

GREYSTONE LOGISTICS, INC.
Form 10-Q
April 22, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED February 28, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

(Exact name of registrant as specified in its charter)

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

1613 East 15th Street, Tulsa, Oklahoma 74120

(Address of principal executive offices) (Zip Code)

(918) 583-7441

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to post and

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submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: April 10, 2013 - 26,111,201

GREYSTONE LOGISTICS, INC.
FORM 10-Q

For the Period Ended February 28, 2013

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ITEM 1. Financial Statements.

Greystone Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

| | February 28, 2013 (Unaudited) | May 31, 2012 |
|---|-------------------------------------|-----------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$381,822 | \$194,400 |
| Accounts receivable - | | |
| Trade, net of allowance of \$50,000 | 2,086,142 | 2,715,893 |
| Related party | 949,320 | — |
| Inventory | 1,109,307 | 956,638 |
| Prepaid expenses and other | 154,392 | 45,090 |
| Total Current Assets | 4,680,983 | 3,912,021 |
| Property, Plant and Equipment | 15,454,712 | 15,134,061 |
| Less: Accumulated Depreciation | (8,321,845) | (7,335,883) |
| Property, Plant and Equipment, net | 7,132,867 | 7,798,178 |
| Deferred Tax Asset | 822,400 | 585,000 |
| Other Assets | 74,183 | 86,454 |
| Total Assets | \$12,710,433 | \$12,381,653 |
| Liabilities and Deficit | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$1,291,736 | \$1,286,312 |
| Preferred dividends payable | 3,168,971 | 2,924,108 |
| Accounts payable and accrued expenses | 2,400,052 | 2,581,787 |
| Accounts payable and accrued expenses - related parties | 1,482,722 | 1,285,714 |
| Total Current Liabilities | 8,343,481 | 8,077,921 |
| Long-Term Debt, net of current portion | 9,813,123 | 10,757,561 |
| Deficit: | | |
| Preferred stock, \$0.0001 par value, \$5,000,000 liquidation preference | | |
| Shares authorized: 20,750,000 | | |
| Shares issued and outstanding: 50,000 | 5 | 5 |
| Common stock, \$0.0001 par value | | |
| Shares authorized: 5,000,000,000 | | |
| Shares issued and outstanding: 26,111,201 | 2,611 | 2,611 |
| Additional paid-in capital | 53,129,361 | 53,089,293 |
| Accumulated deficit | (59,703,145) | (60,586,143) |
| Total Greystone Stockholders' Deficit | (6,571,168) | (7,494,234) |
| Non-controlling interests | 1,124,997 | 1,040,405 |
| Total Deficit | (5,446,171) | (6,453,829) |
| Total Liabilities and Deficit | \$12,710,433 | \$12,381,653 |

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

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

| | Nine Months Ended | |
|--|----------------------|----------------------|
| | February 28, 2013 | February 29, 2012 |
| Sales | \$ 16,705,437 | \$ 16,872,981 |
| Cost of Sales | 13,467,061 | 13,821,507 |
| Gross Profit | 3,238,376 | 3,051,474 |
| General, Selling and Administrative Expenses | 1,573,995 | 1,454,146 |
| Operating Income | 1,664,381 | 1,597,328 |
| Other Income (Expense): | | |
| Other Income (Expense) | 6,500 | (1,909) |
| Interest Expense | (620,022) | (680,480) |
| Total Other Expense, net | (613,522) | (682,389) |
| Income before income taxes | 1,050,859 | 914,939 |
| Benefit from income taxes | 226,900 | — |
| Net Income | 1,277,759 | 914,939 |
| Income Attributable to Variable Interest Entities, net | (149,898) | (96,669) |
| Preferred Dividends | (244,863) | (160,274) |
| Net Income Available to Common Stockholders | \$ 882,998 | \$ 657,996 |
| Income Available to Common Stockholders: | | |
| Per Share of Common Stock - Basic | \$ 0.03 | \$ 0.03 |
| Per Share of Common Stock - Diluted | \$ 0.03 | \$ 0.03 |
| Weighted Average Shares of Common Stock Outstanding - | | |
| Basic | 26,111,201 | 26,111,201 |
| Diluted | 27,366,000 | 26,111,201 |

