

GREYSTONE LOGISTICS, INC.
Form 10-Q/A
February 10, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
Amendment No. 1

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED November 30, 2008

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
(State or other jurisdiction of incorporation or organization)

75-2954680
(I.R.S. Employer

Identification No.)

1613 East 15th Street, Tulsa, Oklahoma
(Address of principal executive offices)

74120
(Zip Code)

(918) 583-7441

(Registrant's telephone number)

(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 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.

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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:
January 12, 2009 - 26,111,201

Explanatory Note

This Form 10-Q/A is being filed by Greystone Logistics, Inc. (the “Company”), as Amendment No. 1 to the Company’s Quarterly Report on Form 10-Q for the period ended November 30, 2008. The Company is filing this Form 10-Q/A for the purpose of including income statements for the three month periods ended November 30, 2008 and 2007, as these items were not included when the Form 10-Q was originally filed. In addition, the Company is filing this Form 10-Q/A in order to revise the MD&A to cover the three month period ended November 30, 2008 and in order to make a few nonsubstantive changes to the Form 10-Q as originally filed. The information contained herein has not been updated to reflect events or developments that may have occurred subsequent to November 30, 2008.

GREYSTONE LOGISTICS, INC.

FORM 10-Q
For the Period Ended November 30, 2008

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	Page
Consolidated Balance Sheets as of November 30, 2008 (Unaudited) and May 31, 2008	1
Consolidated Statements of Income (Unaudited) For the Six Month Periods Ended November 30, 2008 and 2007	2
Consolidated Statements of Income (Unaudited) For the Three Month Periods Ended November 30, 2008 and 2007	3
Consolidated Statements of Cash Flows (Unaudited) For the Six Month Periods Ended November 30, 2008 and 2007	4
Notes to Consolidated Financial Statements (Unaudited)	5
Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations	10
SIGNATURES	15

ITEM 1. FINANCIAL STATEMENTS

Greystone Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

Assets	November 30, 2008 (Unaudited)	May 31, 2008
Current Assets:		
Cash	\$ 381,577	\$ 201,301
Accounts receivable	847,316	1,286,948
Inventory	1,508,413	899,485
Prepaid expenses and other	121,853	61,114
Total Current Assets	2,859,159	2,448,848
Property, Plant and Equipment, net of accumulated depreciation of \$4,169,090 and \$3,693,398 at November 30, 2008 and May 31, 2008, respectively	8,625,177	8,878,716
Other Assets	109,915	118,440
Total Assets	\$ 11,594,251	\$ 11,446,004
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Current portion of long-term debt	\$ 4,604,996	\$ 9,013,395
Advances payable - related party	1,031,894	1,231,499
Accounts payable and accrued expenses	1,902,513	1,138,735
Accounts payable and accrued expenses - related parties	1,959,425	2,490,080
Preferred dividends payable	1,795,958	1,597,499
Total Current Liabilities	11,294,786	15,471,208
Long-Term Debt, net of current portion	8,591,327	4,465,291
Deferred Income	48,000	80,000
Minority Interest	748,064	708,872
Stockholders' Deficiency:		
Preferred stock, \$0.0001 par value, 20,750,000 shares authorized, 50,000 shares issued and outstanding, liquidation preference of \$5,000,000	5	5
Common stock, \$0.0001 par value, 5,000,000,000 shares authorized, 26,111,201 issued and outstanding	2,611	2,611
Additional paid-in capital	52,873,365	52,825,381
Accumulated deficit	(61,963,907)	(62,107,364)
Total Stockholders' Deficiency	(9,087,926)	(9,279,367)
Total Liabilities and Stockholders' Deficiency	\$ 11,594,251	\$ 11,446,004

