GREYSTONE LOGISTICS, INC.
Form 10KSB
September 13, 2006

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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended MAY 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.
(Name of small business issuer in its charter)

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

1613 EAST 15TH STREET, TULSA, OKLAHOMA	74120
(Address of principal executive offices)	(Zip Code)

(918) 583-7441
(Issuer's Telephone Number)

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

Title of each class	Name of each exchange on which registered
NONE	NONE

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

COMMON STOCK, $0.0001 PAR VALUE
(Title of class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge,

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in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenue for the year ended May 31, 2006, was $15,956,386.

As of August 21, 2006, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by using the average of the high and low price on such date, was $1,326,599.

As of August 21, 2006, the issuer had outstanding a total of 24,061,201 shares of its $0.0001 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

NONE.

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

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PART I.

ITEM 1. DESCRIPTION OF BUSINESS

ORGANIZATION

Greystone Logistics, Inc. ("Greystone" or the "Company") was incorporated in Delaware on February 24, 1969, under the name Permaspray Manufacturing Corporation. It changed its name to Browning Enterprises Inc. in April 1982, to Cabec Energy Corp. in June 1993, to PalWeb Corporation in April 1999 and became Greystone Logistics, Inc. in March 2005 as further described below. In December 1997, Greystone acquired all of the issued and outstanding stock of Plastic Pallet Production, Inc., a Texas corporation ("PPP"), and since that time, Greystone has primarily been engaged in the business of manufacturing and selling plastic pallets.

On May 2, 2002, Greystone completed a redomiciliation merger having the effect of changing its state of incorporation from Delaware to Oklahoma. The redomiciliation merger did not result in any change in the number of shares owned or percentage of ownership of any shareholder of the Company, nor did it result in any change in the business, management, location of the principal executive offices, assets, liabilities or shareholders' equity of the Company. Upon completion of the merger, each outstanding share of Greystone's common stock, par value $0.10 per share, was automatically converted into one share of common stock, par value $0.0001 per share, of Greystone as an Oklahoma corporation, and each outstanding share of Greystone's Series 2001 12% Cumulative Convertible Senior Preferred Stock ("2001 Preferred Stock") was automatically converted into one share of 2001 Preferred Stock of Greystone as an Oklahoma corporation under the same terms and conditions.

As authorized by Greystone's certificate of incorporation, Greystone's Board of Directors determined in 2002 that a reverse split of Greystone's common stock would be beneficial to the Company by enhancing the efficiency of the market for the stock. Accordingly, the Board approved a reverse split of 1 share for each 50 shares of common stock outstanding. The reverse split was effective as of June 25, 2002. At such time, appropriate adjustments were also made to the terms of the outstanding 2001 Preferred Stock, warrants and stock options of the Company to reflect the reverse stock split in accordance with the terms of such instruments. Unless otherwise noted, all references in this Form 10-KSB to the shares of the Company's common stock, including historical references to the common stock of the Company issued in connection with transactions occurring prior to the effective date of the reverse stock split, refer to the number and price of such shares as adjusted for the reverse split. Effective September 8, 2003, the holders of Greystone's 2001 Preferred Stock elected to convert all of their 2001 Preferred Stock into 5,250,000 shares of common stock.

Also effective September 8, 2003, Greystone acquired substantially all of the assets of Greystone Plastics, Inc., an Iowa corporation, through the purchase of such assets by Greystone's newly formed, wholly-owned subsidiary, Greystone Manufacturing, L.L.C., an Oklahoma limited

liability company ("GSM"). Greystone Plastics, Inc. was a manufacturer of plastic pallets used in the beverage industry. For more information regarding the acquisition, see "Acquisition of Assets of Greystone Plastics, Inc." under this Item 1.

Effective as of March 18, 2005, the Company caused its newly formed, wholly owned subsidiary, Greystone Logistics, Inc., an Oklahoma corporation, to be merged with and into the Company. In connection with such merger and as of the effective time of the merger, the Company amended its certificate of incorporation by changing its name to Greystone Logistics, Inc., pursuant to the terms of the certificate of ownership and merger filed by the Company with the Secretary of State of Oklahoma. Also in connection with such merger, the Company amended its bylaws to change its name to Greystone Logistics, Inc.

CURRENT BUSINESS

PRODUCTS

Greystone's primary business is manufacturing and selling high quality, recycled plastic pallets through its wholly owned subsidiaries Greystone Manufacturing, L.L.C., or GSM, and Plastic Pallet Production, Inc., or PPP. In addition, Greystone has developed a large multi-station plastic injection molding system known as the PIPER 600, which it markets pursuant to a licensing agreement with a third party. As of May 31, 2006, Greystone had an aggregate production capacity of approximately 69,000 pallets per month (9,000 pallets through PPP and 60,000 pallets through GSM).

GSM's product line as of May 31, 2006 consists of the following:

- 40" X 32" pallet marketed solely to the beverage industry,
- 37" X 37" pallet,
- 48" X 40" pallet,
- 110cm X 120cm pallet (approximately 44" by 48").

As of May 31, 2006, PPP's product line included the following 48" X 40" pallets:

- HAWKER(TM) 4840 - A picture frame, web-top pallet that utilizes a patented inter-locking design and features CJ2(TM) fire retardant polymers that are UL 2335 certified. It has a rackable load of 2,500 lbs., dynamic load of 5,000 lbs., static load of 25,000 lbs. and weighs 53 lbs.
- TANK(TM) PICTURE FRAME - A picture frame, web-top pallet that utilizes a patented inter-locking design and is produced using virgin materials. It has a rackable load of 3,000

lbs., dynamic load of 5,000 lbs., static load of 29,900 lbs., and weighs approximately 50 lbs.

- GRANADA(TM) PICTURE FRAME - A picture frame, web-top pallet that utilizes a patented inter-locking design and is produced using a proprietary blend of recycled plastics. It has a rackable capacity of 2,500 lbs., a dynamic load of 5,000 lbs., static load of 25,000 lbs., and weighs 47.5 lbs.
- GRANADA(TM) STACKABLE - A web-top pallet that is produced using a proprietary blend of recycled plastics, has a dynamic load of 5,000 lbs., static load of 7,000 lbs., and weighs 32 lbs.
- GRANADA(TM) NESTABLE - This pallet is the same as the Granada(TM) Stackable, except that its legs nestle inside one another for convenient and more efficient storage and it weighs 30 lbs.
- GRANADA(TM) 3-RUNNER - A web-top pallet that utilizes a patented inter-locking design on a three runner bottom and is produced using a proprietary blend of recycled plastics. It has a rackable load of 1,200 lbs., dynamic load of 5,000 lbs., static load of 12,000 lbs and weighs 41 lbs.
- A3R FLAT DECK 3-RUNNER - This pallet is the same as the Granada(TM) 3-Runner, except it has a solid top and weighs 55 lbs.

The principal raw materials used in manufacturing Greystone's plastic pallets are in abundant supply, and some of these materials may be obtained from recycled plastic containers. At the present time, these materials are being purchased from local suppliers.

Certain Greystone's suppliers of resin have agreed to give Greystone a discount of $0.01 to $0.10 for each pound of resin purchased from such suppliers provided that Greystone prepays for such resin. On July 11, 2006, Greystone's Board of Directors approved an arrangement pursuant to which if Yorktown Management & Financial Services, L.L.C., an entity wholly owned by Greystone's

Vice Chairman, prepays for resin on Greystone's behalf, Greystone will repay Yorktown any such amount it pays within two weeks along with an amount equal to $0.01 per pound for any discount it receives as a result of such prepayment. There is no formal written agreement evidencing this arrangement.

OTHER BUSINESS

Effective June 23, 2003, Greystone entered into an agreement with ForcePro, LLC, which gives ForcePro the exclusive right to market and sell the PIPER 600 subject to making certain minimum royalty payments. Bryan Kirchmer, a former member of Greystone's Board, is the President of ForcePro. The term of the agreement is for five years with the right to renew for three additional terms of five years each. Greystone will receive a royalty of 5% of the gross

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proceeds from sales of the PIPER 600. There is no assurance that ForcePro will be able to sell any PIPER 600 plastic injection molding machines.

In July 2006, Greystone entered into an agreement with Advanced Fiber Products (AFP) of La Crosse, Wisconsin, pursuant to which Greystone and AFP agreed to launch a beta test program involving the lease of a small pool of recycled plastic pallets by Greystone to AFP to be utilized by AFP to ship a portion of its manufactured products in a closed loop system. Pursuant to the agreement, Greystone will deliver and track throughout the logistics cycle sufficient quantities of plastic pallets for use in shipping a segment of the AFP fiberglass product. The pallets will stay in a closed loop environment and be continually sent back for reuse. If a pallet is damaged, Greystone will grind the pallet and reutilize the resin.

PALLET INDUSTRY

According to the U. S. Forest Service, as printed in the National Wooden Pallet and Container Association publication, approximately 400 million new pallets are purchased in the United States each year, and some research sources estimate that even more than 400 million new pallets are purchased each year. At an overall average selling price of $9/wood pallet, the pallet manufacturing and sales business is approximately a $4 billion industry. It is estimated that the United States wood pallet industry is served by approximately 3,600 companies, most of which are small, privately held firms that operate in only one location. The industry is generally comprised of companies that manufacture new pallets or repair and recycle pallets. New pallet manufacturing generates about 60% to 65% of the industry's revenues. The U.S. Forest Service estimates that approximately 1.9 billion wood pallets are in circulation in the United States today and that roughly 400 million of the wood pallets currently in circulation were newly manufactured. On an annual basis, approximately 175 million wood pallets are recycled through a process of retrieval, repair, re-manufacturing and secondary marketing, approximately 225 million are sent to landfills, and approximately 100 million are burned, lost, abandoned or leave the country.

Infestation is a concern in the wood pallet industry. According to Virginia Tech's Center for Unit Loan Design Center Tech Note No. 1, dated November 11, 1998, the Asian Longhorn Beetle ("ALB"), a devastating wood boring pest native to China and other Asian countries, has invaded hardwood trees in New York City and Chicago. The ALB outbreaks have been traced to solid wood packaging materials ("SWPM"), including wood pallets imported from China. As a result, the USDA Animal and Plant Health Inspection Service has proposed certain interim rules, which include upgrading treatment procedures for SWPM. These treatments are estimated to increase the cost of SWPM by at least 10%, and some treatments will double the price of SWPM.

Pallets are used in virtually all United States industries in which products are broadly distributed, including, but not limited to, the automotive, chemical, consumer products, grocery, produce and food production, paper and forest products, retailing and steel and metals industries.

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Forklifts, pallet trucks and pallet jacks are used to move loaded pallets, reducing the need for costly hand loading and unloading at distribution centers and warehouses.

Until very recently, plastic pallets had not penetrated the market significantly, due in part to their cost. Heavy duty plastic pallets cost $46 to $100, heavy duty wood pallets typically cost approximately $26, and less sturdy wood pallets typically cost $8 to $11. As stated in an article in the July 1996 issue of Material Handling Engineering, wood pallets have an estimated useful life of 7 to 10 trips before repair or recycling is required. A trip, or cycle, is defined as the movement of a pallet under a load from a manufacturer to a distributor (or from a distributor to a retailer) and the movement of the empty pallet back to the manufacturer. Heavy duty plastic pallets, as currently manufactured, have a useful life of 60 or more trips, on average. Greystone management believes that the trend will continue to switch from wood to plastic, with the only limiting factor being price.

Greystone intends to stay on the "cutting edge" of the market by constantly conducting research on pallet design and the materials used to make the plastic pallets.

EMPLOYEES

As of May 31, 2006, Greystone had 75 full-time employees and used a temporary personnel service to provide additional production personnel as needed.

MARKETING AND CUSTOMERS

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 sells its pallets through a combination of a network of independent contractor distributors and its officers and employees. Currently, Greystone has one distributor. Greystone will continue utilizing this structure until sales volumes justify the development of an internal sales staff.

Greystone derives, and expects that in the foreseeable future it will continue to derive, substantially all of its revenue from a few large customers. One of Greystone's customers currently accounts for approximately 85% of all orders for its pallets. There is no assurance that Greystone will retain these customers' business at the same level, or at all. The loss of a material amount of business from any one of Greystone's larger customers could have a material adverse effect on Greystone.

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COMPETITION

Greystone's primary competitors are a large number of small, privately held firms that sell wood pallets in very limited geographic locations. Greystone believes that it can compete with manufacturers of wood pallets by emphasizing the cost savings realized over the longer life of its plastic pallets as well as the environmental benefits of its plastic pallets as compared to wood pallets. Greystone also competes with approximately three large and fifteen medium to small manufacturers of plastic pallets. Some of Greystone's competitors may have substantially greater financial and other resources than Greystone and, therefore, may be able to commit greater resources than Greystone in such areas of product development, manufacturing and marketing. However, Greystone believes that its proprietary designs coupled with the competitive pricing of its products gives Greystone a competitive advantage over other plastic pallet manufacturers.

