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GREYSTONE LOGISTICS, INC.

Form 10QSB

April 19, 2006

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

FORM 10-QSB

(Mark One)

- [X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2006
- [] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

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

OKLAHOMA

75-2954680

(State or other jurisdiction of incorporation or organization)

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

1613 EAST 15TH STREET, TULSA, OKLAHOMA 74120

(Address of principal executive offices)

(918) 583-7441

(Issuer's telephone number)

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

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

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

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APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: April 10, 2006 - 24,061,201

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

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GREYSTONE LOGISTICS, INC.
FORM 10-QSB
FOR THE PERIOD ENDED FEBRUARY 28, 2006

PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL INFORMATION

GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

| | |
|--------------|-------|
| FEBRUARY 28, | MAY |
| 2006 | 200 |
| ----- | ----- |

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| ASSETS | | |
|--|---------------|---------|
| ----- | | |
| CURRENT ASSETS: | | |
| Cash | \$ 1,025 | \$ |
| Accounts receivable, net of allowance for doubtful accounts of \$31,518 and \$190,364 at February 28, 2006 and May 31, 2005 | 1,273,237 | 1,57 |
| Inventory | 624,708 | 53 |
| Prepaid expenses | 7,077 | 1 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 1,906,047 | 2,12 |
| PROPERTY, PLANT AND EQUIPMENT, | | |
| net of accumulated depreciation of \$1,850,290 and \$1,312,056 at February 28, 2006 and May 31, 2005, respectively | 8,099,175 | 7,18 |
| OTHER ASSETS: | | |
| Patents, net of accumulated amortization | 153,491 | 16 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 10,158,713 | \$ 9,47 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| ----- | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 2,261,064 | \$ 2,11 |
| Advances payable - related party | 3,426,690 | 95 |
| Accounts payable and accrued expenses | 2,843,417 | 2,63 |
| Preferred dividends payable | 408,951 | 3 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 8,940,122 | 5,73 |
| LONG-TERM DEBT | 7,879,369 | 8,02 |
| 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 | 52,21 |
| Deficit | (58,877,721) | (56,50 |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' DEFICIENCY | (6,660,778) | (4,28 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ 10,158,713 | \$ 9,47 |
| | ===== | ===== |

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

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| | NINE MONTHS ENDED FEBRUARY 28, | |
|---|--------------------------------|----------------|
| | 2006 | 2005 |
| | | (NOTE 4) |
| Sales | \$ 11,237,737 | \$ 6,588,376 |
| Cost of Sales, including depreciation expense of \$544,805 and \$347,746 in 2006 and 2005, respectively | 10,777,837 | 6,552,889 |
| Gross Profit | 459,900 | 35,487 |
| Expenses: | | |
| General, selling and administration expenses | 1,733,876 | 1,941,203 |
| Operating Loss | (1,273,976) | (1,905,716) |
| Other Income (Expense): | | |
| Other income | 81,107 | 17,578 |
| Interest expense | (772,745) | (539,387) |
| Total Other Income (Expense) | (691,638) | (521,809) |
| Net Loss | (1,965,614) | (2,427,525) |
| Preferred Dividends | 409,629 | 290,856 |
| Net Loss Available to Common Stockholders | \$ (2,375,243) | \$ (2,718,381) |
| Loss Available to Common Stockholders | | |
| Per Share of Common Stock - Basic and Diluted | \$ (0.10) | \$ (0.17) |
| Weighted Average Shares of Common Stock Outstanding | 24,061,000 | 15,907,000 |

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

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| | ----- | ----- |
|---|--------------|--------------|
| | | (NOTE 4) |
| Sales | \$ 4,122,947 | \$ 2,479,559 |
| Cost of Sales, including depreciation expense of \$191,989 and \$121,453 in 2006 and 2005, respectively | 3,815,678 | 2,328,256 |
| | ----- | ----- |
| Gross Profit | 307,269 | 151,303 |
| Expenses: | | |
| General, selling and administration expenses | 566,029 | 822,163 |
| | ----- | ----- |
| Operating Loss | (258,760) | (670,860) |
| Other Income (Expense): | | |
| Other income | 6,808 | 157 |
| Interest expense | (266,775) | (170,895) |
| | ----- | ----- |
| Total Other Income (Expense) | (259,967) | (170,738) |
| | ----- | ----- |
| Net Loss | (518,727) | (841,598) |
| Preferred Dividends | 130,029 | 102,568 |
| | ----- | ----- |
| Net Loss Available to Common Stockholders | \$ (648,756) | \$ (944,166) |
| | ===== | ===== |
| Loss Available to Common Stockholders | | |
| Per Share of Common Stock - Basic and Diluted | \$ (0.03) | \$ (0.04) |
| | ===== | ===== |
| Weighted Average Shares of Common Stock Outstanding | 24,061,000 | 22,244,000 |
| | ===== | ===== |