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

- 1 -

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

	Six Months Ended November 30,	
	2008	2007
Sales	\$ 8,193,974	\$ 10,843,275
Cost of Sales	6,650,517	8,953,073
Gross Profit	1,543,457	1,890,202
General, Selling and Administration Expenses	877,134	780,358
Operating Income	666,323	1,109,844
Other Income (Expense):		
Other income	165,015	68,151
Interest expense	(541,512)	(668,985)
Total Other Expense	(376,497)	(600,834)
Income Attributable to Minority Interest	(19,910)	(36,840)
Net Income	269,916	472,170
Preferred Dividends	198,459	283,040
Net Income Available to Common Stockholders	\$ 71,457	\$ 189,130
Income Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	\$ 0.00	\$ 0.01
Weighted Average Shares of Common Stock Outstanding		
Basic	26,111,000	26,061,000
Dilutive effect of warrants outstanding	-	94,000
Diluted	26,111,000	26,155,000

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 November 30,	
	2008	2007
Sales	\$ 4,020,917	\$ 5,246,064
Cost of Sales	3,218,590	4,265,935
Gross Profit	802,327	980,129
General, Selling and Administration Expenses	466,950	368,151
Operating Income	335,377	611,978
Other Income (Expense):		
Other income	149,015	16,000
Interest expense	(244,532)	(313,992)
Total Other Expense	(95,517)	(297,992)
Income Attributable to Minority Interest	(19,665)	(18,420)
Net Income	220,195	295,566
Preferred Dividends	94,487	138,108
Net Income Available to Common Stockholders	\$ 125,708	\$ 157,458
Income Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	\$ 0.00	\$ 0.01
Weighted Average Shares of Common Stock Outstanding		
Basic	26,111,000	26,061,000
Dilutive effect of warrants outstanding	-	49,000
Diluted	26,111,000	26,110,000

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

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

	Six Months Ended November 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 269,916	\$ 472,170
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	484,217	351,697
Stock based compensation	47,984	—
Recognition of deferred income	(32,000)	(32,000)
Change in minority interest	39,192	36,840
Changes in accounts receivable	439,632	(647,895)
Changes in inventory	(608,928)	(260,422)
Changes in prepaid expenses and other	(60,739)	5,271
Changes in accounts payable and accrued expenses	178,816	587,792
Net cash provided by operating activities	758,090	513,453
Cash Flows from Investing Activities:		
Purchase of property and equipment	(222,153)	(144,512)
Cash Flows from Financing Activities:		
Proceeds from notes payable	280,580	—
Payments on notes payable	(436,636)	(443,993)
Payments on advances payable	(199,605)	—
Net cash used in financing activities	(355,661)	(443,993)
Net Increase (Decrease) in Cash	180,276	(75,052)
Cash, beginning of period	201,301	340,334
Cash, end of period	\$ 381,577	\$ 265,282
Noncash activities:		
Preferred dividend accrual	\$ 198,459	\$ 283,040
Supplemental Information:		
Interest paid	\$ 468,004	\$ 549,835

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

GREYSTONE LOGISTICS, INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. 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 November 30, 2008, and the results of its operations and its cash flows for the six month and three month periods ended November 30, 2008 and 2007. These consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the fiscal year ended May 31, 2008 and the notes thereto included in Greystone’s Form 10-KSB. The financial statements have been prepared assuming that Greystone will continue as a going concern. The working capital deficit of \$8,435,627 a stockholders’ deficiency of \$9,087,926 and its ability to obtain additional long term financing, if necessary, raises questions about Greystone’s ability to continue as a going concern. The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern and do not reflect the possible effects of any adjustments that might result from Greystone’s inability to continue as a going concern.
2. The results of operations for the six month and three month periods ended November 30, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year.
3. Greystone calculates and discloses earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS 128). SFAS 128 requires dual presentation of Basic and Diluted EPS on the face of the statements of income and requires a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. Basic EPS excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of Greystone.