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

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

| | Three Months Ended | |
|---|----------------------|----------------------|
| | February 28, 2013 | February 29, 2012 |
| Sales | \$4,517,453 | \$4,875,856 |
| Cost of Sales | 3,687,258 | 3,960,606 |
| Gross Profit | 830,195 | 915,250 |
| General, Selling and Administrative Expenses | 472,912 | 554,801 |
| Operating Income | 357,283 | 360,449 |
| Other Income (Expense): | | |
| Other Expense, net | — | 4,932 |
| Interest Expense | (200,668) | (201,583) |
| Total Other Expense, net | (200,668) | (196,651) |
| Income Before Income Taxes | 156,615 | 163,798 |
| Benefit From Income Taxes | 17,600 | — |
| Net Income | 174,215 | 163,798 |
| Income Attributable to Variable Interest Entity | (45,688) | (50,489) |
| Preferred Dividends | (80,137) | (79,247) |
| Net Income Available to Common Stockholders | \$48,390 | \$34,062 |
| Income Available to Common Stockholders: | | |
| Per Share of Common Stock - Basic | \$0.00 | \$0.00 |
| Per Share of Common Stock - Diluted | \$0.00 | \$0.00 |
| Weighted Average Shares of Common Stock Outstanding - | | |
| Basic | 26,111,201 | 26,111,201 |
| Diluted | 27,554,523 | 26,111,201 |

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

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

| | Nine Months Ended | |
|---|----------------------|----------------------|
| | February 28, 2013 | February 29, 2012 |
| Cash Flows from Operating Activities: | | |
| Net income | \$1,277,759 | \$914,939 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 995,749 | 867,005 |
| Deferred income taxes | (237,400) | — |
| Stock-based compensation | 40,068 | — |
| Changes in receivables | (319,569) | (294,002) |
| Changes in inventory | (152,669) | (1,339,103) |
| Changes in prepaid expenses and other | (109,302) | (82,994) |
| Changes in other assets | 2,484 | (3,320) |
| Changes in accounts payable and accrued expenses | 15,273 | 1,500,827 |
| Net cash provided by operating activities | 1,512,393 | 1,563,352 |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (320,651) | (435,211) |
| Cash Flows from Financing Activities: | | |
| Payments on long-term debt and capitalized leases | (939,014) | (935,964) |
| Payments on advances from related party | — | (93,500) |
| Capital contributions to variable interest entity | — | 75,000 |
| Distributions by variable interest entity | (65,306) | (54,560) |
| Net cash used in financing activities | (1,004,320) | (1,009,024) |
| Net Increase in Cash | 187,422 | 119,117 |
| Cash, beginning of period | 194,400 | 169,420 |
| Cash, end of period | \$381,822 | \$288,537 |
| Non-Cash Activities: | | |
| Acquisition of equipment by capital lease | \$— | \$563,026 |
| Preferred dividend accrual | 244,863 | 160,274 |
| Net decrease in liabilities due to deconsolidation of VIE | — | 990,378 |
| Supplemental Information: | | |
| Interest paid | 329,737 | 398,523 |

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

GREYSTONE LOGISTICS, INC.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Basis of Financial Statements

In the opinion of Greystone Logistics, Inc. ("Greystone"), the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications, which are of a normal recurring nature, necessary to present fairly its financial position as of February 28, 2013, and the results of its operations for the nine-month and three-month periods ended February 28, 2013 and February 29, 2012 and its cash flows for the nine-month periods ended February 28, 2013 and February 29, 2012. These consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the fiscal year ended May 31, 2012 and the notes thereto included in Greystone's Form 10-K for such period. The results of operations for the nine-month and three-month periods ended February 28, 2013 and February 29, 2012 are not necessarily indicative of the results to be expected for the full fiscal year.

The consolidated financial statements of Greystone include its wholly-owned subsidiaries, Greystone Manufacturing, L.L.C. ("GSM") and Plastic Pallet Production, Inc. ("PPP"), and its variable interest entities, Greystone Real Estate, L.L.C. ("GRE") and GLOG Investments, L.L.C. ("GLOG"), except that GLOG was deconsolidated effective September 1, 2011. GRE owns two buildings located in Bettendorf, Iowa which are leased to GSM.

Note 2. Earnings Per Share

Basic earnings per share is based on the weighted-average effect of all common shares issued and outstanding and is calculated by dividing net income available to common stockholders by the weighted-average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted-average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding.

