GREYSTONE LOGISTICS, INC.
Form 10-Q
January 20, 2015

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

Form 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED November 30, 2014

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ________

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.
(Exact name of registrant 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) (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 Securities 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 þ No o

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 submit such files). Yes þ No o

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	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ
(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). Yeso No þ

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 13, 2015 - 27,286,201

GREYSTONE LOGISTICS, INC.

FORM 10-Q
For the Period Ended November 30, 2014

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Greystone Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	November 30, 2014	May 31, 2014
Assets		
Current Assets:		
Cash	$562,619	$661,263
Accounts receivable -		
Trade, net of allowance for doubtful accounts of $71,462	716,690	2,023,563
Related party receivable	278,532	219,505
Inventory	1,483,303	1,616,165
Deferred tax asset – current	673,500	1,077,000
Prepaid expenses	93,996	97,170
Total Current Assets	3,808,640	5,694,666
Property and Equipment, net of accumulated depreciation	8,693,498	8,776,137
Deferred Tax Asset	1,752,183	1,133,000
Other Assets	144,471	163,188
Total Assets	$14,398,792	$15,766,991
Liabilities and Deficit		
Current Liabilities:		
Current portion of long-term debt	$1,923,523	$3,979,376
Accounts payable and accrued expenses	936,680	782,591
Accrued interest - related party	1,987,146	1,835,999
Preferred dividends payable	54,315	27,603
Total Current Liabilities	4,901,664	6,625,569
Long-Term Debt, net of current portion	11,340,063	10,524,745
Deficit:		
Preferred stock, $0.0001 par value, cumulative, 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, 27,161,201 and 26,461,201 shares issued and outstanding	2,716	2,646
Additional paid-in capital	53,446,748	53,336,106
Accumulated deficit	(56,296,826)	(55,715,203)
Total Greystone Stockholders' Deficit	(2,847,357)	(2,376,446)
Non-controlling interest	1,004,422	993,123

Total Deficit	(1,842,935)	(1,383,323)
Total Liabilities and Deficit	$14,398,792	$15,766,991

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

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

	For the Six Months Ended November 30, 2014	For the Six Months Ended November 30, 2013
Sales	$9,991,448	$10,872,407
Cost of Sales	8,997,651	8,000,696
Gross Profit	993,797	2,871,711
General, Selling and Administrative Expenses	1,105,942	1,141,882
Operating Income (Loss)	(112,145)	1,729,829
Other Income (Expense):		
Other income	2,500	3,600
Interest expense	(411,417)	(398,275)
Total Other Expense, net	(408,917)	(394,675)
Income (Loss) before Income Taxes	(521,062)	1,335,154
Benefit from Income Taxes	215,683	237,000
Net Income (Loss)	(305,379)	1,572,154
Income Attributable to Variable Interest Entities, net	(113,299)	(111,183)
Preferred Dividends	(162,945)	(162,945)
Net Income (Loss) Attributable to Common Stockholders	$(581,623)	$1,298,026
Income (Loss) Per Share of Common Stock -		
Basic	$(0.02)	$0.05
Diluted	$(0.02)	$0.05
Weighted Average Shares of Common Stock Outstanding -		
Basic	26,591,666	26,111,201
Diluted	26,591,666	27,558,600

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

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

	For the Three Months Ended November 30, 2014	2013
Sales	$3,925,077	$4,361,490
Cost of Sales	4,260,438	3,635,151
Gross Profit (Loss)	(335,361)	726,339
General, Selling and Administrative Expenses	491,000	545,569
Operating Income (Loss)	(826,361)	180,770
Other Income (Expense):		
Other income	2,500	3,600
Interest expense	(202,574)	(197,094)
Total Other Expense, net	(200,074)	(193,494)
Income (Loss) before Income Taxes	(1,026,435)	(12,724)
Benefit from Income Taxes	368,383	-
Net Loss	(658,052)	(12,724)
Income Attributable to Variable Interest Entities, net	(57,042)	(56,875)
Preferred Dividends	(81,027)	(81,027)
Net Loss Attributable to Common Stockholders	$(796,121)	$(150,626)
Loss Per Share of Common Stock - Basic and Diluted	$(0.03)	$(0.01)
Weighted Average Shares of Common Stock Outstanding - Basic and Diluted	26,723,564	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)