In computing Diluted EPS, only potential common shares that are dilutive—those that reduce earnings per share or increase loss per share—are included. Exercise of options and warrants or conversion of convertible securities is not assumed if the result would be antidilutive, such as when a loss from continuing operations is reported. The “control number” for determining whether including potential common shares in the diluted EPS computation would be antidilutive is income from continuing operations. As a result, if there were a loss from continuing operations, Diluted EPS would be computed in the same manner as Basic EPS is computed, even if an entity has net income after adjusting for discontinued operations, an extraordinary item or the cumulative effect of an accounting change. The following table presents the calculation of number of shares for Basic and Diluted EPS:

	Six Months ended November 30,	
	2008	2007
	(Unaudited)	(Unaudited)
Basic:		
Weighted average common shares outstanding	26,111,000	26,061,000
Dilutive effect:		
Assumed exercise of warrants	—	250,000
Application of assumed proceeds toward repurchase of treasury stock	—	(156,000)
Net additional shares issuable	—	94,000
Adjusted common shares outstanding for computing dilutive EPS	26,111,000	26,155,000

	Three Months ended November 30,	
	2008	2007
	(Unaudited)	(Unaudited)
Basic:		
Weighted average common shares outstanding	26,111,000	26,061,000
Dilutive effect:		
Assumed exercise of warrants	—	250,000
Application of assumed proceeds toward repurchase of treasury stock	—	(201,000)
Net additional shares issuable	—	49,000
Adjusted common shares outstanding for computing dilutive EPS	26,111,000	26,110,000

4. Inventory consists of the following:

	November 30, 2008 (Unaudited)	May 31, 2008
Raw materials	\$ 800,689	\$ 341,937
Finished goods	707,724	557,548
Total inventory	\$ 1,508,413	\$ 899,485

5. Recent Accounting Pronouncements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The issuance of this standard is meant to increase consistency and comparability in fair value

measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays until January 1, 2009 the effective date of SFAS 157 for all non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Effective June 1, 2008, Greystone adopted SFAS 157 which does not have a material effect on its consolidated financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Effective June 1, 2008, Greystone adopted SFAS 159 which does not have a material effect on its consolidated financial statements and related disclosures.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 was issued to establish accounting and reporting standards for the noncontrolling interest in a subsidiary (formerly called minority interests) and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FAS No. 160 is effective for us in our fiscal year beginning after December 15, 2008. Greystone does not expect the adoption of SFAS 160 to have a material effect on its consolidated financial statements and related disclosures, except for the presentation of non-controlling interests in the financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Greystone does not expect the adoption of SFAS 141R to have a material effect on its consolidated financial statements and related disclosures.

6. Effective May 31, 2008, Greystone corrected an error in the application of accounting principles as a result of failing to consolidate Greystone Properties, LLC, a variable interest entity. As a result, the consolidated statements of income for the six and three month periods ended November 30, 2007 did not include the operations of Greystone Properties, LLC. Accordingly, the statements of income for the periods ended November 30, 2007 have been restated to correct the error are noted in the following table:

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	As Restated	As Originally Filed	Net Change
Six Months Ended November 30, 2007:			
Sales	\$ 10,843,275	\$ 10,843,275	\$ —
Cost of sales	8,953,073	9,031,763	(78,690)
Gross profit	1,890,202	1,811,512	78,690
General and administrative expenses	780,358	780,358	—
Operating income	1,109,844	1,031,154	78,690
Other income (expenses) -			
Other income	68,151	68,151	—
Interest expense	(668,985)	(627,135)	(41,850)
Total other expense	(600,834)	(558,984)	(41,850)
Income attributable to minority interest	(36,840)	—	(36,840)
Net income	472,170	472,170	—
Preferred dividends	283,040	283,040	—
Net income available to common stockholders	\$ 189,130	\$ 189,130	\$ —
Per share of common stock – Basic and Diluted	\$ 0.01	\$ 0.01	\$ —
Three Months Ended November 30, 2007:			
Sales	\$ 5,246,064	\$ 5,246,064	\$ —
Cost of sales	4,265,935	4,305,280	(39,345)
Gross profit	980,129	940,784	(39,345)
General and administrative expenses	368,151	368,151	—
Operating income	611,978	572,633	39,345
Other income (expenses) -			
Other income	16,000	16,000	—
Interest expense	(313,992)	(293,067)	(20,925)
Total other expense	(297,992)	(277,067)	(20,925)
Income attributable to minority interest	(18,420)	—	(18,420)
Net income	295,566	295,566	—
Preferred dividends	138,108	138,108	—
Net income available to common stockholders	\$ 157,458	\$ 157,458	\$ —
Per share of common stock – Basic and Diluted	\$ 0.01	\$ 0.01	\$ —

