
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **November 30, 2018**

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

(State or other jurisdiction of
incorporation or organization)

75-2954680

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

1613 East 15th Street, Tulsa, Oklahoma 74120

(Address of principal executive offices) (Zip Code)

(918) 583-7441

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: January 11, 2019 - 28,361,201

GREYSTONE LOGISTICS, INC.
FORM 10-Q
For the Period Ended November 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

<u>Assets</u>	<u>November 30, 2018</u>	<u>May 31, 2018</u>
Current Assets:		
Cash	\$ 573,494	\$ 379,632
Accounts receivable -		
Trade	2,360,065	4,951,148
Related party	101,307	60,045
Inventory	5,388,006	3,089,267
Prepaid expenses	56,371	215,617
Total Current Assets	8,479,243	8,695,709
Property, Plant and Equipment, net	30,601,008	25,353,876
Total Assets	\$ 39,080,251	\$ 34,049,585
<u>Liabilities and Equity</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 2,841,016	\$ 2,324,046
Current portion of capital leases	1,646,872	2,160,807
Accounts payable and accrued liabilities	6,716,167	4,651,695
Deferred revenue	557,589	3,404,334
Accrued liabilities - related party	-	55,104
Preferred dividends payable	105,100	-
Total Current Liabilities	11,866,744	12,595,986
Long-Term Debt, net of current portion	19,890,611	16,836,180
Capital Leases, net of current portion	3,246,576	1,733,007
Deferred Tax Liability	931,065	490,965
Equity:		
Preferred stock, \$0.0001 par value, cumulative, 20,750,000 shares authorized, 50,000 shares issued and outstanding, liquidation preference of \$5,000,000	5	5
Common stock, \$0.0001 par value, 5,000,000,000 shares authorized, 28,361,201 shares issued and outstanding	2,836	2,836
Additional paid-in capital	53,790,764	53,790,764
Accumulated deficit	(51,755,032)	(52,485,313)
Total Greystone Stockholders' Equity	2,038,573	1,308,292
Non-controlling interest	1,106,682	1,085,155
Total Equity	3,145,255	2,393,447
Total Liabilities and Equity	\$ 39,080,251	\$ 34,049,585

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

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

	For the Six Months Ended November 30,	
	2018	2017
Sales	\$ 32,939,240	\$ 20,009,177
Cost of Sales	28,801,518	16,976,241
Gross Profit	4,137,722	3,032,936
General, Selling and Administrative Expenses	1,792,741	1,452,416
Operating Income	2,344,981	1,580,520
Other Income (Expense):		
Other income	5,290	12,069
Interest expense	(848,318)	(658,736)
Income before Income Taxes	1,501,953	933,853
Provision for Income Taxes	440,100	259,500
Net Income	1,061,853	674,353
Income Attributable to Non-controlling Interest	(123,527)	(122,968)
Preferred Dividends	(208,045)	(188,014)
Net Income Attributable to Common Stockholders	\$ 730,281	\$ 363,371
Income Per Share of Common Stock -		
Basic and Diluted	\$ 0.03	\$ 0.01
Weighted Average Shares of Common Stock Outstanding -		
Basic	28,361,201	28,361,201
Diluted	29,009,949	28,988,701

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

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

	For the Three Months Ended November 30,	
	2018	2017
Sales	\$ 14,733,130	\$ 9,722,102
Cost of Sales	13,041,366	8,588,065
Gross Profit	1,691,764	1,134,037
General, Selling and Administrative Expenses	853,650	621,013
Operating Income	838,114	513,024
Other Income (Expense):		
Other income	3,021	3,806
Interest expense	(435,690)	(334,059)
Income before Income Taxes	405,445	182,771
Provision for Income Taxes	108,500	38,700
Net Income	296,945	144,071
Income Attributable to Non-controlling Interest	(62,952)	(61,915)
Preferred Dividends	(105,100)	(93,493)
Net Income (Loss) Attributable to Common Stockholders	\$ 128,893	\$ (11,337)
Income (Loss) Per Share of Common Stock -		
Basic and Diluted	\$ 0.00	\$ (0.00)
Weighted Average Shares of Common Stock Outstanding -		
Basic	28,361,201	28,361,201
Diluted	29,018,262	28,361,201

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

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

	For the Six Months Ended November 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$ 1,061,853	\$ 674,353
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	2,178,499	1,612,143
Deferred tax expense	440,100	242,500
Decrease in trade accounts receivable	2,591,083	4,219,978
Decrease (increase) in related party receivables	(41,262)	551
Increase in inventory	(2,298,739)	(1,452,384)
Decrease in prepaid expenses	159,246	23,237
Increase (decrease) in accounts payable and accrued liabilities	2,272,400	(1,733,329)
Decrease in deferred revenue	(2,846,745)	-
Net cash provided by operating activities	<u>3,516,435</u>	<u>3,587,049</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(5,308,802)	(2,996,530)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	3,514,265	1,795,000
Payments on long-term debt and capitalized leases	(2,321,590)	(2,272,561)
Proceeds from revolving loan	2,421,000	240,000
Payments on revolving loan	(1,300,000)	-
Payments on related party notes payable	(122,501)	(114,611)
Dividends paid on preferred stock	(102,945)	(186,918)
Distributions paid by non-controlling interest	(102,000)	(102,000)
Net cash provided by (used in) financing activities	<u>1,986,229</u>	<u>(641,090)</u>
Net Increase (Decrease) in Cash	193,862	(50,571)
Cash, beginning of period	<u>379,632</u>	<u>579,021</u>
Cash, end of period	<u>\$ 573,494</u>	<u>\$ 528,450</u>
Non-cash Activities:		
Acquisition of equipment by capital lease	\$ 2,333,333	\$ -
Capital expenditures in accounts payable	\$ 110,182	\$ -
Preferred dividend accrual	\$ 105,100	\$ 30,822
Supplemental information:		
Interest paid	\$ 893,237	\$ 658,736
Taxes paid	\$ -	\$ 10,000

