB/A is being filed by Greystone Logistics, Inc. (the "Company"), as Amendment No. 1 (the "Amendment") to the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2005 (the "Prior Form 10-KSB"), to amend Part II, Item 7 and Part III, Item 13 of the Prior Form 10-KSB. In general, the Amendment is being filed to revise notes 16 and 18 to the financial statements contained in the Prior Form 10-KSB. Although the Amendment amends and restates Part II, Item 7 and Part III, Item 13 of the Prior Form 10-KSB in their entirety, the information contained herein has not been updated to reflect events or developments that may have occurred subsequent to May 31, 2005.

PART II.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of Greystone are set forth on pages F-1 through F-22 inclusive, found at the end of this report.

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). |
| 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). |

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EXHIBIT

NO.	DESCRIPTION
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- | | |
|-------|--|
| ----- | ----- |
| 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 |

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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).
- 10.2 Non Exclusive Distribution Agreement between PalWeb Corporation and Bosh Material Handling Incorporated dated August 5, 2002 (incorporated herein by reference to Exhibit 10.23 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** 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).
- 10.4 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).
- 10.5** 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).
- 10.6** 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).
- 10.7** 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).

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EXHIBIT NO.	DESCRIPTION
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10.8**	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 SEC on September 13, 2001).
10.9**	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).
10.10	Assignment and Indemnity Agreement between the Company and Paul A. Kruger (regarding transfer of stock of PP Financial, Inc.) dated May

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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).

- 10.11 Letter Agreement between PalWeb Corporation and Lyle W. Miller dated January 10, 2003 (amending terms of outstanding stock options) (incorporated herein by reference to Exhibit 10.8 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2002, which was filed with the SEC on January 14, 2003).
- 10.12 Letter Agreement dated January 22, 2003 between Gravity Management & Engineering Group, LLC and PalWeb Corporation (incorporated herein by reference to Exhibit 10.48 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2003, which was filed with the SEC on September 15, 2003).
- 10.13 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).
- 10.14 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).
- 10.15 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).

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EXHIBIT

NO. DESCRIPTION

- 10.16 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).
- 10.17 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).
- 10.18** Employment Agreement between Greystone Manufacturing, L.L.C. and Bill Hamilton dated September 3, 2003 (incorporated herein by reference to Exhibit 10.6 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.19 Asset Purchase Agreement between Plastic Pallet Production, Inc. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.7 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.20 Letter Agreement between Plastic Pallet Production, Inc. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.8 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.21 Sale Agreement between Plastic Pallet Production, Inc. and 1607

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Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.9 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).

- 10.22 Equipment Lease between 1607 Commerce Limited Partnership and Plastic Pallet Production, Inc. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.10 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.23 Lease Agreement between 1607 Commerce Limited Partnership and Plastic Pallet Production, Inc. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.11 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.24 Security Agreement among PalWeb Corporation, Plastic Pallet Production, Inc., Greystone Manufacturing, L.L.C. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.12 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).

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EXHIBIT

NO. DESCRIPTION

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- 10.25 Guaranty of Obligations of Tenant Pursuant to Equipment Lease by PalWeb Corporation and Greystone Manufacturing, L.L.C. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.13 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.26 Guaranty of Obligations of Tenant Pursuant to Lease by PalWeb Corporation and Greystone Manufacturing, L.L.C. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.14 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
- 10.27 Stock Pledge Agreement between PalWeb Corporation and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.15 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003). Employment Agreement between PalWeb Corporation and Warren Kruger dated August 13, 2003
- 10.28** (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).
- 10.29** Employment Agreement dated as of August 1, 2004, by and between PalWeb Corporation and Marshall S. Cogan (incorporated herein by reference to Exhibit 10.1 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).
- 10.30** 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).
- 10.31 Form of Securities Purchase Agreement entered into between PalWeb Corporation and certain accredited investors in connection with

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November 2004 private placement (incorporated herein by reference to Exhibit 10.3 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).

- 10.32 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 with the SEC on January 19, 2005).

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EXHIBIT

EXHIBIT NO.	DESCRIPTION
10.33	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).
10.34	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).
10.35	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).
10.36	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).
10.37	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).
10.38	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).
10.39	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).
10.40	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).

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EXHIBIT NO.	DESCRIPTION
10.41	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).
10.42**	Employment Agreement dated as of August 15, 2005, between Greystone Logistics, Inc. and Bobby L. Moore (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K dated August 11, 2005, which was filed with the SEC on August 12, 2005).
10.43	License Agreement by and between Westgate Capital Company, L.L.C., and PalWeb Corporation dated March 1, 2005 (incorporated herein by reference to Exhibit 10.43 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2005, which was filed with the SEC on September 15, 2005).
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. (incorporated herein by reference to Exhibit 10.43 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2005, which was filed with the SEC on September 15, 2005).
23.1	Consent of Murrell, Hall, McIntosh & Co., PLLP (submitted herewith).
31.1	Certification of Chief Financial Officer (and interim principal 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).
32.1	Certification of Chief Financial Officer (and interim principal 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).