The balance sheet as of November 30, 2007 was restated as a result of the consolidation of Greystone Properties, LLC, as follows:

	As Restated	As Originally Filed	Net Change
ASSETS			
Current Assets	\$ 2,476,396	\$ 2,476,396	\$ —
Property, Plant & Equipment	8,751,564	6,860,406	1,891,158
Other Assets	129,122	129,122	—
Total Assets	\$ 11,357,082	\$ 9,465,924	\$ 1,891,158
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:			
Current Liabilities	\$ 14,916,504	\$ 14,984,787	\$ (68,283)
Long-Term Debt	5,317,214	4,027,263	1,289,951
Minority Interest	669,490	—	669,490
Deferred Income	96,000	96,000	—
Stockholders' Deficiency	(9,642,126)	(9,642,126)	—
Total Liabilities and Stockholders' Deficiency	\$ 11,357,082	\$ 9,465,924	\$ 1,891,158

Greystone Properties, LLC ("Properties"), is wholly-owned by the two Directors of Greystone. Greystone has no equity interest in Properties. Properties owns and leases to Greystone a warehouse located in Bettendorf, Iowa which is adjacent to Greystone's existing plant. Properties is a variable interest entity as defined under the Financial Accounting Standards Board "Financial Interpretation No. 46."

As reflected in the tables above for the six month and three month periods ended November 30, 2007, the impact of the consolidation of Properties does not affect net income or net income available to stockholders. The effect of the consolidation on the restated statements of income is (1) the elimination of rents paid to Properties offset by the addition of depreciation and property taxes in the cost of sales in the net amounts of \$78,690 and \$39,345, (2) the addition of interest expense from a mortgage on the building owned by Properties in the amounts of \$41,850 and \$20,925, and (3) the recognition of the income of Properties as being totally attributable to the minority interest in the amounts of \$36,840 and \$18,420, all for the six month and three month periods ended November 30, 2007, respectively.

The effect on the restated balance sheet is (1) the addition of the building net of accumulated depreciation in the amount of \$1,289,951, (2) an adjustment to current liabilities to recognize the current portion of long-term debt of Properties in the amount of \$47,115 offset by the elimination of an account payable of \$115,398 to Properties as recorded on Greystone's accounts, (3) the addition of the long-term portion of the mortgage payable by Properties in the amount of \$1,289,951, and (4) the recognition of the equity of Properties held by the minority interest in the amount of \$669,490.

7. Greystone's sales agreements to customers other than its primary customer generally provide for risk of loss to pass to the customers upon shipment from Greystone's plant in Bettendorf, Iowa. Revenue is recognized for these customers at date of shipment.

Greystone's previously reported two major customers have been combined into one company. Greystone's agreements with this major customer either provide that (1) risk of loss or damages for product in transit remain with Greystone or (2) acceptance of product shipped is subject to approval at buyer's premises. Accordingly, Greystone recognizes revenue when product has been delivered to the customer's sites and risk of loss has passed to the customer.

For sales to all customers, cost of goods sold is recognized when the related revenue is recognized.

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., or Greystone, and its two wholly-owned subsidiaries, Greystone Manufacturing, LLC, or GSM, and Plastic Pallet Production, Inc., or PPP, and a variable interest entity, Greystone Properties, LLC. All material intercompany accounts and transactions have been eliminated.

Greystone has incurred significant losses from operations in previous years, and there is no assurance that it will continue to achieve profitability or obtain funds necessary to finance its operations in the future.

References to fiscal year 2009 refer to the six month and three month periods ended November 30, 2008. References to fiscal year 2008 refer to the six month and three month periods ended November 30, 2007.