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

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

| | NINE MONTHS ENDED FEBRUARY 28, | |
|---------------------------------------|--------------------------------|----------------|
| | ----- | ----- |
| | 2006 | 2005 |
| | ----- | ----- |
| | | (NOTE 4) |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$ (1,965,614) | \$ (2,427,525) |

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| | | |
|--|-------------|--------------|
| Adjustments to reconcile net loss to cash used | | |
| in operating activities | | |
| Depreciation and amortization | 556,265 | 895,058 |
| Gain on sale of equipment | (6,571) | -- |
| Changes in accounts receivable | 300,398 | (358,259) |
| Changes in inventory | (89,185) | (394,784) |
| Changes in prepaid expenses | 3,855 | (80,000) |
| Change in receivable from related party | -- | (657,854) |
| Changes in accounts payable and accrued expenses | 211,741 | 766,251 |
| Changes in preferred dividends payable | -- | 8,014 |
| | ----- | ----- |
| Net cash used in operating activities | (989,111) | (2,249,099) |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (1,447,757) | (173,045) |
| | ----- | ----- |
| Net cash used in investing activities | (1,447,757) | (173,045) |
| Cash Flows from Financing Activities: | | |
| Proceeds from notes and advances payable | 2,924,225 | 1,670,479 |
| Payments on notes and advances payable | (453,279) | (952,946) |
| Proceeds from issuance of common stock | -- | 1,850,000 |
| Dividends paid on preferred stock | (34,463) | (290,856) |
| | ----- | ----- |
| Net cash provided by financing activities | 2,436,483 | 2,276,677 |
| | ----- | ----- |
| Net Increase (Decrease) in Cash | (385) | (145,467) |
| Cash, beginning of period | 1,410 | 274,085 |
| | ----- | ----- |
| Cash, end of period | \$ 1,025 | \$ 128,618 |
| | ===== | ===== |
| Noncash activities: | | |
| Issuance of common stock for accounts payable and debt | \$ -- | \$ 1,684,263 |
| Sale of equipment in exchange for debt | 20,000 | 259,000 |
| Debt issued in exchange for equipment | -- | 1,025,475 |
| Supplemental Information: | | |
| Interest paid | \$ 772,745 | \$ 482,020 |

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

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GREYSTONE LOGISTICS, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 February 28, 2006, and the results of its operations for the nine and three month periods ended February 28, 2006 and 2005 and its cash flows for the nine month periods ended February 28, 2006 and 2005. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2005 and the notes thereto included in Greystone's Form 10-KSB.

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The financial statements have been prepared assuming that Greystone will continue as a going concern. The working capital deficit of \$7,034,075, a stockholders' deficiency of \$6,660,778 and continuing losses from operations at February 28, 2006 reflect the uncertain financial condition of Greystone and its inability to obtain long term financing until it is able to attain profitable operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence.

2. The results of operations for the nine and three month periods ended February 28, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year.

3. The computation of loss per share is computed by dividing the loss available to common shareholders by the weighted average shares outstanding for the periods. Loss available to common shareholders is determined by adding preferred dividends for the periods to the net loss. For the nine and three month periods ended February 28, 2006, the weighted average common shares outstanding is 24,061,000. For the nine and three month periods ended February 28, 2005, the weighted average common shares outstanding is 15,907,000 and 22,244,000, respectively. Convertible preferred stock, common stock options and warrants are not considered as their effect is antidilutive.

4. In September 2003, Greystone acquired the assets and operations of Greystone Plastics, Inc. for an aggregate purchase price of \$12,500,000. As previously discussed in Greystone's filings with the Securities and Exchange Commission, 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 acquired from Greystone Plastics, Inc. In addition, the accounting treatment should have provided for the value of the customer contract to be amortized over the estimated life of the customer contract based on unit sales. The related amortization expense of \$532,983 and \$226,718 for the nine and three month periods ended February 28, 2005, respectively, is included under the caption "General, selling and administrative expenses" in such statements of operations. Accordingly, the statements of operations for the nine and three month periods ended February 28, 2005 and cash flows for the nine month period ended February 28, 2005 have been restated. Due to rising costs for raw

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materials, competition and Greystone's limited capitalization, the customer base acquired from Greystone Plastics, Inc. had not shown any significant expansion as of May 31, 2005 and, at such time, Greystone's management did not anticipate any material expansion in the immediate future. As such, the remaining unamortized portion of the value of the customer contract was deemed to be fully impaired at May 31, 2005 and, accordingly, was charged to expense at that time.