GOVERNMENT REGULATION

The business operations of Greystone are subject to existing and potential federal, state and local environmental laws and regulations pertaining to the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to the protection of the environment. In addition, both the plastics industry and Greystone are subject to existing and potential federal, state, local and foreign legislation designed to reduce solid wastes by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements, disposal fees and limits on the use of plastic products.

PATENTS AND TRADEMARKS

Greystone seeks to protect its technical advances by pursuing national and international patent protection for its products and methods when appropriate. As of May 31, 2006, Greystone's subsidiary, PPP, held the following patents that are material to its business:

1. Materials Handling Plastic Pallet
   Application No. 09/421,766
   Filing Date: October 19, 1999
   U.S. Patent No. 6,109,190 issued on August 29, 2000
   Expiration Date: August 28, 2017

2. Multiple Mold Workstation with Single Injection Feeder and
   Hydraulic Pumping Station
   Application No. 09/346,165
   Filing Date: July 1, 1999
   U.S. Patent No. 6,241,508 B1 issued on June 5, 2001
   Expiration Date: June 4, 2018

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The first patent is for a new concept in the construction of materials handling plastic pallets. These pallets are lighter, stronger and more durable than traditional wood pallets and have a unique two-part interlocking system. The second patent is for a new concept in the construction of more compact plastic injection molding machines.

Greystone also recently filed for patent protection for its PIPER 600

Multi-Station Injection Molding Equipment. In addition, Greystone uses a patent-pending CJ2(TM) fire retardant formula licensed from Westgate Capital Company, L.L.C. ("WCC"), a company of which Greystone's Vice Chairman is a member, in connection with the production of Greystone's plastic pallets. Pallets produced with CJ2(TM) fire retardant have met UL 2335 classification requirements with respect to fire retardancy.

ACQUISITION OF ASSETS OF GREYSTONE PLASTICS, INC.

Effective September 8, 2003, Greystone acquired the assets of Greystone Plastics, Inc., a manufacturer of plastic pallets used in the beverage industry. The purchase price for the assets was $12,500,000, of which $4,200,546 was paid in cash and $8,299,454 was paid by issuing the following notes: a $5,000,000 note payable by GSM to Greystone Plastics, Inc. at 7.5% interest, due October 1, 2008; a $2,500,000 note payable by GSM to Greystone Plastics, Inc. at 7.5% interest, due October 1, 2018; and a $799,454 note payable by GSM to Bill Hamilton, one of the owners of Greystone Plastics, Inc., at 6% interest, due February, 2008. The notes described in the preceding sentence were paid in full in March 2005.

SALE AND LEASEBACK OF CERTAIN PRODUCTION EQUIPMENT

On September 8, 2003, Greystone completed a sale and leaseback transaction whereby it sold its Dallas plant for $1,350,000 and certain production equipment located in the Dallas plant, including its PIPER 600 plastic pallet injection molding machine, for $5,650,000 to a company owned by Paul Kruger (a major shareholder of Greystone), 1607 Commerce Limited Partnership, a Texas limited partnership ("1607 Commerce"), in exchange for the cancellation of debt in the amount of $7,000,000 owed by Greystone to Paul Kruger. The assets were sold at the approximate net book value of such assets. The lease agreement for the plant was a three-year triple net lease with a monthly rental of $17,720; however, during 2004, Greystone closed its Dallas plant and moved the equipment located in such plant to its Bettendorf, Iowa plant and Greystone notified the lessor that effective March 1, 2005, the lease was considered terminated due to the breach of certain provisions in the lease agreement by the landlord. In letters dated May and September of 2005, the landlord contested Greystone's assertion that the plant lease has been terminated and demanded past due rent under the plant lease for the months any of April through August of 2005. The equipment lease was for 130 months with a monthly rental of $48,000 beginning six months after the first day of the lease. Greystone has accrued the rental costs of $576,000 per year but not made payments under the equipment lease subsequent to March of 2005. In letters dated May and September of 2005, the landlord demanded past due rent under the equipment lease for the months of April through August of 2005. In connection with this sale and leaseback transaction, Greystone and each its subsidiaries, PPP and GSM, granted 1607 Commerce a security interest in substantially all of its

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assets, other than those assets acquired from Greystone Plastics, Inc. In addition, pursuant to two guaranty agreements, Greystone has agreed to guarantee PPP's obligations under the leases described in this paragraph and, pursuant to a stock pledge agreement, Greystone has pledged its ownership interests in PPP and GSM as security for the payment of Greystone's obligations under the two guaranty agreements.

ITEM 2. DESCRIPTION OF PROPERTY

Greystone has approximately 3 acres of land in Bettendorf, Iowa and a building with 60,000 square feet of manufacturing and warehouse space. In addition, Greystone entered in a lease agreement with Greystone Properties, LLC, for an adjacent building with 60,000 square feet of manufacturing and warehouse space. The lease is for a ten year period with monthly rental of $25,000 plus insurance and taxes, amended January 1, 2006 to $17,500 plus insurance and taxes .. The manufacturing and warehouse space is sufficiently equipped and designed to accommodate the manufacturing of plastic pallets. Greystone Properties, LLC is owned by Warren Kruger and Robert Rosene, Board members of the Company.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Greystone's common stock is traded on the National Association of Securities Dealers Automatic Quotation (NASDAQ) over-the-counter bulletin board system ("OTCBB"), under the symbol "GLGI." The following table sets forth the range of high and low prices at which Greystone's common stock traded during the time periods indicated, as reported by NASDAQ:

QUARTER ENDING	HIGH	LOW
Aug. 31, 2004	$0.70	$0.29
Nov. 30, 2004	0.49	0.26
Feb. 29, 2005	0.47	0.32
May 31, 2005	0.70	0.27
Aug. 31, 2005	0.40	0.14
Nov. 30, 2005	0.20	0.10
Feb. 29, 2006	0.12	0.05
May 31, 2006	0.22	0.06

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Quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

HOLDERS

As of May 31, 2006, Greystone had approximately 1,361 common shareholders of record.

As of May 31, 2006, there were approximately 2,906 beneficial owners (including those holding in street names) of Greystone's common stock.

DIVIDENDS

Greystone paid no cash dividends to its common shareholders during the last two fiscal years and does not plan to pay any cash dividends in the near future.

SALES OF EQUITY SECURITIES

There were no sales of equity securities by Greystone during the fiscal year ended May 31, 2006.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-KSB includes "forward looking statements" as defined by the Securities and Exchange Commission. These statements concern Greystone's plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this Form 10-KSB that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future are forward-looking statements. The words "believe," "plan," "intend," "anticipate," "estimate," "project" and similar expressions are intended to identify forward-looking statements. These forward-looking statements include, among others, such things as:

o expansion and growth of Greystone's business and operations;
o future financial performance;

o future acquisitions and developments;
o potential sales of products;
o future financing activities; and
o business strategy.

These forward-looking statements are based on assumptions that Greystone believes are reasonable based on current expectations and projections about future events and industry conditions and trends affecting Greystone's business. However, whether actual results and developments will conform to Greystone's expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements, including those factors discussed under the section of this Form 10-KSB entitled "Risk Factors." In addition, Greystone's historical financial performance is not necessarily indicative of the results that may be expected in the future and Greystone believes that such comparisons cannot be relied upon as indicators of future performance.

RISK FACTORS

GREYSTONE OPERATES AT A LOSS.

The Company was incorporated on February 24, 1969. From April 1993 to December 1997, the Company was engaged in various businesses, including the business of exploration, production, and development of oil and gas properties in the continental United States and the operation of a related service business. In December 1997, the Company acquired all of the issued and outstanding stock of Plastic Pallet Production, Inc., and its principal business changed to selling plastic pallets. Since such time, the Company has continued to incur losses from operations. There is no assurance that Greystone will achieve profitability or obtain funds to finance continued operations.

GREYSTONE'S FINANCIAL STATEMENTS HAVE BEEN QUALIFIED ON A GOING CONCERN BASIS

AND GREYSTONE MAY NOT BE ABLE TO SECURE ADDITIONAL FINANCING NECESSARY TO SUSTAIN AND GROW ITS OPERATIONS.

Greystone's financial statements have been qualified on a going concern basis principally due to lack of long term financing to achieve Greystone's goal of producing and marketing plastic pallets to compete with wood pallets. Greystone has funded its operations to date primarily through equity and debt financings. Greystone will likely need additional debt or equity capital in order to begin generating a sufficient cash flow to sustain operations for the foreseeable future. In addition, Greystone will need to raise additional funds to implement any expansion strategy. There can be no assurance that additional financing will be available or, if available, that such financing will be on favorable terms. Failure to obtain such additional financing could have a material adverse effect on Greystone.

GREYSTONE HAS GRANTED SECURITY INTERESTS IN SUBSTANTIALLY ALL OF ITS ASSETS IN CONNECTION WITH CERTAIN DEBT FINANCINGS AND OTHER TRANSACTIONS.

In connection with certain debt financings and other transactions, Greystone has granted third

parties security interests in substantially all of its assets pursuant to agreements entered into with such third parties. Upon the occurrence of an event of default under such agreements including the defaults that 1607 Commerce claims exist as further described under "Sales and Leaseback of Dallas Plant and Certain Production Equipment under Item 1 of this Form 10-KSB, the secured parties may enforce their rights and Greystone may lose all or a portion of its assets. In addition, Greystone may be subject to penalties at the time of any default. As a result, Greystone could be forced to materially reduce its business activities or cease operations.

GREYSTONE'S BUSINESS COULD BE AFFECTED BY CHANGES IN AVAILABILITY OF RAW MATERIALS.

Greystone use a proprietary mix of raw materials to produce its plastic pallets. Such raw materials are generally readily available and some may be obtained from recycled plastic containers. At the present time, these materials are being purchased from local suppliers. The availability of Greystone's raw materials could change at any time for various reasons. For example, the market demand for Greystone's raw materials could suddenly increase, or the rate at which plastic materials are recycled could decrease, affecting both availability and price. Additionally, the laws and regulations governing the production of plastics and the recycling of plastic containers could change and, as a result, affect the supply of Greystone's raw materials. Any interruption in the supply of raw materials or components could have a material adverse effect on Greystone. Furthermore, certain potential alternative suppliers may have pre-existing exclusive relationships with Greystone's competitors and others that may preclude Greystone from obtaining raw materials from such suppliers.

GREYSTONE'S BUSINESS COULD BE AFFECTED BY COMPETITION AND RAPID TECHNOLOGICAL CHANGE.

Greystone currently faces competition from many companies that produce wooden pallets at prices that are substantially lower than the prices Greystone charge for its plastic pallets and other companies that manufacture plastic pallets. It is anticipated that the plastic pallet industry will be subject to intense competition and rapid technological change. Greystone could potentially face additional competition from recycling and plastics companies, many of which have substantially greater financial and other resources than Greystone and, therefore, are able to spend more than Greystone in areas such as product development, manufacturing and marketing. Competitors may develop products that render Greystone's products or proposed products uneconomical or result in products being commercialized that may be superior to Greystone's products. In addition, alternatives to plastic pallets could be developed, which would have a material adverse effect on Greystone.

GREYSTONE IS DEPENDENT ON A FEW LARGE CUSTOMERS.

Greystone derives, and expects that in the foreseeable future it will continue to derive, substantially all of its revenue from a few large customers. In fact, one of Greystone's customers currently accounts for approximately 85% of its orders. There is no assurance that Greystone will retain these customers' business at the same level, or at all. The loss of a material amount of business from any one of these customers could have a material adverse effect on Greystone.

GREYSTONE MAY NOT BE ABLE TO EFFECTIVELY PROTECT GREYSTONE'S PATENTS AND PROPRIETARY RIGHTS.

Greystone relies upon a combination of patents and trade secrets to protect its proprietary technology, rights and know-how. There can be no assurance that such patent rights will not be infringed upon, that Greystone's trade secrets will not otherwise become known to or independently developed by competitors, that non-disclosure agreements will not be breached, or that Greystone would have adequate remedies for any such infringement or breach. Litigation may be necessary to enforce Greystone's proprietary rights or to defend Greystone against third-party claims of infringement. Such litigation could result in substantial cost to, and a diversion of effort by, Greystone and its management and may have a material adverse effect on Greystone. Greystone's success and potential competitive advantage is dependent upon its ability to exploit the technology under these patents. There can be no assurance that Greystone will be able to exploit the technology covered by these patents or that Greystone will be able to do so exclusively.

GREYSTONE'S BUSINESS COULD BE AFFECTED BY CHANGING NEW LEGISLATION REGARDING ENVIRONMENTAL MATTERS.