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

GREYSTONE LOGISTICS, INC.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Financial Statements

In the opinion of Greystone Logistics, Inc. (“Greystone”), the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications, which are of a normal recurring nature, necessary to present fairly its financial position as of November 30, 2018, the results of its operations for the six months and three months ended November 30, 2018 and 2017, and its cash flows for the six months ended November 30, 2018 and 2017. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the fiscal year ended May 31, 2018 and the notes thereto included in Greystone’s Form 10-K for such period. The results of operations for the six months and three months ended November 30, 2018 and 2017 are not necessarily indicative of the results to be expected for the full fiscal year.

The consolidated financial statements of Greystone include its wholly-owned subsidiaries, Greystone Manufacturing, L.L.C. (“GSM”) and Plastic Pallet Production, Inc. (“PPP”), and the variable interest entity, Greystone Real Estate, L.L.C. (“GRE”). GRE owns two buildings located in Bettendorf, Iowa which are leased to GSM. All material intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Note 2. Earnings Per Share

Basic earnings per share is based on the weighted-average effect of all common shares issued and outstanding and is calculated by dividing net income available to common stockholders by the weighted-average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted-average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding.

Greystone excludes equity instruments from the calculation of diluted earnings per share if the effect of including such instruments is anti-dilutive, as follows:

	2018	2017
Six months ended November 30:		
Preferred stock convertible into common stock	3,333,333	3,333,333
Total	<u>3,333,333</u>	<u>3,333,333</u>
Three months ended November 30:		
Options to purchase common stock	-	200,000
Warrants to purchase common stock	-	500,000
Preferred stock convertible into common stock	3,333,333	3,333,333
Total	<u>3,333,333</u>	<u>4,033,333</u>

The following tables set forth the computation of basic and diluted earnings per share for the six months and three months ended November 30, 2018 and 2017:

	2018	2017
Six months ended November 30:		
Numerator -		
Net income attributable to common stockholders	\$ 730,281	\$ 363,371
Denominator -		
Weighted-average shares outstanding - basic	28,361,201	28,361,201
Incremental shares from assumed conversion of options and warrants	648,748	627,500
Diluted shares	<u>29,009,949</u>	<u>28,988,701</u>
Income per share -		
Basic and Diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>
Three months ended November 30:		
Numerator -		
Net income (loss) attributable to common stockholders	\$ 128,893	\$ (11,337)
Denominator -		
Weighted-average shares outstanding - basic	28,361,201	28,361,201
Incremental shares from assumed conversion of options and warrants	657,061	-
Diluted shares	<u>29,018,262</u>	<u>28,361,201</u>
Income (Loss) per share -		
Basic and Diluted	<u>\$ 0.00</u>	<u>\$ (0.00)</u>

Note 3. Inventory

Inventory consists of the following:

	November 30, 2018	May 31, 2018
Raw materials	\$ 2,126,355	\$ 864,339
Finished goods	3,261,651	2,224,928
Total inventory	<u>\$ 5,388,006</u>	<u>\$ 3,089,267</u>

Note 4. Property, Plant and Equipment

A summary of property, plant and equipment for Greystone is as follows:

	November 30, 2018	May 31, 2018
Production machinery and equipment	\$ 41,752,448	\$ 35,270,326
Plant buildings and land	6,193,194	5,739,491
Leasehold improvements	833,860	534,637
Furniture and fixtures	540,937	396,882
	<u>49,320,439</u>	<u>41,941,336</u>
Less: Accumulated depreciation and amortization	<u>(18,719,431)</u>	<u>(16,587,460)</u>
Net Property, Plant and Equipment	<u>\$ 30,601,008</u>	<u>\$ 25,353,876</u>

Production machinery and equipment includes equipment capitalized pursuant to a capital lease in the amount of \$9,924,908. The equipment is being amortized using the straight-line method over 3.5 years for pallet molds and 12 years for injection molding machines.

Production machinery includes deposits on equipment in the amount of \$3,435,276 that had not been placed into service as of November 30, 2018. Two plant buildings and land are owned by GRE, a variable interest entity ("VIE"), having a net book value of \$2,954,485 at November 30, 2018.

Depreciation expense, including amortization expense related to assets under capital leases, for the six months ended November 30, 2018 and 2017 was \$2,131,971 and \$1,547,936, respectively.