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

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

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

References to fiscal year 2006 refer to the nine month and three month periods ended February 28, 2006. References to fiscal year 2005 refer to the nine and three month periods ended February 28, 2005.

SALES

Greystone's primary business is the manufacturing and selling of plastic pallets through its wholly owned subsidiaries, GSM and PPP. Greystone distributes its pallets through a combination of a network of independent contractor distributors and sales by Greystone's officers and employees.

Greystone also markets its own design of an injection molding machine, the PIPER 600, through a licensing agreement with ForcePro, LLC, which gives ForcePro the exclusive right to market and sell the PIPER 600. Pursuant to the terms of the licensing agreement, Greystone will receive a royalty of 5% of the gross proceeds from sales of the PIPER 600.

PERSONNEL

Greystone had approximately 85 full-time employees as of February 28, 2006 compared to 62 full-time employees as of February 28, 2005.

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TAXES

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

NINE MONTH PERIOD ENDED FEBRUARY 28, 2006 COMPARED TO NINE MONTH PERIOD ENDED FEBRUARY 28, 2005

Sales for fiscal year 2006 were \$11,237,737 compared to \$6,588,376 in fiscal year 2005, for an increase of \$4,649,361. The increase was primarily attributable to the addition of two GSM production lines, which increased GSM's production capacity by approximately 70%.

Cost of sales in fiscal year 2006 was \$10,777,837, or 96% of sales, compared to \$6,552,889, or 99% of sales, in fiscal year 2005. Increased raw material costs were the primary cause of the high relationship of cost of sales to sales. The decrease in the ratio of cost of sales to sales in fiscal year 2006 from fiscal year 2005 was the result of sales price increases initiated during the latter half of fiscal year 2005.

General and administrative expense decreased \$207,327 from \$1,941,203 in fiscal year 2005 to \$1,733,876 in fiscal year 2006. The decrease is, in part, attributable to amortization expense of an intangible asset during fiscal year 2005 in the amount of \$532,983. The intangible asset was fully amortized as of the end of fiscal year 2005. Fiscal year 2006 reflects an increase of \$458,000 in administrative salaries offset by net decreases in multiple categories.

Interest expense increased \$233,358 from \$539,387 in fiscal year 2005 to \$772,745 in fiscal year 2006 principally due to additional debt incurred to

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finance the acquisition of two production lines and increases in the prime rate of interest.

The net loss decreased \$461,911 from \$(2,427,525) in fiscal year 2005 to \$(1,965,614) in fiscal year 2006 for the reasons discussed above.

Preferred dividends increased \$118,773 from \$290,856 in fiscal year 2005 to \$409,629 in fiscal year 2006. The dividend rate of the preferred shares is based on the prime rate of interest plus 3.25% and the increase was attributable to the increase in the prime rate of interest.

After deducting preferred dividends, the net loss available to common shareholders was \$(2,375,243), or \$(0.10) per share, in fiscal year 2006 compared to \$(2,718,381), or \$(0.17) per share, in fiscal year 2005 for a decrease of \$343,138.

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THREE MONTH PERIOD ENDED FEBRUARY 28, 2006 COMPARED TO THREE MONTH PERIOD ENDED FEBRUARY 28, 2005

Sales for fiscal year 2006 were \$4,122,947 compared to \$2,479,559 in fiscal year 2005, for an increase of \$1,643,388.

Cost of sales in fiscal year 2006 was \$3,815,678, or 93% of sales, compared to \$2,328,256, or 94% of sales, in fiscal year 2005. Increased raw material costs were the primary cause of the high relationship of cost of sales to sales. The decrease in the ratio of cost of sales to sales in fiscal year 2006 from fiscal year 2005 was the result of sales price increases initiated during the latter half of fiscal year 2005.

General and administrative expense decreased \$256,134 from \$822,163 in fiscal year 2005 to \$566,029 in fiscal year 2006. The primary factor affecting the change in general and administrative expense from fiscal year 2005 to fiscal year 2006 is an amortization expense of an intangible asset in fiscal year 2005 of \$226,718. The intangible asset was fully amortized as of the end of fiscal year 2005.

Interest expense increased \$95,880 from \$170,895 in fiscal year 2005 to \$266,775 in fiscal year 2006 principally due to additional debt incurred to finance the acquisition of two production lines and increases in the prime rate of interest.

The net loss decreased \$322,871 from \$(841,598) in fiscal year 2005 to \$(518,727) in fiscal year 2006 for the reasons discussed above.