Sales

Greystone's primary business is the manufacturing and selling of plastic pallets through its wholly owned subsidiaries, GSM and PPP. In addition, Greystone sells its excess recycled resin in pelletized and ground form. Greystone sells its pallets through direct sales and a network of independent contractor distributors. Greystone also sells its pallets and pallet leasing services to certain large customers direct through its President, Senior Vice President of Sales and Marketing and other employees.

In addition, in July 2006, Greystone launched a beta test program involving the lease of a small pool of recycled plastic pallets by Greystone to a customer to be utilized by the customer to ship a portion of its manufactured products in a closed loop system. Pursuant to the agreement with the customer, Greystone delivers and tracks throughout the logistics cycle sufficient quantities of plastic pallets for use in shipping a segment of the customer's product.

The pallets stay in a closed loop environment and are continually sent back for reuse. If a pallet is damaged, Greystone grinds the pallet and reutilizes the resin.

Personnel

Greystone had approximately 85 and 75, respectively, full-time employees as of November 30, 2008 and 2007.

Taxes

For all years presented, Greystone's effective tax rate is 0%. Greystone has generated substantial net operating losses which would normally reflect a tax benefit in the statements of income and a deferred asset on the balance sheet. However, because of the current uncertainty as to Greystone's ability to sustain profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the consolidated statements of income.

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 November 30, 2008, Greystone had no unrecognized tax benefits.

Six Month Period Ended November 30, 2008 Compared to Six Month Period Ended November 30, 2007

Sales for fiscal year 2009 were \$8,193,974 compared to \$10,843,275 in fiscal year 2008, for a decrease of \$2,649,301. Sales to Greystone's major customer(s) accounted for 79% and 86% of total sales for fiscal years 2009 and 2008, respectively. The decrease is primarily due to a delay in deliveries due to a merger of its two large brewery customers. Sales to this customer are expected to increase during the third quarter of fiscal 2009. Sales of recycled resin material were 7% of total sales in fiscal year 2009. There were no sales of recycled resin material in fiscal year 2008.

Cost of sales in fiscal year 2009 was \$6,653,517, or 81% of sales, compared to \$8,953,073, or 83% of sales, in fiscal year 2008. The improvement in the ratio of cost of sales to sales is due to decreases in the cost of raw material.

General, selling and administrative expenses increased \$96,776 from \$780,358 in fiscal year 2008 to \$877,134 in fiscal year 2009. The increase is primarily due to stock compensation costs of \$47,984 in fiscal year 2009.

Interest expense decreased \$127,473 from \$668,985 in fiscal year 2008 to \$541,512 in fiscal year 2009. Greystone's cost of debt is primarily based upon variable rates of interest tied to the prime rate of interest. The average prime rate of interest was 4.8% during the six month period ended November 30, 2008 compared to 8.0% during the six month period ended November 30, 2007.

Preferred dividends decreased \$84,581 from \$283,040 in fiscal year 2008 to \$198,459 in fiscal year 2009. The rate for preferred dividends on preferred stock is 3.25% above the prime rate of interest. As discussed in the preceding paragraph, the decrease is due to the decline in the prime rate of interest.

Greystone reported net income of \$269,916 in fiscal year 2009 compared to net income of \$472,170 in fiscal year 2008 for the reasons discussed above.

After deducting preferred dividends, the net income available to common stockholders was \$71,457, or \$0.00 per share, in fiscal year 2009 compared to \$189,130, or \$0.01 per share, in fiscal year 2008 for the reasons discussed above.

Three Month Period Ended November 30, 2008 Compared to Three Month Period Ended November 30, 2007

Sales for fiscal year 2009 were \$4,020,917 compared to \$5,246,064 in fiscal year 2008, for a decrease of \$1,225,147. Sales to Greystone's major customer(s) accounted for 76% and 84% of total sales for fiscal years 2009 and 2008, respectively. The decrease is primarily due to a delay in deliveries due to a merger of its two large brewery customers. Sales to this customer are expected to increase during the third quarter of fiscal 2009. Sales of recycled resin material were 7% of total sales in fiscal year 2009. There were no sales of recycled resin material in fiscal year 2008.