	For the Six Months Ended November 30, 2014	2013
Cash Flows from Operating Activities:		
Net income (loss)	$(305,379)	$1,572,154
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	686,666	674,473
Increase in deferred tax asset	(215,683)	(253,000)
Stock based compensation	26,712	26,712
Changes in trade accounts receivable	1,306,873	483,064
Changes in related party receivable	(134,027)	-
Changes in inventory	132,862	(872,480)
Changes in prepaid expenses	3,174	(138,043)
Changes in accounts payable and accrued expenses	305,236	169,551
Other	-	2,454
Net cash provided by operating activities	1,806,434	1,664,885
Cash Flows from Investing Activities:		
Purchase of property and equipment	(510,310)	(705,710)
Cash Flows from Financing Activities:		
Proceeds from revolving loan	100,000	-
Payments on long-term debt and capitalized lease	(955,535)	(669,574)
Payments on notes and advances payable to related party	-	(34,500)
Payments on revolving loan	(385,000)	
Proceeds from exercised stock options	84,000	-
Dividends paid on preferred stock	(136,233)	-
Dividends paid by variable interest entity	(102,000)	-
Net cash used in financing activities	(1,394,768)	(704,074)
Net Increase (Decrease) in Cash	(98,644)	255,101
Cash, beginning of period	661,263	366,896
Cash, end of period	$562,619	$621,997
Non-Cash Activities:		
Acquisition of equipment from related party	$75,000	$-
Preferred dividend accrual	$26,712	$162,945
Supplemental Information:		
Interest paid	$260,993	$181,029

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

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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 November 30, 2014, the results of its operations for the six-month and three-month periods ended November 30, 2014 and 2013, and its cash flows for the six-month periods ended November 30, 2014 and 2013. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the fiscal year ended May 31, 2014 and the notes thereto included in Greystone's Form 10-K for such period. The results of operations for the six-months and three-month periods ended November 30, 2014 and 2013 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 the variable interest entity, Greystone Real Estate, L.L.C. (“GRE”). 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 (loss) available to common stockholders by the weighted-average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income (loss) 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, as follows:

	2014	2013
Six-month periods ended November 30:		
Options to purchase common stock	1,400,000	350,000
Preferred stock convertible into common stock	3,333,334	3,333,334
Total	4,733,334	3,683,334
Three-month periods ended November 30:		
Options to purchase common stock	1,400,000	2,450,000
Preferred stock convertible into common stock	3,333,334	3,333,334
Total	4,733,334	5,783,334

The following tables set forth the computation of basic and diluted earnings per share for the six-month and three-month periods ended November 30, 2014 and 2013:

	2014	2013
Six-month periods ended November 30:		
Numerator -		
Net income (loss) available to common stockholders	$(581,623)	$1,298,026
Denominator -		
Weighted-average shares outstanding - basic	26,591,666	26,111,201
Incremental shares from assumed conversion of options	-	1,447,399
Diluted shares	26,591,666	27,558,600
Earnings (Loss) per share -		
Basic	$(0.02)	$0.05
Diluted	$(0.02)	$0.05
Three-month periods ended November 30:		
Numerator -		
Net loss available to common stockholders	$(796,121)	$(150,626)
Denominator -		
Weighted-average shares outstanding - basic	26,723,564	26,111,201
Incremental shares from assumed conversion of options	-	-
Diluted shares	26,723,564	26,111,201
Earnings (Loss) per share -		
Basic and Diluted	$(0.03)	$(0.01)

Note 3. Inventory

Inventory consists of the following:

	November 30, 2014	May 31, 2014
Raw materials	$834,422	$1,043,411
Finished goods	648,881	572,754
Total inventory	$1,483,303	$1,616,165

Note 4. Related Party Receivable

Yorktown Management & Financial Services, LLC (“Yorktown”), an entity wholly owned by Greystone’s CEO and President, owns and rents to Greystone (1) grinding equipment used to grind raw materials for Greystone’s pallet production and (2) extruders for pelletizing recycled plastic into pellets for resale and for use as raw material in the manufacture of pallets. Yorktown also owns a plastic grinding and wash line facility used to recycle plastic into usable raw material which Greystone may purchase at market prices. Greystone compensates Yorktown for the use of this equipment as discussed below. In addition, Yorktown provides office space for Greystone in Tulsa, Oklahoma at a monthly rental of $2,000.