Greystone excludes equity instruments from the calculation of diluted earnings per share if the effect of including such instruments is anti-dilutive. Equity instruments which have been excluded are certain options to purchase common stock totaling 350,000 and 1,940,000 shares for the nine and three months ended February 28, 2013 and February 29, 2012, respectively, and convertible preferred stock which is convertible into 3,333,334 shares of common stock for both the nine months and three months ended February 28, 2013, and 2012.

The following table sets forth the computation of basic and diluted shares for the nine and three months ended February 28, 2013 and February 29, 2012:

| | February 28, 2013 | February 29, 2012 |
|--|-------------------|----------------------|
| For the Nine-Month Periods: | | |
| Weighted-average shares outstanding: | | |
| Basic | 26,111,201 | 26,111,201 |
| Incremental shares from assumed conversion of options | 1,254,799 | — |
| Diluted shares | 27,366,000 | 26,111,201 |
| | | |
| For the Three-Month Periods: | | |
| Weighted-average shares outstanding: | | |
| Basic | 26,111,201 | 26,111,201 |
| Incremental shares from assumed conversion of options | 1,443,322 | — |
| Diluted shares | 27,554,523 | 26,111,201 |

Note 3. Inventory

Inventory consists of the following:

| | February 28, 2013 | May 31, 2012 |
|-----------------|----------------------|-----------------|
| Raw materials | \$ 647,879 | \$ 593,225 |
| Finished goods | 461,428 | 363,413 |
| Total inventory | \$ 1,109,307 | \$ 956,638 |

Note 4. Related Party Transactions

Yorktown Management & Financial Services, LLC (“Yorktown”), an entity wholly owned by Greystone’s CEO and President, owns certain equipment that Greystone uses for its pallet and resin production. Greystone pays advances to Yorktown in recognition of the amounts owed pursuant to certain agreements. As of February 28, 2013, Greystone has a receivable from Yorktown in the amount of \$2,985,051. Mr. Kruger has agreed that, if necessary, the amounts due Greystone should be offset against certain amounts that Greystone owes him or Yorktown. At February 28, 2013, the offset against the net advances is the combined total of (i) the accrued interest of \$802,551 payable to Mr. Kruger, (ii) advances payable to Mr. Kruger of \$513,180 and (iii) an account payable of \$720,000 for deferred compensation payable to Mr. Kruger.

Effective February 1, 2013, the arrangement between Greystone and Yorktown whereby Yorktown provided the pelletizing equipment and received a 40% share of the gross profit from the sale of pelletized resin was replaced by an arrangement whereby Greystone will pay Yorktown a fee of \$0.02 per pound for utilization of Yorktown's pelletizing equipment. Also, Greystone no longer purchases raw materials for pallet production from Yorktown and the grinding fee for utilization of Yorktown's equipment was increased to \$0.05 per pound.

Note 5. Notes Payable

Notes payable as of February 28, 2013 and May 31, 2012 are as follows:

| | February 28, 2013 | May 31, 2012 |
|---|----------------------|-----------------------|
| Note payable to F&M Bank & Trust Company, prime rate of interest not less than 4.5%, due March 13, 2015, monthly principal payments of \$76,561 plus interest | \$ 4,573,333 | \$ 5,226,665 |
| Note payable by variable interest entity to F&M Bank & Trust Company, prime rate of interest but not less than 4.75%, due March 15, 2014, monthly installments of \$35,512, secured by buildings and land | 3,431,356 | 3,623,070 |
| Capitalized lease payable, due August 15, 2016, 5% interest, monthly payments of \$10,625 plus \$0.50 per pallet for monthly sales in excess of 12,500 | 417,492 | 481,597 |
| Note payable to BancFirst, prime rate of interest plus 1%, paid June 2012 | — | 8,047 |
| Note payable to Robert Rosene, 7.5% interest, due January 15, 2015 | 2,066,000 | 2,066,000 |
| Note payable to Warren Kruger, 7.5% interest, due January 15, 2015 | 527,716 | 527,716 |
| Other notes payable | 88,962 11,104,859 | 110,778 12,043,873 |
| Less: Current portion | 1,291,736 | 1,286,312 |
| Long-term Debt | \$ 9,813,123 | \$ 10,757,561 |