Note 5. Related Party Transactions/Activity

Yorktown Management & Financial Services, LLC

Yorktown Management & Financial Services, LLC ("Yorktown"), an entity wholly-owned by Greystone's CEO and President, owns and rents to Greystone (1) grinding equipment used to grind raw materials for Greystone's pallet production and (2) extruders for pelletizing recycled plastic into pellets for resale and for use as raw material in the manufacture of pallets. GSM pays weekly rental fees to Yorktown of \$22,500 for use of Yorktown's grinding equipment and \$5,000 for the use of Yorktown's pelletizing equipment for which GSM paid Yorktown rental fees of \$715,000 for each of the six months ended November 30, 2018 and 2017.

Effective January 1, 2017, Greystone and Yorktown entered into a five-year lease for office space at a monthly rental of \$4,000 per month. Total rent expense was \$24,000 for each of fiscal year 2019 and 2018. At November 30, 2018, future minimum payments under the non-cancelable operating lease are \$48,000 for fiscal years 2019, 2020 and 2021 and \$4,000 for fiscal year 2022

TriEnda Holdings, L.L.C.

TriEnda Holdings, L.L.C. (“TriEnda”) is a manufacturer of plastic pallets, protective packing and dunnage utilizing thermoform processing for which Warren F. Kruger, Greystone’s President and CEO, serves TriEnda as the non-executive Chairman of the Board and is a partner in a partnership which has a majority ownership interest in TriEnda. Greystone periodically purchases material and pallets from TriEnda. Purchases for the six months ended November 30, 2018 and 2017 totaled \$42,349 and \$45,467, respectively.

Green Plastic Pallets

Greystone sells plastic pallets to Green Plastic Pallets (“Green”), an entity that is owned by James Kruger, brother to Warren Kruger, Greystone’s President and CEO. Greystone had sales to Green of \$167,400 and \$256,819 for the six months ended November 30, 2018 and 2017, respectively. The account receivable due from Green at November 30, 2018 was \$93,960.

Note 6. Debt

Debt as of November 30, 2018 and May 31, 2018 is as follows:

	<u>November 30, 2018</u>	<u>May 31, 2018</u>
Term loan A payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 4.0%, maturing April 30, 2023	\$ 3,597,384	\$ 3,945,443
Term loan C payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 4.0%, maturing August 4, 2020	1,506,584	1,613,445
Term loan D payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 4.75%, maturing January 10, 2022	2,031,956	2,314,935
Term loan E payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 4.75%, maturing January 10, 2022	1,000,000	843,200
Term loan F payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 5.25%, maturing February 8, 2021	3,357,465	-
Revolving loan payable to International Bank of Commerce, prime rate of interest plus 0.5% but not less than 4.75%, due January 31, 2020	3,000,000	1,879,000
Note payable to First Bank, prime rate of interest plus 1.45% but not less than 4.95%, monthly principal and interest payment of \$30,628, due August 21, 2021, secured by production equipment	954,403	1,099,447
Term loan payable by GRE to International Bank of Commerce, interest rate of 5.5%, monthly principal and interest payment of \$26,215, due April 30, 2023	2,554,987	2,652,428
Note payable to Robert Rosene, 7.5% interest, due January 15, 2020	4,467,330	4,469,355
Note payable to Yorktown Management & Financial Services, LLC, 5% interest, due February 28, 2019, monthly principal and interest payments of \$20,629	61,374	181,850
Other	244,986	252,493
Total debt	<u>22,776,469</u>	<u>19,251,596</u>
Debt issue costs, net of amortization	<u>(44,842)</u>	<u>(91,370)</u>
Total debt, net of debt issue costs	22,731,627	19,160,226
Less: Current portion	<u>(2,841,016)</u>	<u>(2,324,046)</u>
Long-term debt	<u>\$ 19,890,611</u>	<u>\$ 16,836,180</u>

The prime rate of interest as of November 30, 2018 was 5.25%. Effective December 20, 2018, the prime rate of interest increased to 5.5%.

Loan Agreement between Greystone and IBC

The Loan Agreement (“IBC Loan Agreement”), dated January 31, 2014 and as amended from time to time, among Greystone and GSM (the “Borrowers”) and International Bank of Commerce (“IBC”), as amended, provides for certain term loans and a revolver loan.

Effective August 10, 2018, the Borrowers and IBC entered into the Sixth Amendment to the IBC Loan Agreement providing (i) an advancing Term Loan F of \$3,600,000 with a maturity date of February 8, 2021 for the procurement of production equipment and (ii) an extension of the maturity date of Term Loan A to April 30, 2023.

The IBC term loans make equal monthly payments of principal and interest in such amounts sufficient to amortize the principal balance of (i) Term Loan A over a seven-year period beginning January 31, 2016 (currently \$77,166 per month), (ii) Term Loan C over a seven-year period beginning November 30, 2017 (currently \$25,205 per month) and (iii) Term Loan D over a four-year period beginning August 4, 2020 (currently \$57,469 per month). Term Loan E and Term Loan F require monthly interest payments through December 10, 2018 and January 28, 2019, respectively, after which monthly payments of principal and interest are required in an amount sufficient to amortize the loans over a four-year and a five-year period, respectively. The monthly payments of principal and interest on the IBC term loans may vary as a result of changes in the prime rate of interest.