GSM pays a weekly rental fees to Yorktown of $22,500 for use of Yorktown’s grinding equipment and $5,000 for the use of Yorktown’s pelletizing equipment. GSM paid Yorktown total equipment rental fees of $715,000 and $715,720 for the six months ended November 30, 2014 and 2013, respectively.

Greystone pays the labor on behalf of Yorktown’s Tulsa, Oklahoma grinding operation. These costs are invoiced to Yorktown on a monthly basis. As of November 30, 2014, Yorktown owes Greystone $278,532 primarily from the aforementioned labor costs incurred by Greystone on behalf of Yorktown.

Note 5. Debt

Debt as of November 30, 2014 and May 31, 2014 is as follows:

	November 30, 2014	May 31, 2014
Term note payable to International Bank of Commerce, interest rate of 4.5%, due January 31, 2019, monthly principal and interest payments of $171,760	$7,806,438	$8,647,777
Revolving note payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 4.0%, due January 31, 2016	100,000	385,000
Term note payable by GRE to International Bank of Commerce, interest rate of 4.5%, due January 31, 2019, monthly principal and interest payments of $26,215	3,291,148	3,371,660
Note payable to Robert Rosene, 7.5% interest, due January 15, 2017	2,066,000	2,066,000
Other note payable	-	33,684
	13,263,586	14,504,121
Less: Current portion	(1,923,523)	(3,979,376)
Long-term debt	$11,340,063	$10,524,745

The prime rate of interest as of November 30, 2014 was 3.25%.

Loan Agreement between Greystone and IBC

On January 31, 2014, Greystone and GSM (the "Borrowers") and International Bank of Commerce ("IBC") entered into a Loan Agreement (the "IBC Loan Agreement"). The IBC Loan Agreement provides for a revolving loan in an aggregate principal amount of up to $2,500,000 (the "Revolving Loan") and a term loan in the aggregate principal amount of $9,200,000 (the "Term Loan"). The exact amount which can be borrowed under the Revolving Loan from time to time is dependent upon the amount of the borrowing base, but can in no event exceed $2,500,000.

The Revolving Loan bears interest at the New York Prime Rate plus 0.5% but not less than 4.0% and matures January 31, 2016. The Borrowers are required to pay all interest accrued on the outstanding principal balance of the Revolving Loan on a monthly basis. Any principal on the Revolving Loan that is prepaid by the Borrowers may be reborrowed by the Borrowers. The proceeds from the Revolving Loan will be used for general working capital purposes.

The Term Loan bears interest at 4.5% per annum and matures January 31, 2019. The Borrowers are required to make equal monthly payments $171,760 towards principal and interest to amortize the principal balance over the term of the loan.

The IBC Loan Agreement includes customary representations and warranties and affirmative and negative covenants which include (i) requiring the Borrowers to maintain a debt service coverage ratio of 1:25 to 1:00 and a funded debt to EBIDA ratio not exceeding 3:00 to 1:00, (ii) subject to certain exceptions, limiting the Borrowers' combined capital expenditures on fixed assets to $1,000,000 per year, (iii) prohibiting Greystone, without IBC's prior written consent, from declaring or paying any dividends, redemptions of stock or membership interests, distributions and withdrawals (as applicable) in respect of its capital stock or any other equity interest, other than additional payments to holders of its preferred stock in an amount not to exceed $500,000 in any fiscal year, (iv) subject to certain exceptions, prohibiting the incurrence of additional indebtedness by the Borrowers, and (v) requiring the Borrowers to prevent (A) any change in capital ownership such that there is a material change in the direct or indirect ownership of (1) Greystone's outstanding preferred stock, and (2) any equity interest in GSM, or (B) Warren Kruger from ceasing to be actively involved in the management of Greystone as President and/or Chief Executive Officer. The foregoing list of covenants is not exhaustive and there are several other covenants contained in the IBC Loan Agreement.