Greystone, GSM, GRE, Warren F. Kruger, President and CEO, and Robert B. Rosene, Jr., a director, are parties to a loan agreement dated as of March 4, 2005, as amended (the "Loan Agreement"), with F&M Bank & Trust Company ("F&M"). The Loan Agreement (a) includes cross-collateralization and cross-default provisions among property and debts of GSM and GRE, an entity owned by Messrs. Kruger and Rosene, and Messrs. Kruger and Rosene, as owners of

Greystone's Series 2003 Preferred Stock (debt in the amount of approximately \$3,400,000 owed by Messrs. Kruger and Rosene to F&M is collateralized by the preferred stock), (b) contains certain financial covenants, and (c) restricts the payments of dividends. Greystone's note payable to F&M is secured by Greystone's cash, accounts receivable, inventory and equipment.

On March 1, 2013, F&M and GSM entered into a Fourth Amendment (the "Fourth Amendment") to the Loan Agreement. The Fourth Amendment (a) has an effective date of February 28, 2013, (b) extends the maturity date of the loan from F&M to GSM under the Loan Agreement (the "Loan") to March 13, 2015, and (c) increases the amount of the Loan by \$250,000. The loan increase of \$250,000 was funded on March 1, 2013, whereby the outstanding principal balance of the Loan became \$4,823,333. In connection with the execution of the Fourth Amendment, (y) Greystone ratified its existing guaranty of GSM's obligations under the Loan Agreement, and (z) GSM executed a promissory note in favor of F&M, whereby GSM promises to repay the Loan.

Note 6. Fair Value of Financial Instruments

The following methods and assumptions are used in estimating the fair-value disclosures for financial instruments:

Long-Term Debt: The carrying amount of loans with floating rates of interest approximate fair value. Fixed rate loans are valued based on cash flows using estimated rates of comparable loans. The carrying amounts reported in the balance sheet approximate fair value.

Note 7. Risks and Uncertainties

Greystone derives a substantial portion of its revenue from a national brewer. This customer accounted for approximately 67% and 68% of Greystone's pallet sales and 59% and 57% of Greystone's total sales for the nine months ended February 28, 2013 and February 29, 2012, respectively. Greystone's recycled plastic pallets are approved for use by the customer and, at the current time, are the only plastic pallets used by the customer for shipping products. 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.

Warren F. Kruger, President and CEO, Robert B. Rosene, Jr., a Greystone director, have provided financing and guarantees on Greystone's bank debt. As of February 28, 2013, Greystone is indebted to Mr. Kruger in the amount of \$527,716 for a note payable and to Mr. Rosene in the amount of \$3,548,701 for a note payable and related accrued interest. Effective January 15, 2012, Messrs. Kruger and Rosene agreed to a two year extension on the debt. There is no assurance that these individuals will continue to provide extensions in the future.

See Note 5 for a discussion of the cross-default and cross-collateralization provisions contained in the loan agreement dated as of March 4, 2005, as amended, with F&M.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

General to All Periods

The unaudited consolidated statements include Greystone Logistics, Inc., its two wholly-owned subsidiaries, Greystone Manufacturing, L.L.C. ("GSM"), and Plastic Pallet Production, Inc. ("PPP"). Greystone also consolidates its variable interest entities, Greystone Real Estate, L.L.C. ("GRE"), and GLOG Investment, L.L.C. ("GLOG"), except that GLOG was deconsolidated effective September 1, 2011. All material intercompany accounts and transactions have been eliminated.

References to fiscal year 2013 refer to the nine-month and three-month periods ended February 28, 2013, as applicable. References to fiscal year 2012 refer to the nine-month and three-month periods ended February 29, 2012, as applicable.

Sales

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

Greystone derives a substantial portion of its revenue from a national brewer. This customer accounted for approximately 67% and 68% of Greystone's pallet sales and 59% and 57% of Greystone's total sales for the nine-month periods ended February 28, 2013 and February 29, 2012, respectively.

Personnel

Greystone had approximately 94 full-time employees as of February 28, 2013 and February 29, 2012.