The IBC Loan Agreement provides a revolving loan in an aggregate principal amount of up to \$4,000,000 (\$3,000,000 at November 30, 2018) (the "Revolving Loan"). The Loan Agreement was amended December 28, 2018 increasing the principal amount under the Revolving Loan to \$4,000,000 of which the amount which can be borrowed from time to time is dependent upon the amount of the borrowing base, but can in no event exceed \$4,000,000. The Revolving Loan bears interest at the greater of the prime rate of interest plus 0.5%, or 4.75% and matures January 31, 2020. The Borrowers are required to pay all interest accrued on the outstanding principal balance of the Revolving Loan on a monthly basis. Any principal on the Revolving Loan that is prepaid by the Borrowers does not reduce the original amount available to the Borrowers.

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

As of November 30, 2018, Greystone was not in compliance with the debt service coverage ratio of the IBC Loan Agreement. IBC has issued a waiver with respect to this event of noncompliance.

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

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

Loan Agreement between GRE and IBC

On August 10, 2018, GRE and IBC entered into an amended agreement to extend the maturity of the note to April 30, 2023 and increase the interest rate to 5.5% interest rate. The note is secured by a mortgage on the two buildings in Bettendorf, Iowa which are leased to Greystone.

Note Payable between Greystone and Robert B. Rosene, Jr.

Effective December 15, 2005, Greystone entered into an agreement with Robert B. Rosene, Jr., a member of Greystone's board of directors, to convert \$2,066,000 of advances into an unsecured note payable at 7.5% interest. Effective June 1, 2016, the note was restated (the "Restated Note") to combine the outstanding principal, \$2,066,000, and accrued interest, \$2,475,690, into an unsecured note payable of \$4,541,690 with an extended maturity date of January 15, 2020. The Restated Note provides that accrued interest is payable monthly and allows Greystone to use commercially reasonable efforts to pay such amounts as allowed by the IBC Loan Agreement against the interest accrued prior to the restatement. The balance of the note at November 30, 2018 was \$4,467,330.

Note Payable between Greystone and Yorktown Management Financial Services, LLC ("Yorktown")

On February 29, 2016, Greystone entered into an unsecured note payable to Yorktown in the amount of \$688,296 in connection with the acquisition of equipment from Yorktown. The note payable bears interest at the rate of 5% and is payable over six years with monthly principal and interest payments of \$20,629.

Maturities

Maturities of Greystone's long-term debt for the five years subsequent to November 30, 2018 are \$2,841,016, \$13,829,912, \$2,435,257, \$1,583,489 and \$2,086,795.

Note 7. Capital Leases

Capital leases as of November 30, 2018 and May 31, 2018:

	November 30, 2018	May 31, 2018
Non-cancellable capital leases with a private company, interest rates of 7.4% and 5.0%, maturing August 1, 2023, February 24, 2023 and August 7, 2019	\$ 4,893,448	\$ 3,893,814
Less: Current portion	(1,646,872)	(2,160,807)
Non-cancellable capital leases, net of current portion	<u>\$ 3,246,576</u>	<u>\$ 1,733,007</u>

Greystone and an unrelated private company entered into three lease agreements for certain production equipment with a total cost of approximately \$9.9 million. The first agreement, dated August 7, 2016, was a three-year lease agreement for two injection molding machines and pallet molds, interest rate of 5.0% and maturity date of August 7, 2019 ("Agreement A"). The remaining two agreements, dated February 24, 2018 and August 2, 2018, were five-year lease agreements for two additional injection molding machines and one pallet mold, interest rate of 7.4% and maturity dates of February 23, 2023 and August 1, 2023, ("Agreement B"). The lease agreements include a bargain purchase option to acquire the production equipment at the end of the lease terms. Lease payments are made on a per invoice basis at rates of (i) \$6.25 per pallet produced on the equipment leased pursuant to Agreement A and sold to the private company estimated at \$180,000 per month and (ii) \$3.32 per pallet produced on the equipment leased pursuant to Agreement B and sold to the private company estimated at \$96,000 per month. Both Agreements A & B provide for minimum monthly lease rental payments based upon the total pallets sold in excess of a specified amount not to exceed the monthly productive capacity of the leased machines.

The production equipment under the non-cancelable capital leases has a gross carrying amount of \$9,924,907 at November 30, 2018. Amortization of the carrying amount of approximately \$449,000 and \$266,000 was included in depreciation expense for the six months ended November 30, 2018 and 2017, respectively.

Future minimum lease payments under non-cancelable capital leases as of November 30, 2018, are approximately:

Twelve months ended November 30, 2019	\$ 1,918,000
Twelve months ended November 30, 2020	1,135,000
Twelve months ended November 30, 2021	1,135,000
Twelve months ended November 30, 2022	1,049,000
Twelve months ended November 30, 2023	<u>318,000</u>
Total lease payments	5,555,000
Imputed interest	<u>661,552</u>
Present value of minimum lease payments	<u>\$ 4,893,448</u>

Note 8. Deferred Revenue

Deferred revenue as of November 30, 2018 and May 31, 2018 represent advance payments from a customer to purchase plastic pallets with shipments expected to be complete by December 30, 2018. Greystone recognizes revenue as plastic pallets are shipped to the customer. Recognized revenue totaled \$3,381,345 during the six months ended November 30, 2018.