Greystone's debt service coverage ratio as of November 30, 2014 was 0.92 to 1:00 which was less than the required minimum as discussed above. Greystone has requested a waiver from IBC with respect to this occurrence of noncompliance.

The IBC Loan Agreement includes customary events of default, including events of default relating to non-payment of principal and other amounts owing under the IBC Loan Agreement from time to time, inaccuracy of representations, violation of covenants, defaults under other agreements, bankruptcy and similar events, the death of a guarantor, certain material adverse changes relating to a Borrower or guarantor, certain judgments or awards against a Borrower, or government action affecting a Borrower's or guarantor's ability to perform under the IBC Loan Agreement or the related loan documents. Among other things, a default under the IBC Loan Agreement would permit IBC to cease lending funds under the IBC Loan Agreement, and require immediate repayment of any outstanding loans with interest and any unpaid accrued fees.

The IBC Loan Agreement is secured by a lien on substantially all of the assets of the Borrowers. In addition, the IBC Loan Agreement is secured by a mortgage granted by GRE on the real property owned by GRE in Bettendorf, Iowa (the "Mortgage"). GRE is owned by Warren F. Kruger, Greystone's President and CEO, and Robert B. Rosene, Jr., a director of Greystone. Messrs. Kruger and Rosene have provided a combined limited guaranty of the Borrowers' obligations under the IBC Loan Agreement, with such guaranty being limited to a combined amount of $6,500,000 (the “Guaranty”). The Mortgage and the Guaranty also secure or guaranty, as applicable, the obligations of GRE under the Loan Agreement between GRE and IBC dated January 31, 2014 as discussed in the following paragraph.

Loan Agreement between GRE and IBC

On January 31, 2014, GRE and IBC entered into a Loan Agreement which provided for a mortgage loan to GRE of $3,412,500. The loan provides for a 4.5% interest rate and a maturity of January 31, 2019 and is secured by a mortgage on the two buildings in Bettendorf, Iowa which are leased to Greystone.

Note Payable between Greystone and Robert B. Rosene Jr.

Effective December 15, 2005, Greystone entered into an agreement with Robert B. Rosene, Jr., a member of Greystone's board of directors, to convert $2,066,000 of advances into a note payable at 7.5% interest. Mr. Rosene has waived payment of principal until January 15, 2017. Greystone has accrued interest on the note and unpaid interest in the amounts of $151,147 and $140,113 for the six-month periods ended November 30, 2014 and 2013, respectively. Accrued interest due to Mr. Rosene at May 31, 2014 is $1,987,146.

Note 6. Stock Compensation Costs

Stock compensation costs, resulting from stock options issued June 1, 2012, were $26,712 for the six-month periods ended November 30, 2014 and 2013, respectively. The unexpensed cost at November 30, 2014 totaled $80,136.

Note 7. Fair Value of Financial Instruments

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

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 8. Risks and Uncertainties

Greystone derives a substantial portion of its revenue from a national brewer. This customer accounted for approximately 48% and 58% of Greystone's pallet sales and 43% and 56% of Greystone's total sales for the six months ended November 30, 2014 and 2013, 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.

Robert B. Rosene, Jr., a Greystone director, has provided financing and guarantees on Greystone's bank debt. As of November 30, 2014, Greystone is indebted to Mr. Rosene in the amount of $4,053,146 for a note payable and related accrued interest due January 15, 2017. There is no assurance that Mr. Rosene will continue to provide extensions in the future.

Note 9. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers " ("ASU 14-09") which creates a comprehensive set of guidelines for the recognition of revenue under the principle: "Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The requirements of ASU 14-09 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and will require either retrospective application to each prior period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. Greystone is currently evaluating the impact this ASU will have on our financial position and results of operations.

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 entity, Greystone Real Estate, L.L.C. ("GRE"). All material intercompany accounts and transactions have been eliminated.