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

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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: 01/10/06 /s/ Robert H. Nelson

Robert H. Nelson, Chief Financial Officer
(Principal Financial Officer, Principal
Accounting Officer and Interim Principal
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: 01/10/06 /s/ Robert H. Nelson

Robert H. Nelson, Chief Financial Officer
(Principal Financial Officer, Principal
Accounting Officer and Interim Principal
Executive Officer)

Date: 01/10/06 /s/ Marshall S. Cogan

Marshall S. Cogan, Director

Date: 01/10/06 /s/ Warren F. Kruger

Warren F. Kruger, Director

Date: 01/10/06 /s/ Robert B. Rosene

Robert B. Rosene, Jr., Director

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders
of Greystone Logistics, Inc.

We have audited the accompanying consolidated balance sheet of Greystone Logistics, Inc. and its subsidiaries as of May 31, 2005, and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for each of the years ended May 31, 2005 and 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). The Company is not required to have, 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit

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includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2005, and the consolidated results of their operations and cash flows for each of the years ended May 31, 2005 and 2004, 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, 2005 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.

As discussed in Note 18 to the consolidated financial statements, the accompanying consolidated financial statements for the year ended May 31, 2004 have been restated.

MURRELL, HALL, MCINTOSH & CO., PLLP

Norman, Oklahoma
August 30, 2005

F-1

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET MAY 31, 2005

ASSETS

CURRENT ASSETS:

Cash	\$	1,410
Accounts receivable, net of allowance for doubtful accounts of \$190,364		1,573,635
Inventory		535,523
Prepaid expenses		10,932

TOTAL CURRENT ASSETS		2,121,500
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION		7,189,652
OTHER ASSETS:		
Patents, net of accumulated amortization		164,951

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TOTAL ASSETS		\$ 9,476,103	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY			

CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 2,117,222	
Advances payable - related party		952,216	
Accounts payable and accrued expenses		2,631,676	
Preferred dividends payable		33,785	

TOTAL CURRENT LIABILITIES		5,734,899	
LONG-TERM DEBT		8,026,739	
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' DEFICIENCY:			
Preferred stock, \$0.0001 par value, 20,750,000 shares authorized, 50,000 shares outstanding, liquidation preference of \$5,000,000			5
Common stock, \$0.0001 par value, 5,000,000,000 shares authorized, 24,061,201 outstanding			2,406
Additional paid-in capital			52,214,532
Deficit			(56,502,478)

TOTAL STOCKHOLDERS' DEFICIENCY			(4,285,535)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY		\$ 9,476,103	=====

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,	
	2005	2004
	-----	-----
Sales	\$ 9,305,534	\$ 6,964,943
Cost of Sales, including depreciation expense of \$591,905 and \$357,952	9,573,029	6,768,426
	-----	-----
Gross Profit (Loss)	(267,495)	196,517
Expenses:		
General, selling and administration expenses	3,449,422	2,261,723

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Impairment costs	5,719,658	219,753
Relocation costs	355,000	222,196
	-----	-----
Total expenses	9,524,080	2,703,672
	-----	-----
Operating Loss	(9,791,575)	(2,507,155)
Other Income (Expense):		
Other income	62,091	12,134
Interest expense	(692,341)	(699,661)
	-----	-----
Total Other Income (Expense)	(630,250)	(687,527)
	-----	-----
Net Loss	(10,421,825)	(3,194,682)
Preferred Dividends	404,555	660,171
	-----	-----
Net Loss Available to Common Stockholders	\$ (10,826,380)	\$ (3,854,853)
	=====	=====
Loss Available to Common Stockholders		
Per Share of Common Stock - Basic and Diluted	\$ (0.60)	\$ (0.35)
	=====	=====
Weighted Average Shares of Common Stock Outstanding	17,950,000	11,026,000
	=====	=====

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' EQUITY (DEFICIENCY)

	Preferred Stock		Common Stock		Additional Paid-In Capital
	-----	-----	-----	-----	-----
Balances, May 31, 2003	750,000	\$ 75	5,938,722	\$ 594	\$ 41,969,124
Common stock in lieu of preferred dividends	--	--	971,918	97	396,890
Preferred dividends paid or accrued	--	--	--	--	--
Stock issued in exchange for debt	--	--	629,811	63	899,937
Conversion of Series 2001 preferred stock	(750,000)	(75)	5,250,000	525	(450)

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Issuance of Series 2003 preferred stock	50,000	5	--	--	4,999,995
Net loss	--	--	--	--	--
Balances, May 31, 2004	50,000	5	12,790,451	1,279	48,265,496
Preferred dividends paid or accrued	--	--	--	--	--
Stock issued in exchange for debt	--	--	5,985,037	598	2,099,565
Issuance of common stock	--	--	5,285,713	529	1,849,471
Net loss	--	--	--	--	--
Balances, May 31, 2005	50,000	\$ 5	24,061,201	\$ 2,406	\$ 52,214,532