Cost of sales in fiscal year 2009 was \$3,218,590, or 80% of sales, compared to \$4,265,935, or 81% of sales, in fiscal year 2008. The improvement in the cost of sales to sales is due to decreases in the cost of raw material.

General, selling and administrative expenses increased \$98,799 from \$368,151 in fiscal year 2008 to \$466,950 in fiscal year 2009. The increase is primarily due to stock compensation costs of \$23,992 and an increase of \$36,434 in professional fees in fiscal year 2009.

Interest expense decreased \$69,460 from \$313,992 in fiscal year 2008 to \$244,532 in fiscal year 2009. Greystone's cost of debt is primarily based upon variable rates of interest tied to the prime rate of interest. The average prime rate of interest was 5% during the three month period ended November 30, 2008 compared to 8.25% during the three month period ended November 30, 2007.

Preferred dividends decreased \$43,621 from \$138,108 in fiscal year 2008 to \$94,487 in fiscal year 2009. The rate for preferred dividends on preferred stock is 3.25% above the prime rate of interest. As discussed in the preceding paragraph, the decrease is due to the decline in the prime rate of interest.

Greystone reported net income of \$220,195 in fiscal year 2009 compared to net income of \$295,566 in fiscal year 2008 for the reasons discussed above.

After deducting preferred dividends, the net income available to common stockholders was \$125,708, or \$0.00 per share, in fiscal year 2009 compared to \$157,458, or \$0.01 per share, in fiscal year 2008 for the reasons discussed above.

Liquidity and Capital Resources

Greystone's cash requirements for operating activities consist principally of accounts receivable, inventory, accounts payable and scheduled payments of interest on outstanding indebtedness. Greystone is currently generating positive cash flows from its operations but continues to be dependent on outside sources of cash to fund its contractual obligations and capital needs.

A summary of cash flows for the six months ended November 30, 2008 is as follows:

Cash provided by operating activities	\$ 758,090
Cash used in investing activities	(222,153)
Cash used in financing activities	(355,661)

The contractual obligations of Greystone are as follows:

	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Long-term debt	\$ 13,196,323	\$ 4,604,996	\$ 2,279,775	\$ 1,109,758	\$ 5,201,794

To provide for the additional cash that might be necessary to meet Greystone's contractual obligations, Greystone is exploring 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.

Greystone has accumulated a working capital deficit of \$8,435,627 at November 30, 2008, which includes current portion of long-term debt of \$4,604,996 and \$3,921,938 in accounts payable and accrued liabilities. The working capital deficit reflects the uncertain financial condition of Greystone resulting from its inability to obtain long term financing until such time as it is able to maintain profitability. There is no assurance that Greystone will secure such financing or continue to achieve profitability.

In December 2008, F&M Bank and Trust Company approved a renewal of Greystone's note payable in the amount of \$4,783,963 and \$4,575,050 at May 31, 2008 and November 30, 2008, respectively, for a term of five years with an interest rate of the prime rate of interest plus 1% and a monthly amortization of approximately \$60,000 per month.

Substantially all of the financing that Greystone has received through November 30, 2008, has been provided by loans or through loan guarantees from the officers and directors of Greystone, the offerings of preferred stock to current and former officers and directors of Greystone in 2001 and 2003 and through a private placement of common stock completed in March 2005.

Greystone continues to be dependent upon its officers and directors to provide and/or secure additional financing and there is no assurance that they 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 for a total of \$5,000,000 with a preferred dividend rate of the prime rate of interest plus 3.25%. Greystone does not anticipate that it will make cash dividend payments to any holders of its preferred stock or its common stock unless and until the financial position of Greystone improves through increased revenues, another financing or otherwise.

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-KSB for the fiscal year ended May 31, 2008, which was filed on September 15, 2008. 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.

SIGNATURE

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 duly authorized.

GREYSTONE LOGISTICS, INC.
(Registrant)

Date: February 10, 2009

By: /s/ Warren F. Kruger
Warren F. Kruger
President and Chief Executive
Officer