Greystone's business is subject to changing federal, state and local environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to the protection of the environment. As is the case with manufacturers in general, if a release of hazardous substances occurs on or from Greystone's properties or any associated off-site disposal location, or if contamination from prior activities is discovered at any of Greystone's properties, Greystone may be held liable. No assurances can be given that additional environmental issues will not require future expenditures. In addition, both the plastics industry and Greystone are subject to existing and potential federal, state, local and foreign legislation designed to reduce solid wastes by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements and disposal fees and limits on the use of plastic products. In addition, various consumer and special interest groups have lobbied from time to time for the implementation of these and other such similar measures. Although Greystone believes that the legislation promulgated to date and such initiatives to date have not had a material adverse effect on it, there can be no assurance that any such future legislative or regulatory efforts or future initiatives would not have a material adverse effect.

GREYSTONE'S BUSINESS COULD BE SUBJECT TO POTENTIAL PRODUCT LIABILITY CLAIMS.

The testing, manufacturing and marketing of Greystone's products and proposed products involve inherent risks related to product liability claims or similar legal theories that may be asserted against Greystone, some of which may cause Greystone to incur significant defense costs. Although Greystone currently maintains product liability insurance coverage that it believes is adequate, there can be no assurance that the coverage limits of its insurance will be adequate under all circumstances or that all such claims will be covered by insurance. In addition, these policies generally must be renewed every year. While Greystone has been able to obtain product liability insurance in the past,

there can be no assurance it will be able to obtain such insurance in the future on all of its existing or future products. A successful product liability claim or other judgment against Greystone in excess of its insurance coverage, or the loss of Greystone's product liability insurance coverage could have a material adverse effect upon Greystone.

GREYSTONE CURRENTLY DEPENDS ON CERTAIN KEY PERSONNEL.

Greystone is dependent on the experience, abilities and continued services of its current management. In particular, Warren Kruger, Greystone's former President and CEO and current Vice Chairman, has played a significant role in the development, management and financing of Greystone. The loss or reduction of services of Warren Kruger or any other key employee could have a material adverse effect on Greystone. In addition, there is no assurance that additional managerial assistance will not be required, or that Greystone will be able to attract or retain such personnel.

GREYSTONE'S EXECUTIVE OFFICERS AND DIRECTORS CONTROL A LARGE PERCENTAGE OF GREYSTONE'S OUTSTANDING COMMON STOCK, WHICH ALLOWS THEM TO CONTROL MATTERS SUBMITTED TO GREYSTONE'S SHAREHOLDERS FOR APPROVAL, AND ALL OF GREYSTONE'S 2003 PREFERRED STOCK, WHICH ENTITLES THEM TO CERTAIN VOTING RIGHTS, INCLUDING THE RIGHT TO ELECT A MAJORITY OF GREYSTONE'S BOARD OF DIRECTORS.

Greystone's executive officers and directors (and their affiliates), in the aggregate, own over 50% of Greystone's outstanding common stock. Therefore, Greystone's executive officers and directors have the ability to decide the outcome of matters submitted to Greystone's shareholders for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all of Greystone's assets) and to control Greystone's management and affairs. In addition, an entity that is wholly owned by Greystone's executive officers and directors owns all of Greystone's outstanding 2003 preferred stock. The terms and conditions of Greystone's 2003 preferred stock provide that such holder has the right to elect a majority of Greystone's Board of Directors. Such concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, which in turn could have an adverse effect on the market price of Greystone's common stock.

CERTAIN RESTRICTED SHARES OF GREYSTONE WILL BE ELIGIBLE FOR SALE IN THE FUTURE AND ARE LIKELY TO BE SOLD IN THE FUTURE, WHICH COULD AFFECT THE PREVAILING MARKET PRICE OF GREYSTONE'S COMMON STOCK.

Certain of the outstanding shares of Greystone's common stock are "restricted securities" under Rule 144 of the Securities Act, and (except for shares purchased by "affiliates" of Greystone as such term is defined in Rule

144) would be eligible for sale as the applicable holding periods expire or in the event that the Company files a registration statement relating to such shares. In the future, these shares may be sold only pursuant to a registration statement under the Securities Act or an applicable exemption, including pursuant to Rule 144. Under Rule 144, a person who has owned common stock for at least one year may, under certain circumstances, sell within any three-month

period a number of shares of common stock that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume during the four calendar weeks prior to such sale. A person who is not deemed to have been an affiliate of Greystone at any time during the three months preceding a sale, and who has beneficially owned the restricted securities for the last two years is entitled to sell all such shares without regard to the volume limitations, current public information requirements, manner of sale provisions and notice requirements. In addition, Greystone has agreed to file a registration statement in connection with some of these outstanding shares of restricted stock. Sales or the expectation of sales of a substantial number of shares of common stock in the public market by selling shareholders could adversely affect the prevailing market price of the common stock, possibly having a depressive effect on any trading market for the common stock, and may impair Greystone's ability to raise capital at that time through additional sales of its equity securities.

GREYSTONE'S STOCK TRADES IN A LIMITED PUBLIC MARKET, IS SUBJECT TO PRICE VOLATILITY AND THERE CAN BE NO ASSURANCE THAT AN ACTIVE TRADING MARKET WILL DEVELOP OR BE SUSTAINED.

There has been a limited public trading market for Greystone's common stock and there can be no assurance that an active trading market will develop or be sustained. There can be no assurance that Greystone's common stock will trade at or above any particular price in the public market, if at all. The trading price of Greystone's common stock could be subject to significant fluctuations in response to variations in quarterly operating results or even mild expressions of interest on a given day. Accordingly, Greystone's common stock should be expected to experience substantial price changes in short periods of time. Even if Greystone is performing according to its plan and there is no legitimate company-specific financial basis for this volatility, it must still be expected that substantial percentage price swings will occur in Greystone's common stock for the foreseeable future. In addition, the limited market for Greystone's common stock may restrict Greystone's shareholders ability to liquidate their shares.

GREYSTONE DOES NOT EXPECT TO DECLARE OR PAY ANY DIVIDENDS IN THE FORESEEABLE FUTURE.

Greystone has not declared or paid any dividends on its common stock. Greystone currently intends to retain future earnings to fund the development and growth of its business, to repay indebtedness and for general corporate purposes, and, therefore, does not anticipate paying any cash dividends on its common stock in the foreseeable future. In addition, pursuant to the terms and conditions of certain loan documentation between Greystone and F&M Bank and the terms and conditions of Greystone's 2003 preferred stock, Greystone is restricted in its ability to pay dividends to holders of its common stock.

GREYSTONE'S COMMON STOCK MAY BE SUBJECT TO SECONDARY TRADING RESTRICTIONS RELATED TO PENNY STOCKS.

Certain transactions involving the purchase or sale of Greystone's common stock may be affected by a Commission rule for "penny stocks" that imposes additional sales practice burdens and requirements upon broker-dealers that purchase or sell such securities. For transactions covered by this penny stock rule, among other things, broker-dealers must make certain disclosures to purchasers prior to the purchase or sale. Consequently, the penny stock rule may impede the ability of broker-dealers to purchase or sell Greystone's common stock for their customers and the ability of persons now owning or subsequently acquiring Greystone's common stock to resell such securities.

GREYSTONE MAY ISSUE ADDITIONAL EQUITY SECURITIES, WHICH WOULD LEAD TO FURTHER DILUTION OF GREYSTONE'S ISSUED AND OUTSTANDING STOCK.

The issuance of additional common stock or securities convertible into common stock would result in further dilution of the ownership interest in Greystone held by existing shareholders. Greystone is authorized to issue, without shareholder approval, 20,700,000 shares of preferred stock, $0.0001 par value per share, in one or more series, which may give other shareholders dividend, conversion voting and liquidation rights, among other rights, which may be superior to the rights of holders of Greystone's common stock. In addition, Greystone is authorized to issue, without shareholder approval, over 4,960,000,000 additional shares of its common stock and securities convertible into common stock.

RESULTS OF OPERATIONS

GENERAL

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

Greystone's primary business is the manufacturing and selling of plastic pallets through its wholly owned subsidiaries GSM and PPP.

PPP markets its own designed 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.

As of May 31, 2006, Greystone had 75 full-time employees and used temporary personnel as needed. The number of temporary personnel generally ranged from six to ten during the past twelve months. Greystone's production capacity is about 69,000 plastic pallets per month, or 828,000 per year. Production levels have generally been governed by sales and will increase as sales dictate.

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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 continued operations. See "Liquidity and Capital Resources" under this Item 6.

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.

YEAR ENDED MAY 31, 2006, COMPARED TO YEAR ENDED MAY 31, 2005

Sales were $15,956,386 for fiscal year 2006 compared to $9,305,534 for fiscal year 2005 for an increase of $6,650,852. The increase is due to the addition of two production lines by GSM - one in February 2005 and one in August 2005.

Cost of sales was $15,030,690 (94% of sales) and $9,573,029 (103% of sales) in fiscal years 2006 and 2005, respectively. The improvement in the ratio of cost of sales to sales is due primarily to increases in sales prices and the addition of the two production lines operating at near full capacity. The overall high rate of cost of sales to sales is due in part to annual lease costs of $576,000 for the PIPER 600 production line which operates at approximately 10% of designed capacity.

General and administrative expense was $2,248,719 for fiscal year 2006 compared to $3,449,422 in fiscal year 2005 for a decrease of $(1,200,703). This decrease is primarily due to nonrecurring charges in 2005 of $691,527 relating to the final amortization of intangibles and $400,000 relating to licensing fees for fire retardant formulation with Westgate Capital, L.L.C., an entity of which Warren Kruger, Vice Chairman, is an owner. In addition, decreases in 2006 of $257,305 were attributable to travel expense and professional fees incurred in 2005 in seeking capital to provide for future growth.

During fiscal year 2005, Greystone recorded impairment charges of $5,719,658 as follows: $3,309,103 relating to goodwill, $1,648,124 related to a customer contract and $762,431 relating to damaged or obsolete equipment. In addition, during fiscal year 2005, Greystone accrued an additional $355,000 for estimated costs to terminate the lease on its Dallas, Texas, plant, which was abandoned in the prior fiscal year.

Interest expense was $1,013,830 in fiscal year 2006 compared to $692,341 in fiscal year 2005 for an increase of $321,489. The increase is primarily attributable to debt incurred in the acquisition of equipment and funding provided by related parties for working capital.

The consolidated net loss, before the deduction for preferred dividends, in fiscal year 2006 was $(2,335,153) compared to $(10,421,825) in fiscal year 2005 for a decrease of $8,086,672. This decrease results from the reasons discussed above.

After deducting dividends to preferred shareholders of $513,938 and $404,555 in fiscal years 2006 and 2005, respectively, the consolidated net loss available to common shareholders was $(2,849,091) ($(0.12) per share of common stock) in fiscal year 2006 compared to $(10,826,380) ($(0.60) per share of common stock) in fiscal year 2005.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Greystone's cash requirements for operating activities consist principally of accounts receivable, inventory, accounts payable requirements, operating leases and scheduled payments of interest on outstanding indebtedness. Greystone is dependent on outside sources of cash to fund its operations. As of May 31, 2006, revenues from sales remain insufficient to meet current liabilities.

A summary of cash flows for the year ended May 31, 2006 is as follows:

Cash used in operating activities	$ (723,321)
Cash used in investing activities	(1,626,658)
Cash provided by financing activities	2,349,494

Contractual obligations of Greystone are as follows:

	TOTAL	1 YEAR	2-3 YEARS	4-5 YEARS	OVER 5 YEARS
Long-term debt	$12,941,639	$2,055,463	$ 8,452,167	$1,197,908	$1,236,101
Operating leases	5,808,000	786,000	1,572,000	1,572,000	1,878,000
Total	$18,749,639	$2,841,463	$10,024,167	$2,769,908	$3,114,101

To provide for the funding to meet Greystone's operating activities and contractual obligations for fiscal 2007, 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 $(4,364,324) at May 31, 2006, which includes advances payable to related parties of $394,567, current portion of long-term debt of $2,055,463 and accounts payable and accrued liabilities of $2,740,555. This deficit reflects the

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uncertain financial condition of Greystone resulting from its inability to obtain long term financing from traditional financing sources. There is no assurance that Greystone will secure such financing.

As described below, substantially all of the financing that Greystone has received through May 31, 2006, 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 either will 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.

ADVANCES AND LOANS FROM WARREN KRUGER

During 2006, Mr. Kruger advanced $429,100 to Greystone. Effective December

15, 2005, Greystone entered into a loan agreement with Warren Kruger to convert $527,716 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010. At May 31, 2006, note payable of $527,716, advances of $382,318 and accrued interest of $28,718 were due to entities owned or controlled by Warren Kruger.

During 2005, Warren Kruger advanced $1,256,925 to Greystone, was repaid $807,669 and exchanged $515,672 of advances and accrued interest for common stock, as discussed above in Note 9. Interest accrued on notes and advances to entities owned or controlled by Warren Kruger totaled $45,871 in 2005. At May 31, 2005, advances of $452,216 and accrued interest of $10,485 were due to entities owned or controlled by Warren Kruger.