References to fiscal year 2015 refer to the six and three month period ended November 30, 2014. References to fiscal year 2014 refer to the six and three month period ended November 30, 2013.

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 48% and 58% of Greystone's pallet sales and 43% and 56% of Greystone's total sales for the six month-periods ended November 30, 2014 and 2013, respectively.

Personnel

Greystone had approximately 81 and 71 full-time employees as of November 30, 2014 and 2013, respectively.

Six-Month Period Ended November 30, 2014 Compared to Six-Month Period Ended November 30, 2014

Sales

Sales for fiscal year 2015 were $9,991,448 compared to $10,872,407 in fiscal year 2014 for a decrease of $––––– 880,959. Pallet sales were $8,946,888, or 90% of total sales, in fiscal year 2015 compared to $10,500,967, or 97% of total sales, in fiscal year 2014 for a decrease of $1,554,079. Sales of recycled plastic resin were $1,044,560 in fiscal year 2015 compared to $371,440 in fiscal year 2014 for an increase of $673,120.

Greystone has received a purchase order for plastic pallets totaling $3 million from a wine manufacturer, a new customer for Greystone. Approximately 30% of the purchase order will be delivered during the quarter ended May 31, 2015 and the balance during the quarter ended August 31, 2015.

Greystone's sales to its major customer in fiscal year 2015 were 48% of total pallet sales compared to 58% of total pallet sales in fiscal year 2014. The decrease in pallet sales to this major customer is the primary reason for the decline in pallet sales in fiscal year 2015 compared to fiscal year 2014. 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 major 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.

Plastic resin sales generally vary from period to period depending on availability of product at prices which allow Greystone to resell at reasonable margins.

Cost of Sales

Cost of sales in fiscal year 2015 was $8,997,651, or 90% of sales, compared to $8,000,696, or 74% of sales, in fiscal year 2014. The increase in the ratio of cost of sales to sales from fiscal year 2015 over fiscal year 2014 is primarily due to Greystone's inflexible pallet production costs. Greystone's direct labor and production overhead costs for pallet production increased approximately 6% from fiscal year 2014 to fiscal year 2015 while pallet production decreased approximately 18%.

Provision for (Benefit from) Income Taxes

The benefit from income taxes was $215,683 and $237,000 in fiscal years 2015 and 2014, respectively. The benefit from income taxes for fiscal year 2014 was the result of a decrease in the amount of valuation allowance management considered necessary in determining the amount of tax benefit that will be utilized from net operating losses (NOLs) originating from prior years. For fiscal year 2015, the tax benefit was the direct result of net loss before taxes. The effective tax rate differs from federal statutory rates due to net income from GRE which, as a limited liability company, is not taxed at the corporate level.

Until the NOLs are fully realized for income tax purposes, management will continue to evaluate the extent that a valuation allowance is needed. Factors that management will consider, among others, are continued diversity in Greystone's customer base and stability in its sales volumes.

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.

Net Income (Loss)

Greystone recorded net loss of $(305,379) in fiscal year 2015 compared to net income of $1,572,154 in fiscal year 2014 primarily for the reasons discussed above.

Net Income (Loss) Attributable to Common Stockholders

Net loss available to common stockholders for fiscal year 2015 was $(581,623), or $(0.02) per share, compared to net income of $1,298,026, or $0.05 per share, in fiscal year 2014 primarily for the reasons discussed above.

Three-Month Period Ended November 30, 2014 Compared to Three-Month Period Ended November 30, 2013

Sales

Sales for fiscal year 2015 were $3,925,077 compared to $4,361,490 in fiscal year 2014 for a decrease of $––––– 436,413. Pallet sales were $3,788,134, or 97% of total sales, in fiscal year 2015 compared to $3,990,050, or 91% of total sales, in fiscal year 2014 for a decrease of $201,916. Sales from recycled plastic resin were $136,943 in fiscal year 2015 compared to $371,440 in fiscal year 2014 for a decrease of $234,497.