Note 9. Revenue and Revenue Recognition

On June 1, 2018, Greystone adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, using the retrospective method. Greystone determined that there was no cumulative effect adjustment to the Consolidated Financial Statements and the adoption of the new standard did not require any adjustments to Greystone's consolidated financial statements for prior periods. Under the guidance of the new standard, revenue is recognized at the time a good or service is transferred to a customer and the customer obtains control of that good or receives the service performed. Sales arrangements with customers are short-term in nature involving single performance obligations related to the delivery of goods and generally provide for transfer of control at the time of shipment. In limited circumstances, where acceptance of the goods is subject to approval by the customer, revenue is recognized upon approval by the customer unless, historically, there have been insignificant rejections of goods by the customer. Contract liabilities associated with sales arrangements primarily relate to deferred revenue on prepaid sales of goods. Greystone generally permits returns of product due to defects; however, product returns are historically insignificant.

The amount of revenue recognized reflects the consideration to which Greystone expects to be entitled to receive in exchange for its products. The following steps are applied in determining the amount and timing of revenue recognition:

1. Identification of a contract with a customer is a sales arrangement involving a purchase order issued by the customer stating each party's rights regarding the plastic pallets to be transferred. Payment terms vary by customer from net 30 days to 90 days. Discounts on sales arrangements are generally not provided. Credit worthiness is determined by Greystone based on payment experience and financial information available on the customer.
2. Identification of performance obligations in the sales arrangement which is predominantly the promise to transfer plastic pallets to Greystone's customer.
3. Determination of the transaction price which is specified in the purchase order based on product pricing negotiated between Greystone and the customer.
4. Allocate the transaction price to performance obligations.
5. Recognition of revenue which predominantly occurs upon completion of the performance obligation and transfer of control. Transfer of control generally occurs at the point of shipment which is Greystone's manufacturing and warehouse locations.

Greystone's principal product is plastic pallets produced from recycled plastic resin. Sales are primarily to customers in the continental United States of America. International sales are made to customers in Canada and Mexico which totaled approximately \$296,000 and \$474,000 in fiscal years 2019 and 2018, respectively.

Greystone's customers include stocking and non-stocking distributors and direct sales to end-user customers. Sales to Greystone's three largest customers, which are end-users, totaled approximately 84% and 73% of sales in fiscal years 2019 and 2018, respectively. Sales to distributors totaled approximately 14% and 23% of sales in fiscal years 2019 and 2018, respectively. Combined sales to Greystone's three largest customers and distributors totaled approximately 98% and 96% of sales in fiscal years 2019 and 2018, respectively. The third large customer was a new addition during the last quarter of fiscal year 2018 and had approximately 11% of sales in fiscal year 2019.

Note 10. Fair Value of Financial Instruments

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

Debt: The carrying amount of notes with floating rates of interest approximate fair value. Fixed rate notes are valued based on cash flows using estimated rates of comparable notes. The carrying amounts reported in the balance sheet approximate fair value.

Note 11. Concentrations, Risks and Uncertainties

Greystone derived approximately 84% and 73% of its total sales from three customers in fiscal years 2019 and 2018, respectively. The loss of a material amount of business from one or more of these customers could have a material adverse effect on Greystone.

Greystone purchases damaged pallets from its customers at a price based on the value of the raw material content in the pallet. A majority of these purchases, totaling \$814,764 and \$1,215,431 in fiscal years 2019 and 2018, respectively, is from one of its major customers.

Robert B. Rosene, Jr., a Greystone director, has provided financing and guarantees on Greystone's bank debt. As of November 30, 2018, Greystone is indebted to Mr. Rosene in the amount of \$4,467,330 for a note payable due January 15, 2020. There is no assurance that Mr. Rosene will renew the note as of the maturity date.

Note 12. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU will require organizations ("lessees") that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. In addition, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The effective date of this ASU is for fiscal years beginning after December 31, 2018 and interim periods within that year. Management has reviewed Greystone's leases and determined that the implementation of ASU 2016-02 will not have a material impact on the consolidated financial statements.

Note 13. Commitments

At November 30, 2018, Greystone had commitments totaling \$2,241,000 toward the purchase of production equipment.

Note 14.Reclassifications

Certain amounts in the Consolidated Statement of Cash Flows for the six months ended November 30, 2017 have been restated to conform to classifications utilized in the six months ended November 30, 2018.

Note 15.Subsequent Event

Effective December 31, 2018, Greystone executed a sale and leaseback agreement with Yorktown with respect to certain equipment which Greystone acquired during fiscal year 2019 for a total of \$968,168. The lease provides for rent of \$27,913 for thirty-six months and \$7,694 for the following twelve months with an option to purchase at the end of the lease.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

General to All Periods

The unaudited consolidated statements include Greystone Logistics, Inc., and its two wholly-owned subsidiaries, Greystone Manufacturing, L.L.C. (“GSM”) and Plastic Pallet Production, Inc. (“PPP”). Greystone also consolidates its variable interest entity, Greystone Real Estate, L.L.C. (“GRE”). All material intercompany accounts and transactions have been eliminated.

References to fiscal year 2019 refer to the six months and three months ended November 30, 2018. References to fiscal year 2018 refer to the six months and three months ended November 30, 2017.