LOANS FROM F&M BANK

On March 4, 2005, Greystone entered into a loan agreement with GLOG Investment, L.L.C. ("GLOG") and The F&M Bank & Trust Company ("F&M), which, among other things, sets forth certain terms applicable to a $1,500,000 revolving loan extended by F&M to GSM on or about December 18, 2004 and a new $5,500,000 term loan extended by F&M to GSM on March 4, 2005. GLOG is wholly owned by the following officers and/or directors of the Registrant: Marshall S. Cogan (Non-Executive Chairman), Warren F. Kruger (Vice Chairman), Robert B. Rosene, Jr. (Director) and Robert H. Nelson (Chief Financial Officer). GLOG was a party to the loan agreement for the sole purpose of securing the funds necessary to purchase 50,000 shares of Greystone's 2003

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preferred stock previously owned by Paul A. Kruger. Amounts borrowed under the revolving loan are represented by a promissory note, which bears interest at the prime rate plus 1% and is payable in full on January 5, 2006. Substantially all of the proceeds available under the revolving note have been used to retire the loan from another bank. Amounts borrowed under the term loan are represented by a promissory note, which bears interest at the prime rate plus 2% and GSM is required to make monthly payments based upon a full fifteen year amortization of the outstanding principal balance under the term note with any outstanding principal and all accrued and unpaid interest payable in full on March 15, 2008. Substantially all of the proceeds from the term loan have been used to refinance certain short-term debt of GSM, including the repayment of the notes issued by GSM to Greystone Plastics, Inc. and Bill Hamilton that were the subject of dispute as further described under the heading "Acquisition of Greystone Plastics, Inc." in Item 1 of this Form 10-KSB.

Greystone's obligations under the loan agreement with F&M are secured by a lien in favor of F&M on substantially all of GSM's assets pursuant to the terms of a security agreement and second mortgage. Also, pursuant to the terms of a guaranty agreement, Greystone guaranteed GSM's performance and payment under the notes. In addition, in order to induce F&M to enter into the loan agreement, certain officers and directors of the Company (Messrs. Cogan, Kruger, Rosene and Nelson) entered into a limited guaranty agreement with F&M and Mr. Rosene entered into a pledge agreement with F&M.

ADVANCES AND LOANS FROM ROBERT ROSENE

In May 2005, Robert Rosene, a member of Greystone's Board of Directors, advanced $500,000 to Greystone. During fiscal year 2006, Mr. Rosene advanced an additional amount of $1,578,249. Effective December 15, 2005, Greystone entered into a loan agreement with Mr. Rosene to convert $2,066,000 of the advances into a note payable at 7.5% interest and payable in three equal annual installments of principal and accrued interest beginning January 15, 2008 and ending January

15, 2010.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of Greystone are set forth on pages F-1 through F-19 inclusive, found at the end of this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

As of May 31, 2006, 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 May 31, 2006 were effective.

During the quarter ended May 31, 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.

ITEM 8B. OTHER INFORMATION

None.

PART III.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The following lists the directors and executive officers of Greystone. Directors of Greystone are elected at annual meetings of shareholders unless appointed by the Board of Directors to fill a vacancy upon the resignation or removal of a member or an increase in the number of members of the Board of Directors. Executive officers serve at the pleasure of the Board of Directors.

NAME	POSITION	TERM AS DIRECTOR EXPIRES
Marshall S. Cogan	Non-Executive Chairman	2006
Warren F. Kruger	Vice Chairman	2006
Robert B. Rosene, Jr.	Director	2006
Robert H. Nelson	Chief Financial Officer	N/A

MARSHALL S. COGAN, NON-EXECUTIVE CHAIRMAN OF BOARD OF DIRECTORS

Mr. Marshall S. Cogan was named Non-Executive Chairman of the Board of Directors of Greystone effective July 19, 2004. Mr. Cogan is 68 years old and was the former Vice Chairman of Cogan, Berlind, Weill & Levitt-Hayden Stone, Inc. (predecessor to Shearson Lehman/American Express). Mr. Cogan has had over 40 years of industrial and financial experience with custodial responsibility for the following companies: General Felt Industries, Inc.; Sheller-Globe Corporation;

Color Tile, Inc.; Knoll International, Inc.; United Auto Group, Inc.; Foamex International, Inc.; and the '21' Club.

Mr. Cogan has an undergraduate degree and M.B.A. from Harvard University. He serves as a Trustee of New York University Hospital, Boston Latin School, New York Museum of Modern Art and is a member of Harvard University serving on several committees.

WARREN F. KRUGER, VICE CHAIRMAN AND DIRECTOR

Mr. Warren F. Kruger, Manager/CEO of privately held Yorktown Management & Financial Services, L.L.C., is 49 years old. Yorktown Management is involved in investment banking, real estate, manufacturing and energy endeavors. Mr. Kruger earned a Bachelor of Business Administration degree from the University of Oklahoma, and an Executive M.B.A. from Southern Methodist University. Mr. Kruger has over twenty-five years experience in the financial services industry. In 1980, Mr. Kruger co-founded MCM Group, Ltd., which owned and controlled United Bank Club Association, Inc. until 1996 when the firm was sold to a subsidiary of Cendant Corp. (CD-NYSE). He also owned and operated Century Ice, a manufacturer and distributor of ice products from 1996 to 1997, when Packaged Ice, Inc., acquired Century Ice in an industry rollup. Mr. Kruger is a partner with William W. Pritchard in privately held WCC, with investments in oil and gas, real estate and investment banking.

Mr. Kruger became a director of Greystone on January 4, 2002, and has served as President and Chief Executive Officer since January 10, 2003.

MR. ROBERT B. ROSENE, JR., DIRECTOR

Mr. Rosene, age 51, is President of Seminole Energy Services, L.L.C., a natural gas marketing and gathering company that he co-founded in 1998. Also in 1998, Mr. Rosene co-founded Summit Exploration, L.L.C., an oil and gas production company that holds oil and gas production in several states. Mr. Rosene has served as a director of publicly traded Syntroleum Corporation since 1985. Mr. Rosene has a B.A. with an emphasis in accounting from Oklahoma Baptist University.

Mr. Rosene became a director of Greystone effective June 14, 2004.

ROBERT H. NELSON, CHIEF FINANCIAL OFFICER

From 2001 until joining Greystone's company in 2004, Mr. Robert H. Nelson, age 60, was a financial consultant to the Key Auto Group, a retail automobile dealership chain. Mr. Nelson served as Chief Financial Officer to Fusion Telecommunications International, Inc., a provider of long distance international communication systems from 1999 to 2001. Mr. Nelson has also served as Chief Financial Officer of: United Auto Group, the second largest publicly traded retail auto group in the United States from 1996 to 1999; Trace International Holding, Inc., a privately owned company with controlling interests in a variety of public and privately owned companies from 1987 to 1999;

and Ogden Allied Service and Allied Maintenance Corporation from 1982 to 1987. Prior to that, Mr. Nelson was with Coopers and Lybrand, the predecessor to PricewaterhouseCoopers from 1970 to 1981. Mr. Nelson is a certified public accountant and a graduate of Manhattan College.

Mr. Nelson was named Chief Financial Officer effective as of November 1, 2004.

IDENTIFICATION OF THE AUDIT COMMITTEE; AUDIT COMMITTEE FINANCIAL EXPERT

Due to Greystone's size and stage of development, it has had difficulty recruiting individuals to serve on its Board of Directors who are qualified to serve as an audit committee financial expert on an audit committee. As of May 31, 2006, the Company had not established an audit committee and the entire Board of Directors essentially serves as Greystone's audit committee.

CODE OF ETHICS

As of May 31, 2006, Greystone has not adopted a Code of Ethics applicable to the Company's officers. Through May 31, 2006, Greystone's primary focus has been on achieving profitability. Greystone intends to adopt a Code of Ethics during fiscal year 2007.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Greystone's directors, officers and persons who beneficially own more than 10% of any class of the Company's equity securities registered under Section 12 to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of such registered securities of the Company. Officers, directors and greater than 10% beneficial owners are required by regulation to furnish to Greystone copies of all Section 16(a) reports they file.

Based solely on review of the copies of such reports furnished to Greystone and any written representations that no other reports were required during fiscal 2006, to Greystone's knowledge, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners during fiscal 2006 were complied with on a timely basis, except as follows:

NAME	NUMBER OF LATE REPORTS	NUMBER OF TRANSACTIONS NOT REPORTED ON A TIMELY BASIS	NUMBER OF REPORTS NOT FILED
Warren F. Kruger	1	2	0

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation paid to named executive officers during the fiscal years ended May 31, 2004, 2006 and 2006:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDING MAY 31	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS	LONG TERM COMPENSATION SECURITIES UNDERLYING OPTIONS/SARS (#)
Warren F. Kruger, President and Chief Executive Officer(1)	2006	$198,462	-0-	-0-
	2005	$240,000	-0-	-0-
	2004	$180,000	-0-	-0-
Bobby L. Moore, President and Chief Executive Officer(1)(2)	2006	$121,193	-0-	-0-
Robert H. Nelson, Chief Financial Officer(3)	2006	$151,754	-0-	-0-
	2005	$ 78,461	-0-	1,000,000
Marshall Cogan, Non-Executive Chairman	2006	$ 123,192	-0-	-0-
	2005	$ 153,846	-0-	1,250,000

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(1) Mr. Warren Kruger was succeeded by Bobby L. Moore as President and CEO effective August 15, 2005.
(2) Mr. Bobby L. Moore's employment began August 15, 2005. Mr. Moore resigned effective December 30, 2005.
(3) Mr. Robert H. Nelson's employment October 15, 2004.

There were no grants of stock options or SAR's during the fiscal year ended May 31, 2006.

The following table provides information with respect to named executive officers concerning the exercise of options during the fiscal year ended May 31, 2006, and unexercised options held as of May 31, 2006:

AGGREGATE OPTION/SAR EXERCISES IN THE LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

NAME	SHARED ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCI IN-THE-MONEY OPTI FY-END EXERCISABLE/UNE
Warren F. Kruger	-0-	N/A	231,250/43,750	-0-
Marshall Cogan	-0-	N/A	625,000/625,000	-0-
Robert H. Nelson	-0-	N/A	500,000/500,000	-0-

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COMPENSATION OF DIRECTORS

Greystone does not pay cash compensation to the members of its Board of

Directors, except as disclosed in the above "Summary Compensation Table." From time to time in the past, Greystone has granted options to the members of its Board of Directors under its stock option plan as compensation for serving on Greystone's Board of Directors. There were no options granted to any members of its Board of Directors during the fiscal year ended May 31, 2006 as consideration for serving on its Board.

EMPLOYMENT CONTRACTS

Greystone entered into an employment agreement dated August 13, 2003, with Warren Kruger, Vice Chairman and Director, for a period of five years with three automatic one-year renewal periods. Pursuant to the employment agreement, Mr. Kruger is entitled to be paid a base annual salary of $240,000, and either Mr. Kruger or Greystone may give the other party at least ninety days prior written notice that such party does not intend to renew the contract prior to the end of the then-current term.

In October 2004, Greystone entered into an employment agreement with Greystone's Non-Executive Chairman, Marshall S. Cogan, which was effective as of August 1, 2004, and has a term that ends on July 13, 2007. Pursuant to the employment agreement, Mr. Cogan received a base salary of $10,000 per month through September 2004 and a base salary of $15,000 per month beginning October 1, 2004. Mr. Cogan is also entitled to an annual bonus determined by Greystone's Board of Directors in an amount not less than 50% of the annual bonus to be received by Greystone's Chief Executive Officer. Also pursuant to the employment agreement, on December 1, 2004, Greystone granted to Mr. Cogan a warrant to purchase 1,250,000 shares of Greystone's common stock at an exercise price of $0.50 per share. The warrant became vested with respect to 25% of the shares underlying the warrant on August 1, 2004, and will vest with respect to 25% of the shares underlying the warrant on each September 30th of 2005, 2006 and 2007, respectively, and may be exercised in whole or in part until September 13, 2013. Beginning February 23, 2006, Greystone suspended payment or accrual of salary pending further review by the Board of Directors as to performance of duties under the contract.