Taxes

Prior to fiscal year 2012, Greystone generated substantial net operating losses ("NOLs") which would normally have reflected a tax benefit in the statement of operations during the

periods in which the NOLs were incurred. However, in assessing the reliability of recognizing estimated tax benefits from utilization of NOLs, management considers the likelihood of whether it is more likely than not the tax benefit will be realized. Based on this evaluation, management provided a full valuation allowance for these NOLs prior to fiscal year 2012. Greystone recognized no provision for income taxes for fiscal years 2013 or 2012 as tax incurred on net income was offset by the utilization of prior period NOLs. Furthermore, in fiscal year 2013, Greystone reduced its valuation allowance and recognized a tax benefit of \$226,900 and \$17,600 for the nine-months and three-months ended February 28, 2013, respectively, due to management's current assessment of future profitability and ultimate expected realization of prior period NOLs.

Based upon a review of its income tax filing positions, Greystone believes that its positions would be sustained upon an audit by the Internal Revenue Service and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. At February 28, 2013, Greystone had no unrecognized tax benefits.

Nine Month Period Ended February 28, 2013 Compared to Nine Month Period Ended February 29, 2012

Sales

Sales for fiscal year 2013 were \$16,705,437 compared to \$16,872,981 in fiscal year 2012 for a decrease of \$167,544. This decrease in total sales from fiscal year 2012 to fiscal year 2013 was the result of a \$712,254 decrease in resin sales offset by an increase in pallet sales of \$544,710.

Pallet sales were \$14,609,391, or 87% of total sales, in fiscal year 2013 compared to \$14,064,681, or 83% of total sales, in fiscal year 2012 for an increase of \$544,710 or 4%. There was an increase of 10% in the number of pallets sold in fiscal year 2013 over fiscal year 2012; however, the product mix in fiscal year 2013 included 28% of Greystone's nestable pallets compared to 22% in fiscal year 2012. The nestable pallet is Greystone's lowest priced pallet.

Greystone's sales to its major customer in fiscal year 2013 were 67% of total pallet sales compared to 68% of total pallet sales in fiscal year 2012. Pallet sales to Greystone's major customer are generally based on the customer's need to maintain its pallet inventory and may vary by period. Greystone cannot predict the customer's future needs to maintain or grow its pallet inventory but has been able to grow sales to new pallet customers developed through Greystone's marketing efforts to broaden its customer base.

Sales of recycled plastic resin were \$2,096,046 in fiscal year 2013 compared to \$2,808,300 in fiscal year 2012 for a decrease of \$712,254. Greystone has curtailed its sales of resin during fiscal year 2013 due to unfavorable margins with respect to the cost of material compared to the resale pricing values. Greystone intends to place more emphasis on the sale of resin as market conditions improve.

Cost of Sales

Cost of sales in fiscal year 2013 was \$13,467,061, or 81% of sales, compared to \$13,821,507, or 82% of sales, in fiscal year 2012. Cost of sales for pallets as a percent of pallet sales were 76% for fiscal years 2013 and 2012.

The ratio of cost of resin sales to resin sales was approximately 112% in fiscal year 2013 compared to 111% in fiscal year 2012. The increase in the ratio of cost of sales to sales from fiscal year 2012 to fiscal year 2013 was due to an increase in production costs as a result of the addition of a new pelletizing line which was offset in part by an improvement in gross profit margins before production costs. Yorktown Management, LLC (“Yorktown”), an entity owned by Warren Kruger, Greystone’s President and CEO, provides the pelletizing equipment and receives a 40% share of the gross profit before production costs (defined as revenue less material, freight and commissions). Effective February 1, 2013, this arrangement between Greystone and Yorktown was terminated, and Greystone will instead pay Yorktown a fee of \$0.02 per pound for utilization of Yorktown’s pelletizing equipment.

General, Selling and Administrative Expenses

General, selling and administrative expenses were \$1,573,995 in fiscal year 2013 compared to \$1,454,146 in fiscal year 2012 for an increase of \$119,849. The increase in general, selling and administrative expenses was primarily due to increases in salaries of \$71,126, stock compensation costs of \$40,068 and audit fees of \$31,292 offset by a decrease in travel expense of \$36,130. Greystone had no stock compensation costs in fiscal year 2012.

Interest Expense

Interest expense was \$620,022 in fiscal year 2013 compared to \$680,480 in fiscal year 2012 for a decrease of \$60,458. Interest expense in fiscal year 2012 included approximately \$45,000 for the variable interest entity, GLOG, which was deconsolidated effective September 1, 2011.

Benefit from Income Taxes

Benefit from income taxes was \$226,900 and \$-0- in fiscal years 2013 and 2012, respectively. See “Taxes” in this Item 2 as to the increase in the benefit for Greystone’s NOLs.

