

GREYSTONE LOGISTICS, INC.
Form 10-K
August 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended May 31, 2016

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

For the transition period from _____ to _____

Commission file number 000-26331

GREYSTONE LOGISTICS, INC.

(Exact name of registrant as specified in its charter)

Oklahoma

75-2954680

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

1613 East 15th Street, Tulsa, Oklahoma 74120

(Address of principal executive offices) (Zip Code)

(918) 583-7441

(Registrant's telephone number, including area code)

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

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

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

Common Stock, \$0.0001 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of November 30, 2015, 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 \$3,422,406 (\$0.215 per share).

As of August 12, 2016, the issuer had outstanding a total of 28,361,201 shares of its \$0.0001 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

GREYSTONE LOGISTICS, INC.

FORM 10-K

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PART I.

Item 1. Business.

Organization

Greystone Logistics, Inc. (“Greystone” or the “Company”) was incorporated in Delaware on February 24, 1969, under the name Permaspray Manufacturing Corporation. It subsequently changed its name to Browning Enterprises Inc. in April 1982, to Cabec Energy Corp. in June 1993, to PalWeb Corporation in April 1999 and to 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.

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.

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

Current Business

Products

Greystone’s primary business is the manufacturing of plastic pallets utilizing recycled plastic and selling the pallets through one of its wholly owned subsidiaries, GSM. Greystone sells its pallets through a network of independent contractor distributors and direct sales by its president and other employees. As of May 31, 2016, Greystone had an aggregate in-house production capacity of approximately 85,000 pallets per month for its medium and heavy-duty

pallets and 20,000 for its lightweight nestable pallets.

Greystone's product line as of May 31, 2016 consists of the following:

37" X 32" rackable pallet,

40" X 32" rackable pallet,

37" X 37" rackable pallet,

44" X 56" can pallet,

48" X 48" rackable pallet,

48" X 40" rackable pallet,

48" X 44" rackable pallet,

48" X 40" nestable pallet,

24"X 40" display pallet,

48"X 40" monoblock (one-piece) pallet,

Half-barrel keg stackable pallet,

Slim keg stackable pallet, and

36"X 36" rackable pallet.

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, national and international suppliers.

Other Business

Greystone processes recycled plastic into pellet form which may be sold or used in Greystone's production of pallets. The sale of pelletized resin is dependent on Greystone's ability to realize reasonable profit, which is generally based on market conditions. Greystone also provides tolling services whereby it grinds and pelletizes a customer's plastic material for a fee.

Pallet Industry

Pallets are devices used for moving and storing freight. A pallet is used as a base for assembling, storing, stacking, handling, and transporting goods as a unit load. A pallet is constructed to facilitate the placement of a lift truck's forks between the levels of a platform so it may be moved easily.

Pallets are used worldwide for the transportation of goods and they are primarily made of wood. There are an estimated 1.9 to 2.0 billion pallets in circulation daily in the United States (an estimated 97% wood pallets and 3% plastic or other pallets). In 2004, the William H. Sardo Jr. Pallet and Container Research Laboratory at Virginia Tech University, under the direction of Dr. Marshall S. "Mark" White, estimated total pallet annual production in the United States at 814 million broken down as follows:

500 million new wood pallets

300 million repaired and used wood pallets

8.3 million plastic pallets

5.5 million corrugated paperboard pallets

1.1 million metal pallets

According to the National Hardwood Lumber Association (NHLA), approximately 4.5 billion board feet of hardwood lumber is used annually for containers and pallets, which is almost 40% of all hardwood produced in the U.S. According to the U.S. Environmental Protection Agency, deforestation is a significant contributor to global carbon dioxide gas emissions. Deforestation leads to CO₂ emissions because the carbon sequestered in trees is emitted into the atmosphere and not counter-balanced by re-growth of new trees.