On January 7, 2005, Greystone entered into an employment agreement with its Chief Financial Officer, Robert H. Nelson, which was effective as of November 1, 2004, and has an initial

term of 30 months. Pursuant to the employment agreement, Mr. Nelson is entitled to receive a base salary of $15,245 per month and an annual bonus determined by Greystone's Board of Directors in an amount not less than $65,000 per year after Greystone has met certain financial thresholds. Also pursuant to the employment agreement and upon Mr. Nelson relocating to Tulsa, Oklahoma on February 1, 2005, Greystone granted to Mr. Nelson an option to purchase up to 1,000,000 shares of its common stock at an exercise price of $0.50 per share in accordance with the terms of Greystone's stock option plan. The option vested with respect to 50% of the shares underlying the option effective February 1, 2005, and will vest with respect to another 50% on the date 30 months thereafter. Beginning January 26, 2006, Greystone reduced Mr. Nelson salary to $8,000 per month. Effective August 23, 2006, Greystone and Mr. Nelson entered into an agreement to negate the employment agreement for which Mr. Nelson will receive a monthly salary of $5,000 per month beginning August 2006 through December 31, 2006 and will receive a guaranteed term of five years for his stock options regardless of his employment status.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

As of May 31, 2006, Greystone had one equity incentive plan under which equity securities have been authorized for issuance to Greystone's directors, officers, employees and other persons who perform substantial services for or on behalf of Greystone. The following table provides certain information relating to such stock option plan during the year ended May 31, 2006:

EQUITY COMPENSATION PLAN INFORMATION

	(A)	(B)	
PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMB AVA U PL R
Equity compensation plans approved by security holders	3,610,000	$1.06	
Equity compensation plans approved by security holders	-0-	N/A	
Total	3,610,000	$1.06	

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of August 18, 2006, Greystone had 24,061,201 shares of its common stock and 50,000 shares of its 2003 preferred stock outstanding. Each share of the 2003 preferred stock is convertible into approximately 66.67 shares of Greystone's common stock.

The following table sets forth certain information regarding the shares of Greystone's common stock beneficially owned as of May 31, 2006, by (i) each person known by Greystone to own beneficially 5% or more of Greystone's outstanding common stock, (ii) each of Greystone's directors and officers, and (iii) all of Greystone's directors and officers as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner(1)	Percent of Class(2)
Paul A. Kruger 2500 South McGee, Ste. 147 Norman, OK 73072	3,498,098(3)	14.6%
Hildalgo Trading Company, LC 2500 South McGee Norman, OK 73072	1,767,014(4)	7.3%
GLOG Investment, L.L.C. 1613 E. 15th Street Tulsa, OK 74160	3,333,333(5)	12.2%
Warren F. Kruger Vice Chairman and Director	12,050,112(6)	41.6%

1613 East 15th Street Tulsa, OK 74120		
Robert H. Nelson Chief Financial Officer 1613 East 15th Street Tulsa, OK 74120	4,657,502(7)	16.4%
Marshall S. Cogan Director New York, NY	6,079,177(8)	21.2%
Robert B. Rosene, Jr. Director Tulsa, OK	7,977,231(9)	27.3%
All Directors & Officers as a Group (4 persons)	20,764,023(10)	62.5%

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(1) The number of shares beneficially owned by each holder is calculated in accordance with the rules of the Commission, which provide that each holder shall be deemed to be a beneficial owner of a security if that holder has the right to acquire

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beneficial ownership of the security within 60 days through options, warrants or the conversion of another security; provided, however, if such holder acquires any such rights in connection with or as a participant in any transaction with the effect of changing or influencing control of the issuer, then immediately upon such acquisition, the holder will be deemed to be the beneficial owner of the securities. The number the shares of common stock beneficially owned by each holder includes common stock directly owned by such holder and the number of shares of common stock such holder has the right to acquire upon the conversion of 2003 preferred stock and/or upon the exercise of certain options or warrants.

(2) The percentage ownership for each holder is calculated in accordance with the rules of the Commission, which provide that any shares a holder is deemed to beneficially own by virtue of having a right to acquire shares upon the conversion of warrants, options or other rights, or upon the conversion of preferred stock or other rights are considered outstanding solely for purposes of calculating such holder's percentage ownership.

(3) The total includes: (i) 1,205,584 shares of common stock beneficially owned directly or indirectly; (ii) 225,000 shares of common stock that Paul Kruger directly has the right to acquire in connection with options; (iii) 1,767,014 shares held of record by Hildalgo Trading Company, LC, an entity wholly owned by Mr. Kruger; (iv) 300,500 held by Paceco Financial Services, Inc, an entity owned by Mr. Kruger.

(4) The total includes 1,767,014 shares of common stock beneficially owned directly by Hildalgo Trading Company, LC. By virtue of his ownership of and control over Hildalgo Trading Company, LC, these shares are also included in the number of shares beneficially owned by Paul Kruger.

(5) The total includes 3,333,333 shares of common stock deemed to be owned directly by GLOG Investment, L.L.C. by virtue of its ownership of the 2003 Preferred Stock, which is convertible into common stock. GLOG is wholly owned by the following officers and/or directors of the Registrant: Warren

F. Kruger (Director), Marshall S. Cogan (Director), Robert B. Rosene, Jr. (Director) and Robert H. Nelson, Chief Financial Officer. By virtue of their ownership of and control over GLOG, these shares are also included in the number of shares beneficially owned by each of Warren F. Kruger, Marshall S. Cogan, Robert B. Rosene, Jr. and Robert H. Nelson.

(6) The total includes: (i) 5,920,805 shares of common stock beneficially owned directly by Warren Kruger; (ii) 1,198,299 shares of common stock that Mr. Kruger has the right to acquire in connections with warrants (iii) 19,000 shares held of record by Yorktown; (iv) 237,500 shares of common stock that Warren Kruger directly has the right to acquire in connection with options; (v) 1,142,857 shares and an additional 153,818 shares which Westgate has the right to acquire in connection with warrants, owned by Westgate Capital, L.L.C., an entity of which Warren Kruger owns 50%; (vi) 44,500 shares of common stock that Warren Kruger holds on behalf of his minor children, of which he only holds the power to vote; and (vii) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG Investment, L.L.C., Warren Kruger is also deemed to beneficially own the shares directly owned by GLOG.

(7) The total includes: (i) 500,000 shares of common stock that Robert Nelson directly has the right to acquire in connection with options; (ii) 500,000 shares of common stock that Robert Nelson directly has the right to acquire in connection with warrants; (iii) 285,714 shares of common stock beneficially owned by Mr. Nelson's wife, of which he disclaims any interest; (iv) 38,455 shares of common stock that Mr. Nelson's wife has the right to acquire in connection with warrants, of which he disclaims any interest; and (v) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock .

(8) The total includes: (i) 1,428,571 shares of common stock beneficially owned directly by Marshall Cogan; (ii) 625,000 shares of common stock that Mr. Cogan directly has the right to acquire in connection with options; (iii) 692,273 shares of common stock that Mr. Cogan directly has the right to acquire in connection with warrants; and (iii) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG, Marshall Cogan is also deemed to beneficially own the shares directly owned by GLOG.

(9) The total includes: (i) 2,770,951 shares of common stock beneficially owned directly by Robert Rosene; (ii) 1,872,947 shares of common stock that Robert Rosene directly has the right to acquire in connection with warrants; and (iii) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of his ability to control GLOG, Robert Rosene is also deemed to beneficially own the shares directly owned by GLOG.

(10) The total includes: (i) 11,612,398 outstanding shares, (ii) 1,362,500 shares issuable upon exercise of vested stock options, (iii) 4,455,792 shares issuable upon exercise of vested warrants and (iv) 3,333,333 shares that GLOG Investment, L.L.C. has the right to acquire upon conversion of the 2003 preferred stock. By virtue of their ownership of and control over GLOG, these shares are also included in the number of shares beneficially owned by the directors and officers as a group.

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CHANGE IN CONTROL

Effective March 8, 2005, GLOG Investment, L.L.C., which is owned by

Marshall Cogan, Non-Executive Chairman, Warren F. Kruger, Vice Chairman, and Robert Rosene, Jr., Director, and Robert H. Nelson, Chief Financial Officer, acquired the outstanding 50,000 shares of Series 2003 Preferred Stock from Paul Kruger, a major shareholder of Greystone. In connection with such transaction, the members of GLOG, as the holder of the Series 2003 Preferred Stock, possess certain voting rights to elect a majority of the Board of Directors of Greystone. These voting rights and other material terms and conditions of the Series 2003 Preferred Stock are set forth in the Certificate of Designation relating to such Series 2003 Preferred Stock included as an exhibit to a Current Report on Form 8-K filed by Greystone on September 23, 2004.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

AGREEMENTS WITH NYOK

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

Effective as of November 1, 2004, NYOK entered into an equipment rental contract with GSM to lease a Cincinnati Milacron Plastics Injection Molding Machine for a five-year term at the rate of $21,136 per month. At the end of such five-year term, GSM has the right to purchase the machine from NYOK for $100,000. The lease is reflected on Greystone's financial statements as a capitalized lease.

AGREEMENT WITH GREYSTONE PROPERTIES, LLC

Effective as of July 1, 2004, Greystone Properties, LLC, a limited liability company owned by Robert B. Rosene, Jr., a member of Greystone's Board of Directors, and Warren Kruger, Greystone's Vice Chairman, entered into an industrial lease with GSM, pursuant to which Greystone Properties, LLC agreed to lease a building containing 60,000 square feet of space to GSM for ten years in exchange for lease payments of $25,000 per month. Greystone paid Greystone Properties, LLC, rent of $20,000 per month for the period from August 1, 2004 to October 31, 2004 and began paying $25,000 per month beginning November 30, 2004. The industrial building is located adjacent to Greystone's plant in Bettendorf, Iowa.

ADVANCES AND LOANS

For information regarding loans from Warren Kruger, see "Loans from Warren Kruger" under the heading "Liquidity and Capital Resources" in Item 6 of this Form10-KSB.

For information regarding an advance from Robert Rosene, see "Advances and Loans from Robert Rosene" under the heading "Liquidity and Capital Resources" in Item 6 of this Form10-KSB.

SALE AND LEASEBACK

As of September 8, 2003, Greystone's Dallas plant and certain production equipment were sold to 1607 Commerce, an entity owned by Paul Kruger, and leased back to PPP. For more information on this sale and leaseback transaction, see "Sale and Leaseback of Dallas Plant and Certain Production Equipment" under Item 1 of this Form 10-KSB. During the year ended May 31, 2005, Greystone paid rents of $255,480 to 1607 Commerce.

TECHNOLOGY LICENSE AGREEMENT

In April 2001, Greystone entered into a license agreement with WCC, an entity owned by Warren Kruger and William Pritchard, providing for Greystone to have the exclusive right and license to use fire retardancy technology then being developed under the direction and expense of WCC. The license agreement was negotiated and executed 9 months before Warren Kruger, William Pritchard, or entities with which they are affiliated became directors or beneficial owners of 10% or more of Greystone's common stock in January 2002. Under the agreement, Greystone must pay the greater of 2.5% of Greystone's gross monthly revenues derived from the sale of UL listed pallets using the technology or a minimum monthly royalty of $10,000. However, WCC also agreed in the license agreement to convey to Greystone ownership of the licensed Process (as defined in the agreement) in the event that cumulative royalties paid by Greystone equaled $250,000 during the first two years of the agreement, subject to an override or carried interest in favor of WCC equal to 2.5% of the gross monthly revenues which are the same payments as would have been received under the license agreement. Subsequent to the execution of the original agreement which provided for a "coating" technology, Westgate Capital Company, L.L.C., developed an additive process which Greystone used to successfully complete UL testing. The technology is currently known as CJ2(TM).

During fiscal year 2005, Greystone accrued $400,000 of past licensing fees under the license agreement and accordingly Greystone has entered into a paid-up licensing agreement with Westgate Capital Company, L.L.C. This liability was subsequently settled through the issuance of common stock during fiscal year 2005.

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OTHER TRANSACTIONS

For information relating to an arrangement entered into between Greystone and Yorktown Management and Financial Services, L.L.C., and entity wholly owned by Greystone's Vice Chairman, Warren Kruger, relating to the prepayment for resin on Greystone's behalf. See "Other Business" under Item 1 of this Form 10-KSB.

For information regarding employment contracts, see "Employment Contracts" under Item 10 of this Form 10-KSB.

ITEM 13. EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Certificate of Ownership and Merger Merging PalWeb Corporation, a Delaware corporation, into PalWeb Oklahoma Corporation, an Oklahoma corporation, filed with the Delaware Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 2.1 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
2.2	Certificate of Ownership and Merger Merging PalWeb Corporation, a Delaware corporation, into PalWeb Oklahoma Corporation, an Oklahoma corporation, filed with the Oklahoma Secretary of State

	on May 2, 2002 (incorporated herein by reference to Exhibit 2.2 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
3.1	Certificate of Incorporation of PalWeb Oklahoma Corporation filed with the Oklahoma Secretary of State on May 2, 2002 (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
3.2	Bylaws of PalWeb Oklahoma Corporation as adopted on May 2, 2002 (incorporated herein by reference to Exhibit 3.2 of the Company's Form 8-K12G3 dated May 2, 2002, which was filed with the SEC on May 24, 2002).
4.1	Certificate of Incorporation of PalWeb Oklahoma Corporation filed with the Oklahoma Secretary of State on May 2, 2002 (included in Exhibit 3.1).
4.2	Certificate of the Designation, Preferences, Rights and Limitations of PalWeb Corporation's Series 2003 Cumulative Convertible Senior Preferred Stock (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
4.3	Certificate of Ownership and Merger Merging Greystone Logistics, Inc., into PalWeb Corporation filed with the Oklahoma Secretary of State on March 18, 2005 (incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K dated March 18, 2005, which was filed with the SEC on March 24, 2005).