Preferred dividends increased \$27,461 from \$102,568 in fiscal year 2005 to \$130,029 in fiscal year 2006. The dividend rate of the preferred shares is based on the prime rate of interest plus 3.25% and the increase was attributable to the increase in the prime rate of interest.

After deducting preferred dividends, the net loss available to common shareholders was \$(648,756), or \$(0.03) per share, in fiscal year 2006 compared to \$(944,166), or \$(0.04) per share, in fiscal year 2005 for a decrease of \$295,410.

LIQUIDITY AND CAPITAL RESOURCES

Greystone's cash requirements for operating activities consist principally of accounts receivable, inventory, accounts payable, operating leases and scheduled payments of interest on outstanding indebtedness. Greystone

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is currently dependent on outside sources of cash to fund its operations. As of February 28, 2006, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the nine months ended February 28, 2006 is as follows:

Cash used in operating activities \$ (989,111)

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Cash used in investing activities (1,447,757)

Cash provided by financing activities 2,436,483

The cash used in investing activities was primarily related to the acquisition in June 2005 of an additional plastic injection molding machine. Financing for this machine principally came from a \$424,000 note payable at prime plus 1% rate of interest due June 2012 to First Bartlesville Bank, and a \$500,100 note payable at 7.5% due June 2010 to Robert Rosene, a director of Greystone. Other primary sources of new financing include a \$400,000 advance on a working capital loan with F&M Bank, advances of \$1,539,000 from Robert Rosene and advances of \$75,000 from Warren Kruger, a director of Greystone.

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 | \$10,140,433 | \$ 2,261,064 | \$ 6,281,395 | \$ 816,775 | \$ 781,199 |
| Operating leases | 7,824,000 | 876,000 | 1,752,000 | 1,752,000 | 3,444,000 |
| Total | \$17,964,433 | \$ 3,137,064 | \$ 8,033,395 | \$ 2,568,775 | \$ 4,225,199 |
| | ===== | ===== | ===== | ===== | ===== |

Greystone continues to require outside sources of cash to fund its operating activities. To provide for the additional cash to meet Greystone's operating activities and contractual obligations for fiscal 2006, Greystone is exploring various options including long-term debt and equity financing. However, there is no guarantee that Greystone will be able to raise sufficient capital to meet these obligations.

Greystone has accumulated a working capital deficit of approximately \$7,034,075 at February 28, 2006, which includes approximately \$5,687,754 of advances from related parties and current portion of long-term debt and \$2,843,417 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 achieve profitability. There is no assurance that Greystone will secure such financing or achieve profitability.

Greystone has had difficulty in obtaining financing from traditional financing sources. Substantially all of the financing that Greystone has received through February 28, 2006, has been provided by loans, loan guarantees and equity financing from its officers and directors and common stock sales to its officers, directors and unrelated third parties. There is no assurance that Greystone's officers and directors will continue to provide loans or loan guarantees or purchase equity securities of Greystone in the future.

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FORWARD LOOKING STATEMENTS AND MATERIAL RISKS

This Quarterly Report on Form 10-QSB includes certain statements that may be deemed

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"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-QSB could be affected by any of the following factors: Greystone's prospects could be affected by changes in availability of raw materials, competition, rapid technological change and new legislation regarding environmental matters; Greystone may not be able to secure additional financing necessary to sustain and grow its operations; and a material portion of Greystone's business is and will be dependent upon a few large customers and there is no assurance that Greystone will be able to retain such customers. These risks and other risks that could affect Greystone's business are more fully described in Greystone's Form 10-KSB for the fiscal year ended May 31, 2005, which was filed on September 15, 2005 and amended on January 11, 2006. Actual results may vary materially from the forward-looking statements. Greystone undertakes no duty to update any of the forward-looking statements contained in this Quarterly Report on Form 10-QSB.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this Current Report on Form 10-QSB, Greystone carried out an evaluation under the supervision of Greystone's Chief Financial Officer (and interim principal executive officer) of the effectiveness of the design and operation of Greystone's disclosure controls and procedures pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, Greystone's Chief Financial Officer (and interim principal executive officer) concluded that the disclosure controls and procedures as of the end of the period covered by this Current Report on Form 10-QSB were effective.

During the quarter ended February 28, 2006, there was no change in Greystone's internal controls over financial reporting that has materially affected, or that is reasonably likely to materially affect, Greystone's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

- 11.1 Computation of Loss per Share is in Note 3 in the Notes to the financial statements.

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- 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.
- 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.

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SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREYSTONE LOGISTICS, INC.

(Registrant)

Date: April 19, 2006

/s/ Robert H. Nelson

Chief Financial Officer