Net Income

Greystone recorded net income of \$1,227,759 compared to \$914,939 in fiscal year 2012 for the reasons discussed above.

Net Income Attributable to Common Stockholders

Net income available to common stockholders for fiscal year 2013 was \$882,998, or \$0.03 per share, compared to \$657,996, or \$0.03 per share, in fiscal year 2012 for the reasons discussed above.

Three Month Period Ended February 28, 2013 Compared to Three Month Period Ended February 29, 2012

Sales

Sales for fiscal year 2013 were \$4,517,453 compared to \$4,875,856 in fiscal year 2012 for a decrease of \$358,403. This decrease in total sales from fiscal year 2012 to fiscal year 2013 was the result of a \$376,424 decrease in pallet sales offset by an increase in resin sales of \$18,021.

Pallet sales were \$3,955,555, or 88% of total sales, in fiscal year 2013 compared to \$4,331,979, or 89% of total sales, in fiscal year 2012 for a decrease of \$376,424 or 9%. The number of pallets sold in fiscal year 2013 over 2012 increased 16%; however, the product mix in fiscal year 2013 included 46% of Greystone's nestable pallets compared to 26% in fiscal year 2012. The nestable pallet is Greystone's lowest priced pallet.

Greystone's sales to its major customer in fiscal year 2013 were 50% of total pallet sales compared to 53% of total pallet sales in fiscal year 2012. Pallet sales to Greystone's major customer are generally based on the customer's need to maintain its pallet inventory and may vary by period. Greystone cannot predict the customer's future needs to maintain or grow its pallet inventory but has been able to grow sales to new pallet customers developed through Greystone's marketing efforts to broaden its customer base.

Sales of recycled plastic resin were \$561,898 in fiscal year 2013 compared to \$543,877 in fiscal year 2012 for an increase of \$18,021. Greystone has curtailed its sales of resin during fiscal years 2013 and 2012 due to unfavorable margins with respect to the cost of material compared to the resale pricing values. Greystone intends to place more emphasis on the sale of resin as market conditions improve.

Cost of Sales

Cost of sales in fiscal year 2013 was \$3,687,258, or 82% of sales, compared to \$3,960,606, or 81% of sales, in fiscal year 2012. Cost of sales for pallets as a percent of pallet sales were 76% for fiscal years 2013 and 2012.

The ratio of cost of resin sales to resin sales was approximately 124% in fiscal years 2013 and 2012. Yorktown, an entity owned by Warren Kruger, Greystone's President and CEO, provides the pelletizing equipment and receives a 40% share of the gross profit before production costs (defined as revenue less material, freight and commissions). Effective February 1, 2013, this arrangement between Greystone and Yorktown was terminated, and Greystone will instead pay Yorktown a fee of \$0.02 per pound for utilization of Yorktown's pelletizing equipment.

General, Selling and Administrative Expenses

General, selling and administrative expenses were \$472,912 in fiscal year 2013 compared to \$554,801 in fiscal year 2012 for a decrease of \$81,889. The decrease in fiscal year 2013 over fiscal year 2012 was principally due to decreases in commission expense of \$60,988 and travel expense of \$34,897 offset by an increase in stock compensation costs of \$13,356. Greystone had no stock compensation costs in fiscal year 2012.

Benefit from Income Taxes

Benefit from income taxes was \$17,600 and \$-0- in fiscal years 2013 and 2012, respectively. See "Taxes" in this Item 2 as to the increase in the benefit for Greystone's NOLs.

Net Income

Greystone recorded net income of \$174,215 compared to \$163,798 in fiscal year 2012 for the reasons discussed above.

Net Income Attributable to Common Stockholders

Net income available to common stockholders for fiscal year 2013 was \$48,390, or \$0.00 per share, compared to \$34,062, or \$0.00 per share, in fiscal year 2012 for the reasons discussed above.

Liquidity and Capital Resources

Greystone's operations have provided positive cash flows for each of the years beginning in fiscal year 2007 through the nine month period ended February 28, 2013. While these positive cash flows have been beneficial to Greystone's ability to finance its operations, Greystone will require additional cash to achieve continued growth and to meet Greystone's contractual obligations. Greystone continues to explore various options including refinancing long-term debt and equity financing. However, there is no guarantee that Greystone will be able to raise sufficient capital to meet these obligations.