10.1	License Agreement by and between Westgate Capital Company, L.L.C., and PalWeb Corporation dated April 20, 2001 (incorporated herein by reference to Exhibit 10.21 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.2	Non Exclusive Distribution Agreement between PalWeb Corporation and Bosh Material Handling Incorporated dated August 5, 2002 (incorporated herein by reference to Exhibit 10.23 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.3**	Form of Indemnity Agreement between Members of the Board of Directors and PalWeb Corporation (incorporated herein by reference to Exhibit 10.30 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.4	Indemnity Agreement by and between The Union Group, Inc., and Cabec Energy Corp. dated August 31, 1998 (incorporated herein by reference to Exhibit 10.6 of Amendment No. 3 to the Company's Form 10-SB, which was filed on May 2, 2000).
10.5**	Stock Option Plan of PalWeb Corporation (effective May 11, 2001), as amended (incorporated herein by reference to Exhibit 10.32 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).

10.6**	Form of Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 99.8 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.7**	Form of Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 99.9 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.8**	Form of Nonemployee Director Stock Option Agreement (incorporated herein by reference to Exhibit 99.10 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2001, which was filed with the SEC on September 13, 2001).
10.9	** Form of Employee Director Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.36 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).

10.10	Assignment and Indemnity Agreement between the Company and Paul A. Kruger (regarding transfer of stock of PP Financial, Inc.) dated May 30, 2002 (incorporated herein by reference to Exhibit 10.39 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2002, which was filed with the SEC on September 13, 2002).
10.11	Letter Agreement dated January 22, 2003 between Gravity Management & Engineering Group, LLC and PalWeb Corporation (incorporated herein by reference to Exhibit 10.48 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2003, which was filed with the SEC on September 15, 2003).
10.12	Asset Purchase Agreement between Greystone Plastics, Inc. and Greystone Manufacturing, L.L.C. dated September 3, 2003 (incorporated herein by reference to Exhibit 10.1 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.13	Senior Secured Promissory Note in the amount of $5,000,000 payable to Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.2 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.14	Real Estate Note in the amount of $2,500,000 payable to Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.3 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.15	Wraparound Promissory Note in the amount of $799,454.06 payable to Bill Hamilton (incorporated herein by reference to Exhibit 10.4 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.16	Security Agreement between Greystone Plastics, Inc. and Greystone Manufacturing, L.L.C. dated September 3, 2003 (incorporated herein by reference to Exhibit 10.5 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on

September 23, 2003).

10.17	Asset Purchase Agreement between Plastic Pallet Production, Inc. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.7 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.18	Letter Agreement between Plastic Pallet Production, Inc. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.8 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).

10.19	Sale Agreement between Plastic Pallet Production, Inc. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.9 of The Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.20	Equipment Lease between 1607 Commerce Limited Partnership and Plastic Pallet Production, Inc. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.10 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.21	Lease Agreement between 1607 Commerce Limited Partnership and Plastic Pallet Production, Inc. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.11 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.22	Security Agreement among PalWeb Corporation, Plastic Pallet Production, Inc., Greystone Manufacturing, L.L.C. and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.12 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.23	Guaranty of Obligations of Tenant Pursuant to Equipment Lease by PalWeb Corporation and Greystone Manufacturing, L.L.C. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.13 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.24	Guaranty of Obligations of Tenant Pursuant to Lease by PalWeb Corporation and Greystone Manufacturing, L.L.C. dated September 8, 2003 (incorporated herein by reference to Exhibit 10.14 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).
10.25	Stock Pledge Agreement between PalWeb Corporation and 1607 Commerce Limited Partnership dated September 8, 2003 (incorporated herein by reference to Exhibit 10.15 of the Company's Form 8-K dated September 8, 2003, which was filed with the SEC on September 23, 2003).

10.26**	Employment Agreement between PalWeb Corporation and Warren Kruger dated August 13, 2003 (incorporated herein by reference to Exhibit 10.35 of the Company's Form 10-KSB for the Fiscal Year Ended May 31, 2004, which was filed with the SEC on August 30, 2004).
10.27**	Employment Agreement dated as of August 1, 2004, by and between PalWeb Corporation and Marshall S. Cogan (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.28**	Employment Agreement dated as of November 1, 2004, by and between PalWeb Corporation and Robert H. Nelson (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.29	Form of Securities Purchase Agreement entered into between PalWeb Corporation and certain accredited investors in connection with November 2004 private placement (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.30	Letter Agreement dated January 3, 2005, by and between Greystone Manufacturing, L.L.C., and Greystone Plastics, Inc. (incorporated herein by reference to Exhibit 10.4 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2004, which was filed with the SEC on January 19, 2005).
10.31	Loan Agreement dated March 4, 2005, by and among Greystone Manufacturing, L.L.C., GLOG Investment, L.L.C., The F&M Bank & Trust Company and PalWeb Corporation (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.32	Promissory Note dated November 30, 2004, in the amount of $1,500,000 issued by Greystone Manufacturing, L.L.C., to The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.33	Term Note dated March 4, 2005, in the amount of $5,500,000 issued by Greystone Manufacturing, L.L.C., to The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.3 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).

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10.34	Security Agreement dated March 4, 2005, by and between Greystone Manufacturing, L.L.C., and The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.4 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).
10.35	Mortgage Agreement dated March 4, 2005, by and between Greystone Manufacturing, L.L.C., and The F&M Bank & Trust Company (incorporated herein by reference to Exhibit 10.5 of the

Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).

10.36 Guaranty of PalWeb Corporation dated March 4, 2005 (incorporated herein by reference to Exhibit 10.6 of the Company's Form 8-K dated March 4, 2005, which was filed with the SEC on March 10, 2005).

10.37 Industrial Lease dated as of July 1, 2004, by and between Greystone Properties, LLC, and Greystone Manufacturing, L.L.C. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).

10.38 Equipment Rental Contract dated as of November 1, 2004, by and between NYOK Partners and Greystone Manufacturing, L.L.C. relating to certain grinding equipment (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).

10.39 Equipment Rental Contract dated as of November 1, 2004, by and between NYOK Partners and Greystone Manufacturing, L.L.C. relating to plastic injection molding machine (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended February 28, 2005, which was filed with the SEC on April 20, 2005).

10.40 Promissory Note dated as of June 17, 2005 in the amount of $500,100 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Robert B. Rosene, Jr. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

10.41 Promissory Note dated as of December 15, 2005 in the amount of $2,066,000 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Robert B. Rosene, Jr. (incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

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10.42 Promissory Note dated as of December 15, 2005 in the amount of $527,716 issued by Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. to Warren F. Kruger, Jr. (incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

10.43 Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Robert B. Rosene, Jr. relating to Promissory Note in the amount of $500,100 (incorporated herein by reference to Exhibit 10.4 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

10.44 Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Robert B. Rosene, Jr. relating to Promissory Note in the amount of $2,066,000 (incorporated herein by reference to Exhibit 10.5 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

10.45 Security Agreement dated as of December 15, 2005 by and between Greystone Logistics, Inc. and Greystone Manufacturing, L.L.C. and Warren F. Kruger, Jr. relating to Promissory Note in the amount of $527,716 (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-QSB for the Quarterly Period Ended November 30, 2005, which was filed with the SEC on January 17, 2006).

11.1 Computation of Loss Per Share is in Note 1 in the Notes to the Financial Statements.

21.1 Subsidiaries of Greystone Logistics, Inc. (submitted herewith).

23.1 Consent of Murrell, Hall, McIntosh & Co., PLLP (submitted herewith).

31.1 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-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

32. 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).

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to Greystone by Murrell, Hall & McIntosh, PLLP, Greystone's independent registered public accounting firm, for professional services rendered for the fiscal years ended May 31, 2006 and May 31, 2005:

Fee Category	Fiscal 2006 Fees	Fiscal 2005 Fees
Audit Fees(1)	$ 36,400	$ 44,065
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
Total Fees	$ 36,400	$ 44,065

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(1)Audit Fees consist of aggregate fees billed for professional services rendered for the audit of Greystone's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements during the fiscal years ended May 31, 2006 and May 31, 2005, respectively.

The entire Board of Directors of Greystone is responsible for the appointment, compensation and oversight of the work of the independent registered public accounting firm and approves in advance any services to be performed by the independent registered public accounting firm, whether audit-related or not. The entire Board of Directors reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent registered public accounting firm. All of the fees shown above were pre-approved by the entire Board of Directors.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREYSTONE LOGISTICS, INC.
(Registrant)

Date: 09/13/06

/s/ Robert H. Nelson

Robert H. Nelson, Chief Financial Officer
(Principal Financial and Accounting Officer and interim principal executive officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: 09/13/06

/s/ Robert H. Nelson

Robert H. Nelson, Chief Financial Officer
(Principal Financial and Accounting Officer and interim principal executive officer)

Date: 09/13/06

Marshall S. Cogan, Director

Date: 09/13/06

/s/ Warren F. Kruger

Warren F. Kruger, Director

Date: 09/13/06 /s/ Robert B. Rosene, Jr.

Robert B. Rosene, Jr., Director

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF GREYSTONE LOGISTICS, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders
of Greystone Logistics, Inc.

We have audited the accompanying consolidated balance sheet of Greystone Logistics, Inc. (an Oklahoma corporation) and its subsidiaries as of May 31, 2006, and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for each of the years ended May 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required, nor have we been engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greystone Logistics, Inc. and its subsidiaries as of May 31, 2006, and the consolidated results of their operations and cash flows for each of the years ended May 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered significant losses from operations. Substantial additional funding will be required to implement its business plan and to attain profitable operations. The lack of adequate funding to maintain working capital and stockholders' deficits at May 31, 2006 raises substantial doubt about its ability to continue as a going concern unless additional funds from outside sources, its president or other board members are obtained. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

MURRELL, HALL, MCINTOSH & CO., PLLP

Oklahoma City, Oklahoma
September 13, 2006

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
May 31, 2006

ASSETS

CURRENT ASSETS:	
Cash	$ 925
Accounts receivable	842,375
Inventory	631,236
Prepaid expenses	8,913
TOTAL CURRENT ASSETS	1,483,449
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	8,028,275
OTHER ASSETS	151,661
TOTAL ASSETS	$ 9,663,385

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Current portion of long-term debt	$ 2,055,463
Cash overdraft	143,928
Advances payable - related parties	394,567
Accounts payable and accrued expenses	2,740,555
Preferred dividends payable	513,260
TOTAL CURRENT LIABILITIES	5,847,773
LONG-TERM DEBT, NET OF CURRENT PORTION	10,886,176
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY:	
Preferred stock, $0.0001 par value, 20,750,000 shares authorized, 50,000 shares outstanding, liquidation preference of $5,000,000	5
Common stock, $0.0001 par value, 5,000,000,000 shares authorized, 24,061,201 outstanding	2,406
Additional paid-in capital	52,278,594
Deficit	(59,351,569)
TOTAL STOCKHOLDERS' DEFICIENCY	(7,070,564)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 9,663,385

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

	Year Ended May 31,	
	2006	2005

Sales	$ 15,956,386	$ 9,305,534
Cost of Sales, including depreciation expense of $745,244 and $591,905 in 2005 and 2004, respectively	15,030,690	9,573,029
Gross Profit (Loss)	925,696	(267,495)
Expenses:		
General, selling and administration expenses	2,248,719	3,449,422
Impairment costs	--	5,719,658
Relocation costs	--	355,000
Total expenses	2,248,719	9,524,080
Operating Loss	(1,323,023)	(9,791,575)
Other Income (Expense):		
Other income	1,700	62,091
Interest expense	(1,013,830)	(692,341)
Total Other Income (Expense)	(1,012,130)	(630,250)
Net Loss	(2,335,153)	(10,421,825)
Preferred Dividends	513,938	404,555
Net Loss Available to Common Stockholders	$ (2,849,091)	$(10,826,380)
Loss Available to Common Stockholders Per Share of Common Stock - Basic and Diluted	$ (0.12)	$ (0.60)
Weighted Average Shares of Common Stock Outstanding	24,061,000	17,950,000

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

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (Deficiency)

	Preferred Stock		Common Stock		Additional Paid-In Capital
Balances, May 31, 2004	50,000	$ 5	12,790,451	$ 1,279	$ 48,265,496

Stock issued in exchange for debt	--	--	5,985,037	598	2,099,565
Sales of common stock	--	--	5,285,713	529	1,849,471
Preferred dividends paid or accrued	--	--	--	--	--
Net loss	--	--	--	--	--
Balances, May 31, 2005	50,000	5	24,061,201	2,406	52,214,532
Preferred dividends paid or accrued	--	--	--		--
Compensation cost of stock options	--	--	--	--	64,062
Net loss	--	--	--	--	--
Balances, May 31, 2006	50,000	$ 5	24,061,201	$ 2,406	$ 52,278,594

The accompanying notes are an integral part
of these financial statements

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Year Ended May 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (2,335,153)	$(10,421,825)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	768,438	1,296,601
Impairments	--	5,719,658
Stock option compensation costs	64,062	--
Loss on sale of equipment	12,887	--
Expenses paid by issuance of common stock	--	415,900
Changes in accounts receivable	731,260	(622,039)
Changes in inventory	(95,713)	(14,147)
Changes in prepaid expenses	2,019	(10,932)
Changes in accounts payable and accrued expenses	128,879	699,577
Net cash used in operating activities	(723,321)	(2,937,207)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,626,658)	(426,054)
Net cash used in investing activities	(1,626,658)	(426,054)

Cash Flows from Financing Activities:		
Proceeds from notes and advances payable	2,960,267	8,402,650
Payments on notes and advances payable	(720,238)	(6,730,712)
Bank overdraft	143,928	--
Proceeds from issuance of common/preferred stock	--	1,850,000
Dividends paid on preferred stock	(34,463)	(431,352)
Cash provided by financing activities	2,349,494	3,090,586
Net Increase (Decrease) in Cash	(485)	(272,675)
Cash, beginning of year	1,410	274,085
Cash, end of year	$ 925	$ 1,410

Supplemental Information (Note 12)

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

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GREYSTONE LOGISTICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Greystone Logistics, Inc. ("Greystone") through its wholly-owned subsidiaries Greystone Manufacturing, LLC ("GSM"), and Plastic Pallet Production, Inc. ("PPP"), is engaged in the manufacture and marketing of plastic pallets.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Greystone and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

STATEMENT OF CASH FLOWS

Greystone considers all short-term investments with an original maturity of three months or less to be cash equivalents.