A wood container and pallet manufacturing industry report by Supplier Relations US estimated revenue for the year 2009 was approximately \$6.7 billion with a gross profit of 21.11%. The wood pallet and container industry is by no means concentrated, with roughly 2,500 – 3,000 pallet manufacturers and recyclers in operation. The estimated breakdown of wood pallet manufacturers is as follows:

44% manufacture new pallets only

47% manufacture new pallets and recovered use pallets (repair)

9% manufacture recovered use pallets only

Estimates of wood pallet manufacturing industry capacity utilization was at less than 60% in 2000 (Source: Sardo Laboratory). According to the 2007 Economic Census, wood pallet and container manufacturers are rather small, totaling just 2,638 companies with a total of 58,467 employees. Only 65 of these companies reported more than 100 employees and more than 2,000 of these companies reported less than 20 employees. A typical company in this sector has only one establishment. Capital investment in the industry was estimated in 2007 at \$238.5 billion. Recent U.S. Census Bureau statistics also reports the value of shipments has increased almost 45% over the period from 2000 – 2008, or at an annual growth of 5%.

IBIS World forecasts modest industry growth over the next few years with little change in industry structure. Greystone believes that a gradual shifting from wood pallets to plastic pallets will take place over time. Because of the lack of concentration among wood pallet manufacturers, there is a lesser risk of coordinated response (price, performance) against the penetration of plastic pallets. Wood is also a resource which faces environmental pressures (logging issues) as well as possible substantial overseas demand (China). A Freedonia Group industrial research report estimates that the U.S. demand for plastic pallets will grow to \$982 million by 2017 as compared to \$655 million in 2012.

The largest industry users of pallets such as the food, chemical, pharmaceutical, beverage and dairy industries are populated with large public or private entities for which profitable financial performance is paramount. The operating issues presented by wood pallets have been tolerated to date as there has been no viable alternative in sufficient size for replacement.

Types of Pallets

There are over 400 different pallet sizes used by companies in the United States. Some of the most common sizes used in the U.S. according to the American National Standard/MH1 (2005) are listed below:

Pallet Type	Pallet Size	Share of Annual Production (%)
Grocery	48 X 40"	30.0
Chemical	42 X 42"	5.7
Military	40 X 48"	4.0
Beverage	36 X 36"	3.0
Dairy	40 X 40"	3.0

The most common size pallet is the 48 x 40" 4-way pallet or otherwise referred to as the GMA (Grocery Manufacturer Association) pallet, sometimes known in the industry as the "GMA Pallet," "The GMA Pallet," "GMA 48 x 40 Pallet," or "GMA Block Pallet." The GMA acts as a commodity in the pallet industry, as price is often determined by availability. As wood pallets move through their life cycle from a new pallet to a used pallet, they are repaired and put back in service until they are land filled or used as wood compost.

Pallets are the primary interface between the packaged product and today's highly automated material handling equipment. Currently, approximately 90% of the U.S. domestic product is shipped on pallets. Although pallets are not the most glamorous part of the warehouse, they are important because users have expectations based on specifications and wood pallets lack critical manufacturing details that determine performance. The end user becomes frustrated when these pallets do not perform to expectation. Shipments can be damaged or rejected entirely resulting in significant product and revenue losses. This angst is aggravated when new multi-million dollar automated systems are in use.

During the past two decades both timber prices and landfill fees have increased and have compelled businesses to modify the way pallets are managed. Businesses can evaluate and improve their pallet management systems and reduce associated waste by utilizing plastic recycled pallets.

Greystone's management believes that the trend will continue to switch from wood to plastic, with the only limiting factor being price. Greystone intends to continue to conduct research on pallet design strength and coefficient of friction and the materials used to make the plastic pallets as required to meet market demands and improve its existing products.

Employees

As of May 31, 2016, Greystone had 183 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 to customers through contract distributors or by direct contract through its President and other employees.

Greystone derives a substantial portion of its revenue from one customer. This customer accounted for approximately 41% and 51% of total sales in fiscal years 2016 and 2015, respectively. The design of Greystone's recycled plastic pallets are approved for use by the customer and are the only plastic pallets in use for its case goods and kegs. 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.

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 three large and approximately ten 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.