A summary of cash flows for the nine months ended February 28, 2013 is as follows:

| | |
|---------------------------------------|--------------|
| Cash provided by operating activities | \$1,512,393 |
| Cash used in investing activities | (320,651) |
| Cash used in financing activities | (1,004,320) |

The contractual obligations of Greystone are as follows:

| | Total | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
|----------------|---------------|---------------------|--------------|--------------|----------------------|
| Long-term debt | \$ 11,104,859 | \$ 1,291,736 | \$ 7,136,343 | \$ 2,676,780 | \$ -0- |

Greystone had a working capital deficit of \$(3,662,498) at February 28, 2013 compared to a working capital deficit at May 31, 2012 of \$(4,165,900) for an improvement of \$503,402. Excluding preferred dividends payable, the working capital deficit at February 28, 2013 would be \$(493,527). To provide for the funding to meet Greystone's operating activities and contractual obligations as of February 28, 2013, 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.

Substantially all of the financing that Greystone has received through the last few fiscal years resulted from loans provided by certain officers and directors of Greystone and bank loans which are guaranteed by certain officers and directors of Greystone.

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

Greystone has 50,000 outstanding shares of cumulative 2003 Preferred Stock with a liquidation preference of \$5,000,000 and a preferred dividend rate of the prime rate of interest plus 3.25%. Greystone does not anticipate that it will make cash dividend payments to any holders of its preferred stock or its common stock unless and until the financial position of Greystone improves through increased revenues, another financing transaction or otherwise.

Forward Looking Statements and Material Risks

This Quarterly Report on Form 10-Q includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical fact, that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future, including decreased costs, securing financing, the profitability of Greystone, potential sales of pallets or other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q could be affected by any of the following factors: Greystone's prospects could be affected by changes in availability of raw materials, competition, rapid technological change and new legislation regarding environmental matters; Greystone may not be able to secure additional financing necessary to sustain and grow its operations; and a material portion of Greystone's business is and will be dependent upon a few large customers and there is no assurance that Greystone will be able to retain such customers. These risks and other risks that could affect Greystone's business are more fully described in Greystone's Form 10-K for the fiscal year ended May 31, 2012, which was filed on September 14, 2012. Actual results may vary materially from the forward-looking statements. Greystone undertakes no duty to update any of the forward-looking statements contained in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, Greystone carried out an evaluation under the supervision of Greystone's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of Greystone's disclosure controls and procedures pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based on an evaluation as of May 31, 2012, Warren F. Kruger, Greystone's Chief Executive Officer, and William W. Rahhal, Greystone's Chief Financial Officer, identified two material weaknesses in Greystone's internal control over financial reporting. As of the end of the period covered by this Quarterly Report on Form 10-Q, such material weaknesses had not been rectified. As a result of the continuation of these two material weaknesses, Greystone's CEO and Chief Financial Officer concluded that Greystone's disclosure controls and procedures were not effective at February 28, 2013.

During the three-month period ended February 28, 2013, there were no changes in Greystone's internal controls over financial reporting that have materially affected, or that are reasonably likely to materially affect, Greystone's internal

control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

- 10.1 Fourth Amendment to Loan Agreement dated March 4, 2005 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed by the registrant on March 12, 2013).
- 10.2 Promissory Note dated February 28, 2013, executed by Greystone Manufacturing, L.L.C. in favor of The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.2 to the Form 8-K filed by the registrant on March 12, 2013).
- 11.1 Computation of Earnings per Share is in Note 2 in the Notes to consolidated financial statements.
- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, 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-K, 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).
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- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at February 28, 2013 and May 31, 2012, (ii) the Consolidated Statements of Income for the nine months ended February 28, 2013 and February 29, 2012, (iii) the Consolidated Statements of Income for the three months ended February 28, 2013 and February 29, 2012, (iv) the Consolidated Statements of Cash Flows for the nine months ended February 28, 2013 and February 29, 2012, and (v) the Notes to the Consolidated Financial Statements (submitted herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREYSTONE LOGISTICS, INC.
(Registrant)

Date: April 22, 2013

/s/ Warren F. Kruger
Warren F. Kruger
President and Chief Executive Officer
(Principal Executive Officer)

Date: April 22, 2013

/s/ William W. Rahhal
William W. Rahhal
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

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