Sales

Greystone’s primary focus is to provide quality plastic pallets to its existing customers while continuing its marketing efforts to broaden its customer base. Greystone’s existing customers are primarily located in the United States and engaged in the beverage, pharmaceutical and other industries. Greystone has generated, and plans to continue to generate, interest in its pallets by attending trade shows sponsored by industry segments that would benefit from Greystone’s products. Greystone hopes to gain wider product acceptance by marketing the concept that the widespread use of plastic pallets could greatly reduce the destruction of trees on a worldwide basis. Greystone’s marketing is conducted through contract distributors, its President and other employees.

Personnel

Greystone had approximately 185 and 167 full-time employees as of November 30, 2018 and 2017, respectively.

Six Months Ended November 30, 2018 Compared to Six Months Ended November 30, 2017

Sales

Sales for fiscal year 2019 were \$32,939,240 compared to \$20,009,177 in fiscal year 2018 for an increase of \$12,930,063. The increase in pallet sales in fiscal year 2019 over 2018 was primarily due to sales growth with a pallet leasing company, one of Greystone's major customers.

Greystone has three major customers who accounted for approximately 84% and 73% of sales in fiscal years 2019 and 2018, respectively. Pallet sales to Greystone's major customers are generally based on the customers' need which may vary by period. Greystone is not able to predict the future needs of these major customers and will continue its efforts to grow sales through the addition of new customers developed through Greystone's marketing efforts.

Cost of Sales

Cost of sales in fiscal year 2019 was \$28,801,518, or 87% of sales, compared to \$16,976,241, or 85% of sales, in fiscal year 2018. The significant increase in sales volume that Greystone has experienced during the past two years has had a direct effect on production costs resulting in the increase in the ratio of cost of sales to sales from fiscal year 2018 to 2019. Start-up costs to accommodate the growth was a factor. Further, certain products are more labor intensive which affects the relationship of cost of sales to sales.

In addition, Greystone's ability to process unrefined recycled plastic resin has been limited due to the fact that the need for refined plastic resin for production of pallets has exceeded Greystone's current capacity. Machinery to provide additional capacity was anticipated on being installed during the period ended November 30, 2018, but has since been delayed to February 2019. Additionally, machinery to automate certain production lines which will improve working conditions for production labor as well as reduce labor costs is expected to be installed in February 2019.

General, Selling and Administrative Expenses

General, selling and administrative expenses were \$1,792,741 in fiscal year 2019 compared to \$1,452,416 in fiscal year 2018 for an increase of \$340,325, or approximately 23%. The increase in fiscal year 2019 over fiscal year 2018 results principally from increased costs related to administrative personnel.

Other Income (Expenses)

Other income was \$5,290 and \$12,069 in fiscal years 2019 and 2018, respectively. The source of other income is the sale of scrap material.

Interest expense was \$848,318 and \$658,736 in fiscal years 2019 and 2018 for an increase of \$189,582. The increase in interest expense in fiscal year 2019 over fiscal year 2018 is principally due to an increase in debt and a 1.00% increase in the prime rate of interest from November 30, 2017 to November 30, 2018.

Provision for Income Taxes

The provision for income taxes was \$440,100 and \$259,500 in fiscal years 2019 and 2018, respectively. The provision for income taxes does not include the income from the variable interest entity as the entity is not included in the income tax returns of Greystone and the taxable income of the entity is passed-through to the respective owners.

Based upon a review of its income tax filing positions, Greystone believes that its positions would be sustained upon an audit by the Internal Revenue Service and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded.

Net Income

Greystone recorded net income of \$1,061,853 in fiscal year 2019 compared to \$674,353 in fiscal year 2018 primarily for the reasons discussed above.

Net Income Attributable to Common Stockholders

Net income attributable to common stockholders for fiscal year 2019 was \$730,281, or \$0.03 per share, compared to \$363,371, or \$0.01 per share, in fiscal year 2018 primarily for the reasons discussed above.

Three Months Ended November 30, 2018 Compared to Three Months Ended November 30, 2017

Sales

Sales for fiscal year 2019 were \$14,733,130 compared to \$9,722,102 in fiscal year 2018 for an increase of \$5,011,028. The increase in pallet sales in fiscal year 2019 over 2018 was primarily due to the sales growth with the pallet leasing company.

Sales to Greystone's three largest customers accounted for approximately 85% and 73% of sales in fiscal years 2019 and 2018, respectively. Greystone is not able to predict the future needs of these major customers and will continue its efforts to grow sales through the addition of new customers developed through Greystone's marketing efforts.

Cost of Sales

Cost of sales in fiscal year 2019 was \$13,041,366, or 89% of sales, compared to \$8,588,065, or 88% of sales, in fiscal year 2018. The significant increase in sales volume that Greystone has experienced during the past two years has had a direct effect on production costs resulting in the increase in the ratio of cost of sales to sales from fiscal year 2018 to 2019. Start-up costs to accommodate the growth was a factor. Further, certain products are more labor intensive which affects the relationship of cost of sales to sales.

In addition, Greystone's ability to process unrefined recycled plastic resin has been limited due to the fact that the need for refined plastic resin for production of pallets has exceeded Greystone's current capacity. Machinery to provide additional capacity was anticipated on being installed during the period ended November 30, 2018, but has since been delayed to February 2019. Additionally, machinery to automate certain production lines which will improve working conditions for production labor as well as reduce labor costs is expected to be installed in February 2019.