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,	
	2005	2004
Cash Flows from Operating Activities:	\$ (10,421,825)	\$ (2,974,929)
Net Loss		
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	1,296,601	927,010
Impairments	5,719,658	--
Loss on sale of equipment	--	121,321
Expenses paid by issuance of common stock	415,900	--
Changes in accounts receivable	(622,039)	(603,752)
Changes in inventory	(14,147)	389,051
Changes in prepaid expenses	(10,932)	(26,000)
Changes in accounts payable and accrued expenses	699,577	668,482
Changes in preferred dividends payable	(26,797)	60,582
Other	--	(26,300)
Net cash used in operating activities	(2,964,004)	(1,464,535)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(426,054)	(701,847)
Acquisition of assets of Greystone Plastics, Inc.	--	(4,248,459)
	(426,054)	(4,950,306)
Cash Flows from Financing Activities:		

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Proceeds from notes and advances payable	8,402,650	2,631,245
Payments on notes and advances payable	(6,730,712)	(685,344)
Proceeds from issuance of common/preferred stock	1,850,000	5,000,000
Dividends paid on preferred stock	(404,555)	(263,184)
	-----	-----
Cash provided by financing activities	3,117,383	6,682,717
	-----	-----
Net Increase (Decrease) in Cash	(272,675)	267,876
Cash, beginning of year	274,085	6,209
	-----	-----
Cash, end of year	\$ 1,410	\$ 274,085
	=====	=====

Supplemental Information (Note 12)

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

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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

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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 collections. The allowance for doubtful accounts at May 31, 2005 was \$190,364.

INVENTORY

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

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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 equipment	5-10 years or Unit of Production
Office equipment & furniture & fixtures	3- 5 years

The production equipment being amortized on the unit of production method had a total cost of \$322,687 at May 31, 2005.

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 assets carrying amount. If the asset carrying amount exceeds the cash flows, a write-down to market value or discounted cash flow value is required.

INVESTMENT

Greystone has a 20% ownership in Vimonta AG which is carried on the cost basis of accounting since management has no board representation, financial information or other influence on the operation of Vimonta AG. The asset is valued at \$5,000 and included in other assets.

GOODWILL AND INTANGIBLES

Goodwill and intangibles are reviewed annually for impairment relying on a number of factors including operating results, business plans and future cash flows. An impairment charge is recognized for any amount by which the carrying value of goodwill exceed its fair value. Discounted cash flows are used to establish fair values. See Note 16 for recognition of impairment of goodwill and intangible cost during fiscal year 2005.

Intangible cost consists of the valuation of a customer contract acquired in connection with the acquisition of the assets of Greystone Plastics, Inc. effective September 8, 2003. The intangible is being amortized by

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the unit of production method based on unit sales to the customer.

PATENTS

Amortization expense for the costs incurred by Greystone to obtain the patents on the

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modular pallet system and accessories is computed on the straight-line method over the estimated life of 15-17 years.

STOCK OPTIONS

Greystone applies 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 has elected to continue to apply the intrinsic value-based method of accounting under APB No. 25, and has adopted the disclosure requirements of SFAS No. 123 as reflected in Note 10.

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 in 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.

LOSS PER SHARE

Basic loss per share is computed by dividing the loss available to common stockholders of \$(10,826,380) and \$(3,854,853) for 2005 and 2004, respectively, by the weighted average number of common shares outstanding during 2005 and 2004, 17,950,000 shares and 11,026,000 shares, respectively. In arriving at income (loss) available to common stockholders, preferred stock dividends are added to the net loss for the year. Convertible preferred stock and stock options are not considered as

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their effect is antidilutive.

RECENT PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board, ("FASB") issued

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Statement No. 123R, "Share-Based Payment," a revision to Statement No. 123, "Accounting for stock-Based Compensation." This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. The Company is required to adopt SFAS 123R at the beginning of the third quarter of fiscal year 2006. The standard provides for prospective or retrospective application. Under prospective application, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the adoption date and will recognize the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair values previously calculated for disclosure purposes. Under retrospective application, the fair value based method of accounting will be applied to grants prior to the adoption date and all prior periods for which SFAS No. 123 was effective. Greystone is currently evaluating the adoption of SFAS No. 123R and expects that it may recognize additional compensation expense for the third quarter of fiscal year 2006.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs." SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs, and spoilage, be charged to expense in the period they are incurred rather than capitalized as a component of inventory costs. SFAS No. 151 is effective for inventory costs incurred in fiscal periods beginning after June 15, 2005. The adoption of this standard may result in higher expenses in periods where production levels are lower than normal ranges of production. Because actual future production levels are subject to many factors, including demand for Greystone's products, Greystone cannot determine if the adoption of SFAS No. 151 will have a material impact on future results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." SFAS No. 153 amends Accounting Principles Board ("APB") Opinion No. 29m "Accounting for Nonmonetary Transactions," to require exchanges of nonmonetary assets be accounted for at fair value, rather than carryover basis. Nonmonetary exchanges that lack commercial substance are exempt from this requirement. SFAS No. 153 is effective for nonmonetary exchanges entered in fiscal years beginning after June 15, 2005. Greystone does not expect the adoption of SFAS No. 153 to have a material impact on its financial statements.