USE OF ESTIMATES

The preparation of Greystone's financial statements in conformity with generally accepted accounting principles in the United States of America requires Greystone's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ materially from those estimates.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Greystone carries its accounts receivable at their face value less an allowance for doubtful accounts. On a periodic basis, Greystone evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions and based on a history of collections. There is no allowance for doubtful accounts at May 31, 2006.

INVENTORY

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

PROPERTY, PLANT AND EQUIPMENT

Greystone's property, plant and equipment is stated at cost. Depreciation expense is computed on the straight-line over the estimated useful lives or the units of production method, as follows:

Plant building	39 years
Production machinery equipment	5-10 years
Office equipment & furniture & fixtures	3- 5 years

Upon sale, retirement or other disposal, the related costs and accumulated depreciation of items of property, plant or equipment are removed from the related accounts and any gain or loss is recognized. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed comparing the estimated future undiscounted cash flows associated with the asset to the assets carrying amount. If the asset carrying amount exceeds the cash flows, a write-down to market value or discounted cash flow value is required.

GOODWILL AND INTANGIBLES

Goodwill and intangibles are reviewed annually for impairment relying on a number of factors including operating results, business plans and future cash flows. An impairment charge is recognized for any amount by which the carrying value of goodwill exceed its fair value. Discounted cash flows are used to establish fair values. See Note 15 for recognition of impairment of the unamortized balance of goodwill during fiscal year 2005.

Intangible cost for the acquisition of customer's purchase orders, resulting from the acquisition of the assets of Greystone Plastics, Inc. effective September 8, 2003, was being amortized by the unit of production method based on unit sales to the customer. However, an impairment charge for the unamortized balance was recognized during fiscal year 2005 as discussed further in Note 15.

PATENTS

Amortization expense for the costs incurred by Greystone to obtain the patents on the modular pallet system and accessories is computed on the straight-line method over the estimated life of 15-17 years.

STOCK OPTIONS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123(R) requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees and is effective for interim or annual periods beginning after December 15, 2005. The Company has adopted SFAS No. 123(R) as of March 1, 2006, using the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified or settled after the date of adoption will be measured in accordance with SFAS No. 123(R). Unvested equity-classified awards that were granted prior to March 1, 2006 will be accounted for using the straight-line basis for recognizing compensation costs in accordance with SFAS No. 123, except that the amounts will be recognized in the Company's consolidated statements of operations. The effect of adopting SFAS No. 123(R) is a charge in the amount of $64,062 to compensation expense during the quarter ended and the year ended May 31, 2006.

Prior to March 1, 2006, Greystone applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations, in accounting for its stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, established accounting and disclosure requirements for stock-based employee compensation plans. As allowed by SFAS No. 123, Greystone used the intrinsic value-based method of accounting under APB No. 25, through March 1, 2005, the adoption date of SFAS No. 123(R).

RECOGNITION OF REVENUES

Revenue is recognized when the product is shipped.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to operations in the period incurred.

INCOME TAXES

Greystone accounts for income taxes under the liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

EARNINGS (LOSS) PER SHARE

Basic loss per share is computed by dividing the loss available to common stockholders

by the weighted average number of common shares outstanding for the year. In arriving at income (loss) available to common stockholders, preferred stock dividends are added to the net loss for the year. Convertible preferred stock, warrants and stock options are not considered as their effect is antidilutive.

NOTE 2. CONTINUATION AS A GOING CONCERN

The accompanying financial statements have been prepared assuming that Greystone will continue as a going concern. Greystone has suffered significant losses from operations. Currently, management believes that Greystone has the capacity to produce sufficient plastic pallets to achieve profitability; however, sales have not reached such level. To date, Greystone has received substantial advances from investors but will require additional substantial funding in order to attain its business plan and have an opportunity to achieve profitable operations. Historically, management has been successful in financing its operations primarily through short-term loans and personal guarantees on bank loans by its officers and directors. Management continues to seek long-term and/or permanent financing. Neither the receipt of additional funding in adequate amounts nor the successful implementation of its business plan can be assured. The combination of these factors raises substantial doubt about Greystone's ability to continue as a going concern. It is management's opinion that (1) based upon expressions of interest from potential customers, adequate sales will be attained to reach a profitable status, (2) the funding for working capital required to reach necessary production levels will be obtained and (3) Greystone will continue as a going concern.

NOTE 3. INVENTORY

Inventory at May 31, 2006 consists of:

Raw materials	$ 554,316
Finished goods	76,920
Total inventory	$ 631,236

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

A summary of the property, plant and equipment at May 31, 2006, is as follows:

Production machinery and equipment	$ 7,312,815
Building and land	2,615,742
Furniture and fixtures	159,809
	10,088,366
Less: accumulated depreciation	(2,060,091)
	$ 8,028,275

Depreciation expense for the years ended May 31, 2006 and 2005 is $755,148 and $594,989, respectively.

NOTE 5. OTHER ASSETS

At May 31, 2006 other assets consist of:

Patents, net of accumulated amortization of $52,878	$ 137,861
Deposits	13,800

Total Other Assets	$ 151,661
	==========

Amortization of intangibles was $13,290 and $705,517 for 2006 and 2005, respectively. Included in amortization expense for 2005 is $693,206 for amortization of capitalized customer's purchase order acquired in the acquisition of the assets of Greystone Plastics, Inc.

NOTE 6. LONG-TERM DEBT AND ADVANCES PAYABLE

Long-term debt at May 31, 2006 consists of the following:

Note payable to F&M Bank & Trust Company, prime rate of interest plus 2%, due March 18, 2008, payable in monthly installments of $51,472	$ 5,319,215
Note payable to F&M Bank & Trust Company, prime rate of interest plus 1%, due January 5, 2007	1,400,000
Note payable to Greystone Plastics, Inc., 7% interest, due September 7, 2018, payable in monthly installments of $13,889 plus accrued interest	2,069,441
Note payable to First Bartlesville Bank, prime rate of interest plus 1%, due July 1, 2008, payable in monthly installments of $6,441	390,082
Note payable to Robert Rosene, 7.5% interest, due January 15, 2010, payable in three equal annual installments of principal and interest beginning January 15, 2008	2,066,000
Note payable to Robert Rosene, prime rate of interest plus 0.5%, due July 1, 2008, payable in monthly installments of $7,546	458,177

Note payable to Warren Kruger, 7.5% interest, due January 15, 2010, payable in three equal annual installments of principal and interest beginning January 15, 2007	527,716
Capitalized lease purchase agreement with related party, 7.5% interest, due February 18, 2009, payable in monthly installments of $21,136	710,621
Other notes payable	387

Total	12,941,639
Less: Current portion	2,055,463

Long-term debt	$10,886,176
	===========

The prime rate of interest as of May 31, 2006 was 8%.

The note payable to Greystone Plastics is secured by land and building with a net book value of $2,431,997.

The note payable to First Bartlesville Bank is secured by equipment with a net book value of $1,123,765.

The notes payable to F&M Bank and Trust Company are secured by Greystone's property and equipment, accounts receivable and cash balances. The loans are guaranteed by the officers and directors of Greystone in effect at May 31, 2006.

Maturities of long-term debt for the five years after May 31, 2006 are $2,055,463, $6,501,845, $1,950,322, $1,031,240, $166,668, and $1,236,101 thereafter.

NOTE 7. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH BILL HAMILTON, FORMER VICE PRESIDENT OF PRODUCTION

Bill Hamilton owns a trucking company, Greystone-Bill Hamilton Trucking, which provided freight services totaling $829,672 for period from July 1, 2004 through March 8, 2005, the date of Mr. Hamilton's resignation, and fiscal year 2004, respectively. Greystone believes that the freight rates are equivalent to an arms-length transaction. In addition, GSM paid or accrued fees totaling $117,716 in 2005 through the date of his resignation for grinding services to Whaco Plastics, an entity also owned by Bill Hamilton.

TRANSACTIONS WITH NYOK PARTNERS

Effective as of October 31, 2004, NYOK Partners, a general partnership owned by Marshall Cogan, Greystone's Non-Executive Chairman, and Warren Kruger, Greystone's President and Chief Executive Officer, purchased certain grinding equipment from GSM, at its net book value of $259,000, which approximates the market value of such equipment, in exchange for the cancellation of a like amount of indebtedness. NYOK used the equipment as a trade-in to acquire a grinder with greater capacity. Effective as of November 1, 2004, NYOK entered into an equipment rental contract with GSM, pursuant which NYOK has agreed to lease the grinding equipment to GSM for a period of one year at the rate of $0.06 per pound of plastic material processed utilizing the equipment. During 2006, Greystone paid $44,000 to NYOK for grinding fees.

Effective as of November 1, 2004, NYOK entered into an equipment rental contract with GSM to lease a Cincinnati Milacron Plastics Injection Molding Machine for a five-year term at the rate of $21,136 per month. At the end of such five-year term, GSM has the right to purchase the machine from NYOK for $100,000. The lease is reflected on Greystone's financial statements as a capitalized lease.

TRANSACTIONS WITH GREYSTONE PROPERTIES, LLC

Effective as of July 1, 2004, Greystone Properties, LLC, a limited liability company owned by Robert B. Rosene, Jr., a member of Greystone's Board of Directors, and Warren Kruger, Vice Chairman, entered into an industrial lease with GSM, pursuant to which Greystone Properties, LLC agreed to lease a building containing 60,000 square feet of space to GSM for ten years in exchange for lease payments of $25,000 per month, amended to $17,500 beginning January 1, 2006. Greystone paid Greystone Properties, LLC, rent of $20,000 per month for the period from beginning August 1, 2004, $25,000 per month beginning November 30, 2004 and $17,500 beginning January 1, 2006. The industrial building is located adjacent to Greystone's plant in Bettendorf, Iowa.

TRANSACTIONS WITH PAUL KRUGER, A SIGNIFICANT STOCKHOLDER

Until September 8, 2003, Greystone had a $7,000,000 note payable to Paul Kruger, a significant stockholder, at an interest rate of prime plus 3%, due June 4, 2004, secured by all of Greystone's assets. Effective September 8, 2003, Greystone completed a sale and leaseback transaction whereby it sold for agreed upon prices its plant for $1,350,000 and certain production equipment for $5,710,698 to 1607 Commerce Limited Partnership, an entity owned by Paul Kruger, in exchange for the $7,000,000 note payable and accrued interest of $60,698, which resulted in no gain or loss on the transaction. The lease agreement for the plant is a three-year triple net lease with a monthly rental of $17,720. The equipment lease is for 130 months with a monthly rental after the first six months of $48,000 beginning March 8, 2004. During 2005, the total amount paid to 1607 Commerce Limited Partnership under these leases totaled $657,200. Effective March 1, 2005, Greystone notified 1607 Commerce Limited Partnership that pursuant to the breach of certain provisions of the lease, Greystone considered the lease on the building located at 1607 West Commerce, Dallas,

Texas, terminated. During 2006, Greystone has made no payments to 1607 Commerce Limited Partnership with respect to the equipment lease, but has accrued $576,000 for the year.