General, Selling and Administrative Expenses

General, selling and administrative expenses were \$853,650 in fiscal year 2019 compared to \$621,013 in fiscal year 2018 for an increase of \$232,637 or 37%. The increase in fiscal year 2019 over fiscal year 2018 results principally from increased costs related to administrative personnel.

Other Income (Expenses)

Other income was \$3,021 and \$3,806 in fiscal years 2019 and 2018, respectively.

Interest expense was \$435,690 in fiscal year 2019 compared to \$334,059 in fiscal year 2018 for an increase of \$101,631. The increase in interest expense in fiscal year 2019 over 2018 is due principally to increases in the prime rate of interest, 5.25% at November 30, 2018 compared to 4.25% at November 30, 2017 and increases in amount of debt and capital leases.

Provision for Income Taxes

The provision for income taxes was \$108,500 and \$38,700 in fiscal years 2019 and 2018, respectively. The provision for income taxes does not include the income from the variable interest entity as the entity is not included in the income tax returns of Greystone and the taxable income from this entity is passed-through to the respective owners.

Based upon a review of its income tax filing positions, Greystone believes that its positions would be sustained upon an audit by the Internal Revenue Service and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded.

Net Income

Greystone recorded net income of \$296,945 in fiscal year 2019 compared to net income of \$144,071 in fiscal year 2018 primarily for the reasons discussed above.

Net Income (Loss) Attributable to Common Stockholders

The net income attributable to common stockholders for fiscal year 2019 was \$128,893, or \$0.00 per share, compared a net loss to common stockholders of \$(11,337), or \$(0.00) per share, in fiscal year 2018 primarily for the reasons discussed above.

Liquidity and Capital Resources

A summary of cash flows for the six months ended November 30, 2018 is as follows:

Cash provided by operating activities	\$	3,516,435
Cash used in investing activities	\$	(5,308,802)
Cash provided by financing activities	\$	1,986,229

The contractual obligations of Greystone for long-term debt and capital lease obligations are as follows:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>More than 5 years</u>
Long-term debt and capital leases	\$ 27,669,917	\$ 4,487,888	\$ 18,208,752	\$ 4,973,277	\$ -0-

Greystone had a working capital deficit of \$(3,387,501) at November 30, 2018. To provide for the funding to meet Greystone's operating activities and contractual obligations as of November 30, 2018, Greystone will have to continue to produce positive operating results or explore various options including additional long-term debt and equity financing. However, there is no guarantee that Greystone will continue to create positive operating results or be able to raise sufficient capital to meet these obligations.

Effective August 10, 2018 and December 28, 2018, Greystone and IBC entered into the amendments to the IBC Loan Agreement dated January 31, 2014 which provided for new funding in the form of an advancing loan in the amount of \$3,600,000 to purchase production equipment of which \$3,357,465 had been advanced at November 30, 2018 and increasing the line of credit under the revolving loan to \$4,000,000, respectively. During fiscal year 2019, production equipment valued at approximately \$2.3 million was acquired through a leasing arrangement.

Substantially all of the financing that Greystone has received through the last few fiscal years resulted primarily from bank notes which are guaranteed by certain officers and directors of Greystone and, formerly, from loans provided certain officers and directors of Greystone. Greystone continues to be dependent upon its officers and directors to provide and/or secure additional financing and there is no assurance that its officers and directors will continue to do so. As such, there is no assurance that funding will be available for Greystone to continue operations.

Greystone has 50,000 outstanding shares of cumulative 2003 Preferred Stock with a liquidation preference of \$5,000,000 and a preferred dividend rate of the prime rate of interest plus 3.25%. Greystone does not anticipate that it will make cash dividend payments to any holders of its common stock unless and until the financial position of Greystone improves through increased revenues, another financing transaction or otherwise. Pursuant to the IBC Loan Agreement, as discussed in Note 6 to the consolidated financial statements, Greystone may pay dividends on its preferred stock in an amount not to exceed \$500,000 per year.

Forward Looking Statements and Material Risks

This Quarterly Report on Form 10-Q includes certain statements that may be deemed “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, that address activities, events or developments that Greystone expects, believes or anticipates will or may occur in the future, including decreased costs, securing financing, the profitability of Greystone, potential sales of pallets or other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q could be affected by any of the following factors: Greystone’s prospects could be affected by changes in availability of raw materials, competition, rapid technological change and new legislation regarding environmental matters; Greystone may not be able to secure additional financing necessary to sustain and grow its operations; and a material portion of Greystone’s business is and will be dependent upon a few large customers and there is no assurance that Greystone will be able to retain such customers. These risks and other risks that could affect Greystone’s business are more fully described in Greystone’s Form 10-K for the fiscal year ended May 31, 2018, which was filed on August 29, 2018. Actual results may vary materially from the forward-looking statements. Greystone undertakes no duty to update any of the forward-looking statements contained in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, Greystone carried out an evaluation under the supervision of Greystone’s Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of Greystone’s disclosure controls and procedures pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based on an evaluation as of May 31, 2018, Warren F. Kruger, Greystone’s Chief Executive Officer, and William W. Rahhal, Greystone’s Chief Financial Officer, identified no material weakness in Greystone’s internal control over financial reporting. As a result, Greystone’s CEO and Chief Financial Officer concluded that the design and operation of Greystone’s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) were effective as of November 30, 2018.