NOTE 2. CONTINUATION AS A GOING CONCERN

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 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

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plan and have an opportunity to achieve profitable operations. Management has been successful in financing its

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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, 2005 consists of:

Raw materials	\$ 446,809
Finished goods	88,714

Total inventory	\$ 535,523
	=====

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

A summary of the property, plant and equipment at May 31, 2005, is as follows:

Production machinery and equipment	\$ 5,780,346
Building and land	2,583,116
Furniture and fixtures	138,246

	8,501,708
Less: accumulated depreciation	(1,312,056)

	\$ 7,189,652
	=====

Depreciation expense for the years ended May 31, 2005 and 2004 is \$591,905 and \$377,788, respectively.

NOTE 5. OTHER ASSETS

At May 31, 2005 other assets consist of:

Patents, net of accumulated amortization of \$41,387	\$ 149,351
Investments	5,000
Deposits and other	10,600

Total Other Assets	\$ 164,951
	=====

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Amortization of intangibles was \$704,696 and \$515,576 in 2005 and 2004, respectively.

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Included in amortization expense is \$693,206 and \$514,002 for 2005 and 2004, respectively, from amortization of the capitalized valuation of the customer contract acquired in the acquisition of the assets of Greystone Plastics, Inc.

NOTE 6. LONG-TERM DEBT AND ADVANCES PAYABLE

Long-term debt at May 31, 2005 consists of the following:

Note payable to F&M Bank & Trust Company, prime rate of interest plus 2% (8% at May 31, 2005), monthly payments based on 15-year amortization, due March 18, 2008	\$ 5,477,650
Note payable to F&M Bank & Trust Company, prime rate of interest plus 1% (7% at May 31, 2005), due January 5, 2006	1,500,000
Note payable to Greystone Plastics, Inc., 7% interest, due September 7, 2018, secured by land and building with net book value of \$2,215,207	2,236,109
Capitalized lease purchase agreement with related party, 7.5% interest, \$23,136 payable monthly, due February 18, 2009	911,327
Other notes payable	18,875
Total	----- 10,143,961
Less: Current portion	2,117,222
Long-term debt	----- \$ 8,026,739 =====

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, 2005.

Maturities of long-term debt for the five years after May 31, 2005 are \$2,117,222, \$627,048, \$5,383,955, \$446,298, \$166,668, and \$1,402,770 thereafter.

Advances payable to related parties include \$452,216 provided by Warren Kruger and

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\$500,000 provided by Robert Rosene, a member of the Board of Directors of Greystone.

NOTE 7. RELATED PARTY TRANSACTIONS

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TRANSACTIONS WITH BILL HAMILTON, FORMER VICE PRESIDENT OF PRODUCTION

Bill Hamilton owns a trucking company, Greystone-Bill Hamilton Trucking, which provided freight services totaling \$829,672 and \$699,966, respectively, for fiscal 2005 through March 8, 2005, the date of Mr. Hamilton's resignation, and fiscal year 2004, respectively. Greystone believes that the freight rates are equivalent to an arms-length transaction. In addition, GSM paid or accrued fees totaling \$117,716 and \$246,870 in 2005 through the date of his resignation and 2004, respectively, for grinding services to Whaco Plastics, an entity also owned by Bill Hamilton.

TRANSACTIONS WITH NYOK PARTNERS

Effective as of October 31, 2004, NYOK Partners, a general partnership owned by Marshall Cogan, Greystone's Non-Executive Chairman, and Warren Kruger, Greystone's Vice Chairman, purchased certain grinding equipment from GSM, at its net book value of \$259,000, which approximates the market value of such equipment, in exchange for the cancellation of a like amount of indebtedness. NYOK used the equipment as a trade-in to acquire a grinder with greater capacity. Effective as of November 1, 2004, NYOK entered into an equipment rental contract with GSM, pursuant to which NYOK has agreed to lease the grinding equipment to GSM for a period of one year at the rate of \$0.06 per pound of plastic material processed utilizing the equipment.

Effective as of November 1, 2004, NYOK 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.

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. Greystone paid Greystone Properties, LLC, rent of \$20,000 per month for the period from August 1, 2004 to October 31, 2004 and began paying \$25,000 per month beginning November 30, 2004. The industrial building is located adjacent to Greystone's plant in Bettendorf, Iowa.