Greystone's sales to its major customer in fiscal year 2015 were 32% of total pallet sales compared to 39% of total pallet sales in fiscal year 2014. The decrease in pallet sales to this major customer is the primary reason for the decline in pallet sales in fiscal year 2015 compared to fiscal year 2014. 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 major 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.

Plastic resin sales generally vary from period to period depending on availability of product at prices which allow Greystone to resell at reasonable margins.

Cost of Sales

Cost of sales in fiscal year 2015 was $4,260,438, or 109% of sales, compared to $3,635,151, or 83% of sales, in fiscal year 2014. The increase in the ratio of cost of sales to sales from fiscal year 2015 over fiscal year 2014 is primarily due to Greystone's inflexible pallet production costs. Greystone's direct labor and production overhead costs for pallet production increased approximately 20% from fiscal year 2014 to fiscal year 2015 while pallet production decreased approximately 24%.

General, Selling and Administrative Expenses

General, selling and administrative expenses were $491,000 in fiscal year 2015 compared to $545,569 in fiscal year 2014 for a decrease of $54,569. The decrease is primarily due to a $75,309 decrease in commission expense. This decrease is not necessarily indicative of the commission expense to be expected for future periods.

Benefit from Income Taxes

The benefit from income taxes was $368,383 and $-0- in fiscal years 2015 and 2014, respectively. The benefit recognized in fiscal years 2015 is directly related to the loss before income taxes. The lack of benefit from income taxes for fiscal year 2014 was the result of the valuation allowance management considered necessary in determining the amount of tax benefit to be utilized from net operating losses (NOLs) originating from prior years. The effective tax rate differs from federal statutory rates due to net income from GRE which, as a limited liability company, is not taxed at the corporate level.

Until the NOLs are fully realized for income tax purposes, management will continue to evaluate the extent that a valuation allowance is needed. Factors that management will consider, among others, are continued diversity in Greystone's customer base and stability in its sales volumes.

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.

Net Loss

Greystone recorded a net loss of $(658,052) in fiscal year 2015 compared to $(12,724) in fiscal year 2014 primarily for the reasons discussed above.

Net Loss Attributable to Common Stockholders

The net loss available to common stockholders for fiscal year 2015 was $(796,121), or $(0.03) per share, compared to $(150,626), or $(0.01) per share, in fiscal year 2014 primarily for the reasons discussed above.

Liquidity and Capital Resources

A summary of cash flows for the six-month period ended November 30, 2014 is as follows:

Cash provided by operating activities	$1,806,434
Cash used in investing activities	(510,310)
Cash used in financing activities	(1,394,768)

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	$13,263,586	$1,923,523	$6,255,164	$5,084,899	$-0-

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Greystone had a working capital deficit of $(1,093,024) at November 30, 2014. Excluding the accrued interest payable to Robert B. Rosene, Jr., a member of Greystone's board of directors, Greystone's working capital at November 30, 2014 was $894,122. To provide for the funding to meet Greystone's operating activities and contractual obligations as of November 30, 2014, Greystone will have to continue to produce positive operating results or explore various options including additional 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 common stock unless and until the financial position of Greystone improves through increased revenues, another financing transaction or otherwise. Pursuant to the IBC Loan Agreement, as discussed in Note 5 to the consolidated financial statements, Greystone may pay dividends on its preferred stock in an amount not to exceed $500,000 per year.

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 Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. 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, 2014, which was filed on August 29, 2014. 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, 2014, 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 November 30, 2014.

During the six-month period ended November 30, 2014, 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.

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.

Item 6. Exhibits.

The following exhibits are filed or furnished as part of this Quarterly Report on Form 10-Q.

Exhibit No.	Description
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).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at November 30, 2014 and May 31, 2014, (ii) the Consolidated Statements of Income (Loss) for the six-month and three-month periods ended November 30, 2014 and 2013, (iii) the Consolidated

Statements of Cash Flows for the six-month periods ended November 30, 2014 and 2013, and (iv) 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: January 20, 2015	By:	/s/ Warren F. Kruger Warren F. Kruger, President and Chief Executive Officer (Principal Executive Officer)
Date: January 20, 2015	By:	/s/ William W. Rahhal William W. Rahhal, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Index to Exhibits

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