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Greystone leases four buildings for a total of 195,000 square feet of manufacturing and warehouse space. Two of the buildings are located on approximately 3 acres of land in Bettendorf, Iowa with a total of 120,000 square feet of space, a third building with approximately 25,000 square feet of space is located in Camanche, Iowa and a fourth building with approximately 50,000 square feet of space is located in Sand Springs, Oklahoma. The two buildings in Bettendorf, Iowa are leased from Greystone Real Estate, L.L.C. (“GRE”), a variable interest entity owned by Warren F. Kruger, Greystone’s President, CEO and a director, and Robert B. Rosene, Jr., a director of Greystone. The manufacturing and warehouse space is sufficiently equipped and designed to accommodate the manufacturing of plastic pallets and is also used for grinding, processing and pelletizing recycled plastic.

Item 3. Legal Proceedings.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Greystone's common stock is traded on the OTCQB under the symbol "GLGI." The following table sets forth the range of high and low per share bid quotations for Greystone's common stock during the time periods indicated. The source of the foregoing quotations was the Financial Industry Regulatory Composite Feed or other qualified inter dealer quotation medium as provided by OTC Market Group, Inc.:

Quarter Ended	High	Low
Aug. 31, 2014	\$0.60	\$0.47
Nov. 30, 2014	0.50	0.29
Feb. 28, 2015	0.38	0.22
May 31, 2015	0.34	0.24
Aug. 31, 2015	0.32	0.24
Nov. 30, 2015	0.29	0.15
Feb. 29, 2016	0.24	0.14
May 31, 2016	0.32	0.21

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

Holdings

As of approximately July 16, 2016, Greystone had approximately 252 common stockholders of record.

Dividends

Greystone paid no cash dividends to its common stockholders during the last two fiscal years and does not plan to pay any cash dividends in the near future. The loan agreement dated January 31, 2014 (the "IBC Loan Agreement"), among Greystone, GSM and International Bank of Commerce ("IBC") prohibits Greystone from declaring or paying any dividends in respect to its common stock without IBC's prior written consent. See Note 5 to the consolidated financial statements for additional information. In addition, accrued preferred stock dividends must be paid before a dividend on common stock may be declared or paid, as set forth in the Certificate of Designation, Preferences, Rights and Limitations relating to the preferred stock. See Note 8 to the consolidated financial statements and "Liquidity and Capital Resources" in Item 7 of this Form 10-K for additional information.

Greystone paid dividends on its 2003 preferred stock in the amounts of \$325,885 and \$298,288 in fiscal years 2016 and 2015, respectively.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements concern Greystone's plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this Form 10-K 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:

expansion and growth of Greystone's business and operations;

future financial performance;

future acquisitions and developments;

potential sales of products;

future financing activities; and

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-K 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 has attained operating profits and positive cash flow from operating activities but there is no assurance that it will be able to sustain profitability.

Greystone was incorporated on February 24, 1969. From April 1993 to December 1997, Greystone 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, Greystone acquired all of the issued and outstanding stock of Plastic Pallet Production, Inc., and its principal business changed to selling plastic pallets. Greystone incurred losses from operations from such time through fiscal year 2007. The results of Greystone’s operations for the fiscal years after fiscal year 2007 showed an operating profit and positive cash flows from operations with the exception of fiscal year 2011 for which Greystone incurred a loss but had positive operating income and positive cash flows from operations. There is no assurance that Greystone will maintain a positive operating profit or otherwise obtain funds to finance capital and debt service requirements.

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, the secured parties may enforce their rights and Greystone may lose all or a portion of its assets. 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 uses a proprietary mix of raw materials to produce its plastic pallets. Such raw materials are generally readily available and some may be obtained from a broad range of recycled plastic suppliers and unprocessed waste plastic. At the present time, these materials are being purchased from local, national and international 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 and other companies that manufacture plastic pallets charge for their 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, a large portion of its revenue from a few large customers. A single customer currently accounts for approximately 41% of its total sales in fiscal year 2016 (51% in fiscal year 2015). 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 would 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 or 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 waste (including solid and hazardous waste) 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 President and CEO, 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.