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TRANSACTIONS WITH PAUL KRUGER, A SIGNIFICANT STOCKHOLDER

Until September 8, 2003, Greystone had a \$7,000,000 note payable to Paul Kruger, a significant stockholder, at an interest rate of prime plus 3%, due June 4, 2004, secured by all of Greystone's assets. Interest paid on the indebtedness to Paul Kruger was \$131,250 and \$133,824 in 2005 and 2004, respectively. Effective September 8, 2003, Greystone completed a

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sale and leaseback transaction whereby it sold for agreed upon prices its plant for \$1,350,000 and certain production equipment for \$5,710,698, including expenses, to 1607 Commerce Limited Partnership, an entity owned by Paul Kruger, in exchange for the \$7,000,000 note payable and accrued interest of \$60,698, which resulted in no gain or loss on the transaction. The lease agreement for the plant is a three-year triple net lease with a monthly rental of \$17,720. The equipment lease is for 130 months with a monthly rental after the first six months of \$48,000 beginning March 8, 2004. Initially the rental payments on the equipment lease were capitalized as prepaid expense and amortized using the unit of production method so the cost is allocated pro rata based on the estimated number of pallets to be produced during the term of the lease. During 2005 and 2004, the total amounts paid to 1607 Commerce Limited Partnership under these leases totaled \$657,200 and \$255,480, respectively. Effective March 1, 2005, Greystone notified 1607 Commerce Limited Partnership that pursuant to the breach of certain provisions of the building lease, Greystone considered the lease on the building located at 1607 West Commerce, Dallas, Texas, terminated. As discussed in Note 16, Greystone has recorded an impairment expense in fiscal year 2005 with respect to the equipment lease.

TRANSACTIONS WITH WARREN KRUGER, VICE CHAIRMAN

Interest paid or accrued on notes and advances to entities owned or controlled by Warren Kruger total \$40,629 and \$56,715 in 2005 and 2004, respectively. Greystone also reimburses an entity owned by Warren Kruger for office rent at the rate of \$1,500 per month. At May 31, 2005, advances payable to Warren Kruger total \$452,216.

TRANSACTIONS WITH ROBERT ROSENE, DIRECTOR

Robert Rosene, Director, advanced Greystone \$500,000 in May 2005. Interest is not being accrued on the advance.

TRANSACTIONS WITH BRYAN KIRCHMER, FORMER DIRECTOR

Greystone had a contract with a consulting engineering firm for the design and supervision of the construction of the new production equipment. Bryan Kirchmer, a former director of Greystone, is the president of the consulting engineers. Fees paid to the engineering firm were \$4,110 and consulting fees of \$22,500 were paid to Mr. Kirchmer, individually, during fiscal year 2004 through the date of his resignation.

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TRANSACTIONS WITH WILLIAM PRITCHARD, FORMER DIRECTOR

William Pritchard, a former director of Greystone, provided legal services through a law firm of which he is of counsel. The fees paid in 2004, through the date of his resignation, total \$36,009.

TRANSACTIONS WITH WESTGATE CAPITAL, L.L.C.

During fiscal year 2005, Greystone accrued a licensing fee of \$400,000 payable to Westgate Capital, L.L.C., an entity of which Warren Kruger,

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Vice Chairman and Director, is a member. The licensing agreement relates to the use of a fire retardant formula in the manufacture of plastic pallets. See Note 15, Commitments and Contingencies, for further discussion of the licensing fee.

OTHER TRANSACTIONS

See also Note 9, "Stockholders' Equity."

NOTE 8. FEDERAL INCOME TAXES

Deferred taxes as of May 31, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Deferred Tax Assets:		
Net operating loss	\$ 8,407,180	\$ 6,847,091
Amortization of intangibles	1,862,650	82,694
Loss on investment	1,057,740	1,057,740
Accrued expenses	131,226	151,148
Allowance for doubtful accounts	64,724	23,707
	-----	-----
Total deferred tax assets	11,523,520	8,162,380
Deferred Tax Liabilities:		
Depreciation of property and equipment,		
Tax in excess of financial reporting	(45,636)	(244,806)
	-----	-----
	11,477,884	7,917,574
Less: Valuation allowance	(11,447,884)	(7,917,574)
	-----	-----
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

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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:

	2005	2004
	-----	-----
Net operating loss	\$ 1,560,089	\$ 7,211
Depreciation of property and equipment	199,170	394,541
Amortization of intangibles	1,779,956	66,706
Accrued expenses	(19,922)	151,148
Loss on investments	--	(93,330)

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Allowance for doubtful accounts	41,017	23,707
Change in valuation allowance	(3,560,310)	(549,983)
Total	\$ --	\$ --

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

	2005	2004
Tax benefit using statutory rates	\$ 3,543,420	\$ 1,013,602
Effect of rate adjustment	--	(272,601)
Net change in valuation allowance	(3,560,310)	(549,983)
Other	16,890	(191,018)
Tax benefit, per financial statements	\$ --	\$ --

Greystone has a net operating loss (NOL) for Federal income tax purposes as of May 31, 2005 of \$24,727,000 as follows:

Amount	Year of Expiration
\$ 1,290,000	2012
1,291,000	2018
5,871,000	2019
2,634,000	2020
883,000	2021
2,370,000	2022
4,167,000	2023
1,632,000	2024
4,589,000	2025

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NOTE 9. STOCKHOLDERS' EQUITY

During fiscal year 2005, Greystone sold shares of common stock at a rate of \$0.35 per share plus warrants to officers, directors and unrelated parties, as follows:

Officer/Director	Shares	Amount	Warrants Exercised at \$0.6625	Warrants Exercised at \$0.795
Marshall Cogan, Non-executive Chairman	1,428,571	\$ 500,000	75,472	62,890
Robert Rosene, Director	2,770,951	\$ 969,833 (1)	146,390	121,990

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Warren Kruger, Vice Chairman and Director	1,473,347	\$ 515,671(2)	77,837	64,86
Robert Nelson, Chief Financial Officer	285,714(3)	\$ 100,000	15,094	12,57
Westgate Capital, LLC(4)	1,142,857	\$ 400,000	60,377	50,31
All Others	4,139,310	\$1,448,759	218,683	182,23
	-----	-----	-----	-----
Total	11,240,750	3,934,263	593,853	494,87
	=====	=====	=====	=====

-
- (1) Includes a cash payment of \$750,000 and the exchange of debt and accrued interest of \$219,833 owed by Greystone to Mr. Rosene.
 - (2) The total amount represents debt and accrued interest owed by Greystone to Mr. Kruger.
 - (3) This stock was acquired and is owned by Mr. Nelson's wife.
 - (4) Warren Kruger is a member of Westgate Capital Company, L.L.C.

In March 2005, Greystone issued for services, 30,000 shares of common stock valued at \$15,900 (\$0.53 per share).

Each of Messrs. Cogan, W. Kruger, Rosene and Nelson entered into a limited guaranty agreement on \$2,500,000 of the \$5,500,000 term loan with F&M Bank and Trust Company. In addition, Mr. Rosene entered into a pledge and security agreement with F&M Bank pursuant to which Mr. Rosene pledged a certificate of deposit in the face amount of \$1,000,000 as security for payment under the F&M term note. As consideration for agreeing to enter into the limited guaranty for the benefit of Greystone, Greystone's Board of Directors authorized Greystone to enter into warrant agreements with each of the guarantors, pursuant to which each guarantor shall have the right to purchase 500,000 shares of Greystone's common stock at an exercise price of \$0.50 per share and, as consideration for agreeing to enter into the pledge agreement for the benefit

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of Greystone, Greystone's Board of Directors authorized Greystone to enter into a warrant agreement with Mr. Rosene, pursuant to which Mr. Rosene shall immediately have the right to purchase 500,000 shares of Greystone's common stock at an exercise price of \$0.50 per share. Greystone's Board of Directors further authorized Greystone to enter into warrant agreements with each of Messrs. W. Kruger and Rosene as guarantors of the \$1,500,000 line of credit with F&M Bank, pursuant to which each guarantor shall have the right to purchase 500,000 shares of Greystone's common stock at an exercise price of \$0.50 per share and, as consideration for agreeing to enter into the pledge agreement for the benefit of Greystone.

In September, 2003, Greystone issued 50,000 shares of Series 2003, cumulative, convertible preferred stock, par value \$0.0001, to Paul Kruger, a major stockholder of Greystone, for a total purchase price of \$5,000,000. Each share of the preferred stock has a stated value of \$100.00 and a dividend rate equal to the prime rate of interest plus 3.25% and may be converted into common stock at the conversion rate of \$1.50 per share or an aggregate of 3,333,333 shares of common stock. The

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holder of the preferred stock has been granted certain voting rights so that such holder has the right to elect a majority of the Board of Directors of Greystone. On March 9, 2005, the Series 2003 Preferred Stock was purchased from Paul Kruger by GLOG Investment, L.L.C., a limited liability company of which the members are Warren Kruger, Vice Chairman and Director, Robert Nelson, Chief Financial Officer, Marshall Cogan, Non-Executive Chairman, and Robert Rosene, Director.

In September, 2003, the holders of the outstanding Series 2001 cumulative, convertible preferred stock, 750,000 shares, converted the preferred stock into 5,250,000 shares of common stock for an exchange rate of \$1.429 per share.