TRANSACTIONS WITH WARREN KRUGER, VICE CHAIRMAN

During 2006, Mr. Kruger advanced $429,100 to Greystone. Effective December 15, 2005, Greystone entered into a loan agreement with Warren Kruger to convert $527,716 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010. At May 31, 2006, note payable of $527,716, advances of $382,318 and accrued interest of $28,718 were due to entities owned or controlled by Warren Kruger.

During 2005, Warren Kruger advanced $1,256,925 to Greystone, was repaid $807,669 and exchanged $515,672 of advances and accrued interest for common stock, as discussed above in Note 9. Interest accrued on notes and advances to entities owned or controlled by Warren Kruger totaled $45,871 in 2005. At May 31, 2005, advances of $452,216 and accrued interest of $10,485 were due to entities owned or controlled by Warren Kruger.

Greystone also reimburses an entity owned by Warren Kruger for office rent at the rate of $1,500 per month.

TRANSACTIONS WITH ROBERT ROSENE, DIRECTOR

In May 2005, Robert Rosene, a member of Greystone's Board of Directors, advanced $500,000 to Greystone. During fiscal year 2006, Mr. Rosene advanced and additional amount of $1,578,249. Effective December 15, 2005, Greystone entered into a loan agreement with Mr. Rosene to convert $2,066,000 of the advances into a note payable at 7.5% interest and payable in three equal installments of principal and accrued interest beginning January 15, 2008 through January 15, 2010.

TRANSACTIONS WITH WESTGATE CAPITAL, L.L.C.

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

Chairman and Director, is a member. The licensing agreement relates to the use of a fire retardant formula in the manufacture of plastic pallets. See Note 16, Commitments and Contingencies, for further discussion of the licensing fee.

OTHER TRANSACTIONS

See also Note 9, "Stockholders' Equity."

NOTE 8. FEDERAL INCOME TAXES

Deferred taxes as of May 31, 2006 and 2005 are as follows:

	2006	2005
Deferred Tax Assets:		
Net operating loss	$ 9,358,497	$ 8,407,180
Amortization of intangibles	1,725,005	1,862,650
Capital loss carryover	1,059,440	1,057,740
Accrued expenses	145,349	10,526
Allowance for doubtful accounts	--	64,724
Total deferred tax assets	12,288,291	11,402,820
Deferred Tax Liabilities:		
Depreciation of property and equipment, Tax in excess of financial reporting	(5,455)	(45,636)
	12,282,836	11,357,184
Less: Valuation allowance	(12,282,836)	(11,357,184)
Total	$ --	$ --

Management has provided a valuation allowance for the full amount of the deferred tax asset as Greystone continues to incur substantial losses from its operations. While management projects that the products being developed will be profitable and the deferred asset will ultimately be realized, Greystone has not yet reached sufficient reliability on product acceptance and marketability to reduce the valuation allowance.

The net change in deferred taxes for the year ended May 31, is as follows:

	2006	2005
Net operating loss	$ 951,317	$ 1,832,089
Depreciation of property and equipment	40,181	199,170
Amortization of intangibles	(137,645)	1,779,956
Accrued expenses	14,123	(140,622)
Loss on investments	1,700	
Allowance for doubtful accounts	(64,724)	41,017
Change in valuation allowance	(804,952)	(3,711,610)
Total	$ --	$ --

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

	2006	2005
Tax benefit using statutory rates	$ 772,171	$ 4,837,970
Net change in valuation allowance	(804,952)	(4,854,860)
Other	32,781	16,890
Tax benefit, per financial statements	$ --	$ --

Greystone has a net operating loss (NOL) for Federal income tax purposes as of May 31, 2006 of $27,525,000 as follows:

Amount	Year of Expiration
$ 1,290,000	2012
1,291,000	2018
5,871,000	2019
2,634,000	2020
883,000	2021
2,370,000	2022
4,167,000	2023
1,632,000	2024
4,589,000	2025
2,798,000	2026

Pursuant to Internal Revenue Code Section 382 and due to a change in control of Greystone, the amount of operating loss which may be applied in any one year will be substantially limited.

NOTE 9. STOCKHOLDERS' EQUITY

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

			Warrants Exercisable		
Officer/Director	Shares	Amount	$0.6625	$0.795	$
Marshall Cogan, Non-executive Chairman	1,428,571	$500,000	75,472	62,893	
Warren Kruger, Vice Chairman and Director(1)	1,473,347	$515,671	77,837	64,864	

Robert Nelson, Chief Financial Officer	285,714	$100,000	15,094	12,579	
Westgate Capital, LLC(1)(2)	1,142,857	$400,000	60,377	50,314	
All Others	6,910,261	$2,418,592	365,073	304,228	2
Total	11,240,750	3,934,263	593,853	494,878	2

(1) Warren Kruger exchanged debt and accrued interest for the common stock and warrants.

(2) Warren Kruger is a member of Westgate Capital, LLC.

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

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

A summary of outstanding warrants for the years ending May 31 is as follows:

	2005		2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Beginning of year	--	$ --	5,012,914	$ 0.585
Additions	5,012,914	0.585	--	--
End of year	5,012,914	$ 0.585	5,012,914	$0.585

All warrants issued and outstanding have a term of five years.

In September, 2003, Greystone issued 50,000 shares of Series 2003, cumulative, convertible preferred stock, par value $0.0001, to Paul Kruger, a major stockholder of Greystone, for a total purchase price of $5,000,000. Each share of the preferred stock has a stated value of $100.00 and a dividend rate equal to the prime rate of interest plus 3.25% and may be converted into common stock at the conversion rate of $1.50 per share or an aggregate of 3,333,333 shares of common stock. The holder of the preferred stock has been granted certain voting rights so that such holder has the right to elect a majority of the Board of Directors of Greystone. On March 9, 2005, the Series 2003 preferred stock was purchased from Paul Kruger by GLOG Investment, L.L.C., a limited liability company of which the members are Warren Kruger, Vice Chairman and Director, Robert Nelson, Chief Financial Officer, Marshall Cogan, Non-Executive Chairman, and Robert Rosene, Director.

NOTE 10. STOCK OPTIONS

Greystone has a stock option plan that provides for the granting of options to key employees and non-employee directors. The options are to purchase common stock at not less than fair market value at the date of the grant. The maximum number of shares of common stock for which options may be granted is 20,000,000 of which 16,015,000 are available for grant as of May 31, 2006. Stock options generally expire in ten years from date of grant or upon termination of employment and are generally exercisable one year from date of grant in cumulative annual installments of 25%, except that the options granted in fiscal 2001 were 100% vested at the date of grant. Following is a summary of option activity for the three years ended May 31, 2006:

	Shares (000's)	Weighted Average Exercise Price
Options outstanding at May 31, 2003	1,585	1.96
Options granted	350	0.54
Options outstanding at May 31, 2004	1,935	1.68
Options granted	2,250	0.50
Options cancelled	(225)	0.50

	Shares (000's)	Weighted Average Exercise Price
Options outstanding at May 31, 2005	3,960	1.01
Options cancelled	(350)	0.62
Options outstanding at May 31, 2006	3,610	$ 1.06
Exercisable as of May 31, 2004	1,131	$ 2.16

Exercisable as of May 31, 2005	2,045	$ 1.41
Exercisable as of May 31, 2006	2,404	$ 1.33

With respect to options outstanding at May 31, 2006:

Range	Options Outstanding	Weighted Average Life	Weighted Average Price	Exercisable
$0.50-$0.55	2,700,000	7.1 years	$0.51	1,512,250
$1.60	185,000	5.9 years	$1.60	166,250
$2.00	135,000	3.4 years	$2.00	135,000
$3.125-$4.00	590,000	6.4 years	$3.18	590,000
Total	3,610,000	6.3 years	$1.06	2,403,500

For fiscal year 2005 and for the period from June 1, 2005 through February 28, 2006, Greystone applied APB Opinion No. 25 in accounting for its stock options and, accordingly, no compensation cost was recognized for its stock options in the financial statements. As discussed in Note 1, Greystone adopted SFAS No. 31, and, accordingly, recorded compensation expense in the amount of $64,062 in the financials statements for the period from March 1, 2006 through May 31, 2006. Had Greystone, prior to March 1, 2006, determined compensation cost at the grant date based on fair value under SFAS No. 123, Greystone's net loss would have been increased to the pro forma amount indicated below:

	2006	2005
Net loss to common shareholders:		
As reported	$(2,849,091)	$(10,421,825)
Pro forma	$(3,055,960)	$(10,436,825)

Per share:		
As reported	$ (0.12)	$ (0.60)
Pro Forma	$ (0.13)	$ (0.60)

The fair value of the options used to compute the compensation cost is estimated using the Black-Scholes option pricing model using the following assumptions:

Dividend Yield	None
Expected Volatility	136%
Risk Free Interest Rate	4%
Expected Holding Period	5 years

The total future costs under existing stock options agreements as of May 31, 2006 was $314,282.

NOTE 11. FINANCIAL INSTRUMENTS

Greystone's financial instruments consist principally of accounts payable, accrued liabilities and notes and mortgages payable. Management estimates the market value of the notes and mortgage payable based on expected cash flows and believes these market values approximate carrying values at May 31, 2006 and 2005.

NOTE 12. SUPPLEMENTAL INFORMATION OF CASH FLOWS

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

	2006	2005
Non-cash activities		
Common stock issuances:		
Retirement of debt	$ --	$2,100,163
Capital lease	--	1,205,475
Retirement of debt in exchange for property and equipment	--	259,000
Sale of equipment for debt	20,000	--
Interest paid	893,129	844,646
Taxes paid	--	--

NOTE 13. OPERATING LEASES

Rental expense on operating leases totaled $725,522 and $421,860 during 2006 and 2005,

respectively. Commitments for operating leases for the five years after May 31, 2006 are $786,000, $786,000, $786,000, $786,000, and $786,000 and $1,878,000 thereafter. Operating leases are described further in Note 7, under the headings "Transactions with Paul Kruger, a significant stockholder," for the equipment lease and Transactions with "Transactions with Greystone Properties, LLC," for the industrial lease.

NOTE 14. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject Greystone to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits. As of May 31, 2006, Greystone's bank balances did not exceed federally insured limits.

NOTE 15. IMPAIRMENTS

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

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

CUSTOMER CONTRACT - Based primarily on the considerations outlined in the preceding section on goodwill, Greystone concluded that sufficient indicators existed to require an impairment assessment of a customer contract acquired from of Greystone Plastics, Inc. Since the future cash flows over the estimated life of the customer contract are estimated to be less than the carrying value of the intangible asset, during the fourth quarter of fiscal year 2005, an impairment charge was recorded in the amount of

$1,648,124 to write off the remaining unamortized balance of the intangible costs of the customer contract.

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

NOTE 16. COMMITMENTS AND CONTINGENCIES

In April 2001, Greystone entered into a Licensing Agreement with Westgate Capital, LLC ("WCC"), an entity owned by Warren Kruger and William Pritchard, providing Greystone the exclusive right and license to use fire retardant technology then being developed under the direction and expense of WCC. The Licensing Agreement was negotiated and executed prior to Warren Kruger, William Pritchard or entities which they are affiliated became directors or beneficial owners of 10% of more of Greystone's common stock in January 2002. Under the agreement, Greystone must pay the greater of 2.5% of gross sales of UL listed pallets using fire retardant technology or a minimum monthly royalty of $10,000. The agreement also provided that in the event that cumulative payments to WCC total $250,000 during the first two years, WCC would convey the ownership of the technology process to Greystone subject to the 2.5% royalty payment. Subsequent to the execution of the original agreement which provided for a "coating" process technology, the fire retardant process changed to a chemical additive which WCC and Greystone incorporated in the manufacturing process and used to successfully obtain the UL listing. WCC has not asserted that Greystone is in default under the license agreement. In lieu of default Greystone entered into a new licensing agreement with WCC whereby Greystone has a paid up licensing agreement unless Greystone is either insolvent or there is a change in control. During the year ended May 31, 2005, Greystone accrued $400,000 under the new licensing agreement arrangement. WCC elected to exchange the $400,000 for common stock and warrants in connection with Greystone's stock offering as discussed in Note 9, "Stockholders' Equity."

Greystone derives, and expects that in the foreseeable future it will continue to derive, a substantial amount of its revenue from a few large customers of which 2006 sales totaling approximately $13,719,000 came from one customer. There is no assurance that Greystone will retain this customer's business at the same level, or at all. The loss of a material amount of business from this customer could have a material adverse effect on Greystone.

Greystone entered into an employment agreement with Greystone's Non-Executive Chairman which was effective as of August 1, 2004, and has a term that ends on July 13, 2007. The employment agreement provides for a base salary $15,000 per month plus an annual bonus determined by Greystone's Board of Directors in an amount not less than 50% of the annual bonus to be received by Greystone's Chief Executive Officer. Beginning February 23, 2006, Greystone suspended payment or accrual of salary pending further review by the Board of Directors as to performance of duties under the contract.