In September, 2003, Warren Kruger, Vice Chairman, exchanged \$900,000 of debt for 629,811 shares of common stock at a rate of \$1.429 per share

The Board of Directors authorized issuance of common stock in lieu of cash to pay the dividends on the Series 2001 preferred stock. The rate of exchange is based on the market value of the stock on the date authorized. The issuances are as follows:

Dividend Date	Preferred Dividend	Common Stock Issued	Rate per Share of Common
-----	-----	-----	-----
June 30, 2003	\$ 224,384	560,959	\$ 0.40
September 8, 2003	\$ 172,603	410,959	\$ 0.42

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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, 2005. 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, 2005:

	Shares (000's)	Weighted Average Exercise Price
	-----	-----
Options outstanding at May 31, 2002	880	\$ 2.92
Options granted	760	0.88
Options exercised	(25)	2.00
Options cancelled	(30)	2.00
	-----	-----
Options outstanding at May 31, 2003	1,585	1.96
Options granted	350	0.54
	-----	-----

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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
	=====	=====
Exercisable as of May 31, 2003	555	\$ 2.70
	=====	=====
Exercisable as of May 31, 2004	1,131	\$ 2.16
	=====	=====
Exercisable as of May 31, 2005	2,045	\$ 1.41
	=====	=====

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With respect to options outstanding at May 31, 2005:

Range	Options Outstanding	Weighted Average Life	Weighted Average Price	Exercisable
-----	-----	-----	-----	-----
\$0.42-\$0.65	3,010,000	7.1 years	\$ 0.50	1,207,500
\$1.429-\$1.60	225,000	5.9 years	\$ 1.57	147,500
\$ 2.00	135,000	3.4 years	\$ 2.00	135,000
\$3.125-\$4.00	590,000	6.4 years	\$ 3.18	555,000
	-----	-----	-----	-----
Total	3,960,000	6.3 years	\$ 1.01	2,045,000

Greystone applies APB Opinion No. 25 in accounting for its stock options and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had Greystone determined compensation cost at the grant date based on fair value under SFAS No. 123, Greystone's net loss would have been increased to the pro forma amount indicated below:

	2005	2004
	-----	-----
Net loss to common shareholders:		
As reported	\$ (14,633,880)	\$ (3,635,100)
Pro forma	\$ (14,648,880)	\$ (3,654,691)
Per share:		
As reported	\$ (0.82)	\$ (0.33)
Pro Forma	\$ (0.82)	\$ (0.33)

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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	1.36
Risk Free Interest Rate	4%
Expected Holding Period	5 years

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, 2005 and 2004.

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NOTE 12. SUPPLEMENTAL INFORMATION OF CASH FLOWS

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

	2005 -----	2004 -----
Non-cash activities		
Common stock issuances:		
Retirement of debt	\$2,100,163	\$ 900,000
Dividends on preferred stock	--	396,987
Debt issued in acquisition of assets of Greystone Plastics, Inc.	--	8,299,454
Capital lease	1,025,475	--
Retirement of debt in exchange for property and equipment	259,000	7,060,698
Note receivable from sale of equipment	--	314,000
Interest paid	844,646	599,795
Taxes paid	--	--

NOTE 13. OPERATING LEASES

Rental expense on operating leases totaled \$421,860 and \$254,480 during 2005 and 2004. Commitments for operating leases for the five years after May 31, 2005 are \$876,000, \$876,000, \$876,000, \$876,000, and \$876,000 and \$4,032,000 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 Greystone Properties, LLC," for the industrial lease.

NOTE 14. ACQUISITION

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 a newly formed, wholly-owned subsidiary of Greystone, Greystone Manufacturing, L.L.C., an Oklahoma limited liability company. The purchase price for the assets was \$12,500,000, of which

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\$4,200,546 was paid in cash and \$8,299,454 was paid by issuing the following notes: a \$5,000,000 note payable by Greystone Manufacturing, L.L.C. to Greystone Plastics, Inc. at 7.5% interest, due October 1, 2008; a \$2,500,000 note payable by Greystone Manufacturing, L.L.C. to Greystone Plastics, Inc. at 7.5% interest, due October 1, 2018; and a \$799,454 note payable by Greystone Manufacturing, L.L.C. to Bill Hamilton, one of the owners of Greystone Plastics, Inc, at 6% interest, due February, 2008. The cash payment was financed through the issuance of Series 2003 cumulative convertible preferred stock in the amount of \$5,000,000 (see Note 9, "Stockholders'

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Equity"). The acquisition cost of \$12,500,000 plus closing costs of \$47,913 consisted of inventory of \$499,870, building and equipment of \$5,735,695, intangibles (patent and customer contracts) of \$3,003,245 and goodwill of \$3,309,103.

NOTE 15. 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, 2005, Greystone's bank balances did not exceed federally insured limits.

NOTE 16. IMPAIRMENTS AND RELOCATION COSTS

IMPAIRMENTS

During fiscal year 2005, Greystone recorded impairment charges of \$5,719,658 as follows: \$3,309,103 relating to goodwill, \$1,648,124 related to a customer contract and \$762,431 relating to damaged or obsolete equipment. During fiscal year 2004, Greystone recorded impairment charges of \$219,753 for the abandonment of leasehold improvements in its Dallas, Texas plant and estimated costs to settle the outstanding lease agreement on the property.

GOODWILL IMPAIRMENT - In September 2003, Greystone acquired the assets and operations of Greystone Plastics, Inc. for an aggregate purchase price of \$12,500,000. Greystone allocated \$3,309,103 of the purchase price to goodwill. One of the primary reasons for the acquisition was to provide a catalyst to develop Greystone's business of manufacturing plastic pallets. Due to rising costs for raw materials, competition and Greystone's limited capitalization, the customer base acquired from Greystone Plastics, Inc. has not shown any significant expansion to date and management does not anticipate any material expansion in the immediate future. In addition, Greystone has expanded its manufacturing capability resulting in an increased cost per unit of production, which has affected current cash flows and will affect future cash flows. In connection with its annual review for impairment of goodwill, Greystone analyzed the expected future cash flows from the assets acquired from Greystone Plastics, Inc. and, since the expected future cash flows (as well as the discounted cash flows) of such asset do not support the carrying value of the goodwill, a goodwill impairment charge of \$3,309,103 was recorded during the fourth quarter of 2005.

CUSTOMER CONTRACT - Based primarily on the considerations outlined in the preceding section on goodwill, Greystone concluded that sufficient

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indicators existed to require an impairment assessment of a customer contract acquired from Greystone Plastics, Inc. Since the future cash flows over the estimated life of the customer contract are estimated to be less than the carrying value of the intangible asset, during the fourth quarter of fiscal year 2005, an impairment charge was recorded in the amount of \$1,648,124 to write off the remaining unamortized balance of the intangible costs of the customer contract.

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RELOCATION COSTS

During fiscal year 2005, Greystone accrued an additional \$355,000 for estimated costs to terminate the lease on its Dallas, Texas, plant, which was abandoned in the prior fiscal year.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Greystone derives, and expects that in the foreseeable future it will continue to derive, a substantial amount of its revenue from a few large customers of which 2005 sales totaling \$7,561,204 came from one customer. There is no assurance that Greystone will retain this customer's business at the same level, or at all. The loss of a material amount of business from this customer could have a material adverse effect on Greystone.

As discussed in Note 7, under the subheading "Transactions with Paul Kruger, a significant stockholder," Greystone leases its PIPER injection molding machine at the rate of \$48,000 per month. The lease is classified as an operating lease, and there are approximately nine years remaining on the term. The equipment is currently capable of operating at approximately 20 to 25 percent of capacity. If Greystone is not successful in increasing the production from this equipment to acceptable levels, future operating results will be adversely affected.

NOTE 18. RESTATEMENT OF FINANCIAL STATEMENTS

On August 26, 2005, Greystone's Board of Directors concluded that the accounting treatment for the acquisition of the assets of Greystone Plastics, Inc., as of September 8, 2003, should have provided for an allocation of a portion of the purchase price to place a value on a customer contract in effect at the time of the acquisition. Greystone calculated this value to be \$2,855,332 based on the estimated present value of the future profits to be derived from sales to such customer. Further, the accounting treatment for the value of the customer contract should provide for the amortization of such cost over the estimated life based on unit sales. The financial statements for the year ended May 31, 2004, were previously restated to reflect the related amortization expense as discussed more fully in Greystone's amended Annual Report on Form 10-KSB/A for the fiscal year ended May 31, 2004. The net loss available to common stockholders as reported on Greystone's Quarterly Reports on Form 10-QSB for the first three quarters of fiscal year 2005 is restated to reflect the related amortization expense under the caption "General and administrative expense," as follows:

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Three Month Period Ended

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	August 31, 2004	November 30, 2004	February 28, 2005
Net loss, as previously reported	\$ (257,652)	\$ (1,022,010)	\$ (614,800)
Adjustment to general and administrative costs as discussed above	(169,150)	(137,115)	(226,700)
Net loss, as adjusted	(426,802)	(1,159,125)	(841,500)
Preferred dividends	(92,089)	(96,199)	(102,500)
Net loss to common stockholders, as adjusted	\$ (518,891)	\$ (1,255,324)	\$ (944,000)
Per share amounts:			
Net loss to common stockholders, as previously reported	\$ (0.03)	\$ (0.09)	\$ (0.10)
Adjustment to general and administrative costs as discussed above	(0.01)	(0.01)	(0.01)
Net loss to common stockholders, as adjusted	\$ (0.04)	\$ (0.10)	\$ (0.11)
	Six Month Period Ended November 30, 2004	Nine Month Period Ended February 28, 2005	
Net loss, as previously reported	\$ (1,279,662)	\$ (1,894,542)	
Adjustment to general and administrative costs as discussed above	(306,265)	(532,983)	
Net loss, as adjusted	(1,585,927)	(2,427,525)	
Preferred dividends	(188,288)	(290,856)	
Net loss to common stockholder, as adjusted	\$ (1,774,215)	\$ (2,718,381)	
Per share amounts:			
Net loss to common stockholders, as previously reported	\$ (0.11)	\$ (0.14)	
Adjustment to general and administrative costs as discussed above	(0.02)	(0.03)	
Net loss to common stockholders, as adjusted	\$ (0.13)	\$ (0.17)	