During the six months ended November 30, 2018, there were no changes in Greystone's internal controls over financial reporting that have materially affected, or that are reasonably likely to materially affect, Greystone's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures .

Not applicable.

Item 5. Other Information .

None.

Item 6. Exhibits.

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

- 10.1 [Seventh Amendment dated December 28, 2018 to the Loan Agreement dated January 31, 2014 among Greystone Logistics, Inc., Greystone Manufacturing, LLC and International Bank of Commerce. \(submitted herewith\)](#)
- 10.2 [Promissory note payable \(Revolving Line of Credit\) dated December 28, 2018 by Greystone Logistics, Inc. and Greystone Manufacturing, LLC. \(submitted herewith\)](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Rules 13a-14\(a\) and 15d-14\(a\) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601\(b\)\(31\) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(submitted herewith\).](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Rules 13a-14\(a\) and 15d-14\(a\) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601\(b\)\(31\) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(submitted herewith\).](#)
- 32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(submitted herewith\).](#)
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- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at November 30, 2018 and May 31, 2018, (ii) the Consolidated Statements of Income (Operations) for the six months and three months ended November 30, 2018 and 2017, (iii) the Consolidated Statements of Cash Flows for the six months ended November 30, 2018 and 2017, and (iv) the Notes to the Consolidated Financial Statements (submitted herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREYSTONE LOGISTICS, INC.

(Registrant)

Date: January 14, 2019

/s/ Warren F. Kruger

Warren F. Kruger, President and Chief
Executive Officer (Principal Executive Officer)

Date: January 14, 2019

/s/ William W. Rahhal

William W. Rahhal, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Index to Exhibits

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SEVENTH AMENDMENT TO LOAN AGREEMENT

THIS SEVENTH AMENDMENT TO LOAN AGREEMENT (this “Amendment”) is made as of December 28, 2018 (the “Effective Date”) among **INTERNATIONAL BANK OF COMMERCE**, an Oklahoma state banking corporation, successor in interest to International Bank of Commerce, a Texas state banking association (“Lender”), **GREYSTONE LOGISTICS, INC.**, an Oklahoma corporation, **GREYSTONE MANUFACTURING, L.L.C.**, an Oklahoma limited liability company (together, the “Borrowers”), and the undersigned Guarantor(s), and ratifies and amends (a) the Loan Agreement (Revolving Loan and Equipment Term Loan) dated as of January 31, 2014, as previously amended six times, most recently by the Sixth Amendment to Loan Agreement dated as of August 8, 2018 among Borrowers and Lender (as so amended, the “Loan Agreement”), and (b) the other Loan Documents, as and to the extent described below.

Borrowers, Guarantor(s) and Lender agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment have the meanings given to them in the Loan Agreement.

2. Amendments. Borrowers have requested, and Lender has agreed, to increase the amount of the Revolving Loan and to modify the Borrowing Base, as and to the extent provided in this Amendment. Accordingly, the Loan Agreement is amended as follows

(a) The following existing definitions in Section 1.1 of the Loan Agreement are amended and restated in their entirety as follows:

“Borrowing Base” means the sum of (a) 80% of the balance due on Eligible Receivables, and (b) the lesser of (i) 50% of the value of Eligible Inventory, and (ii) \$2,000,000. The balance due on Eligible Receivables shall not include the amount of any counterclaims or offsets that have been or may be asserted against one or more Borrowers by the account debtor (including offsets for any “contra accounts” owed by any Borrower to the account debtor for goods purchased by any Borrower or for services performed for any Borrower) or to the extent any counterclaims, offsets or contra accounts exist in favor of the account debtor, such amounts shall be deducted from the account balance. The account balance shall exclude the amount of any finance or service charges payable by the account debtor.

“Revolving Note” means the Promissory Note dated as of January 10, 2019 made by Borrowers in favor of Lender in the maximum principal amount of \$4,000,000, as amended, modified, replaced, restated, extended or renewed from time to time.

(b) Section 2.1(b) of the Loan Agreement is amended and restated in its entirety as follows:

(b) The amount of the Revolving Loan (the “Revolving Commitment”) is up to \$4,000,000.00. The Borrowers agree not to permit the principal balance of cash advances under the Revolving Loan to exceed the lesser of (i) the Revolving Commitment, and (ii) the Borrowing Base. If the Borrowers at any time exceed either of these limits, the Borrowers will immediately pay the excess to the Lender. For the avoidance of doubt, immediately after giving effect to the Fifth Amendment, the entire amount of the Revolving Commitment is available to be advanced under the Revolving Loan (subject to the Borrowing Base and the other terms and conditions of the Loan Documents).

3. Effect of this Amendment. Except as expressly provided above, this Amendment is not a waiver of, amendment to, consent to or modification of (a) any term or provision of any of the Loan Documents, or (b) any event, condition, or transaction on the part of any Person.

4. Ratification of Loan Documents. The Loan Documents remain in full force and effect as amended by this Amendment. Each Borrower and the undersigned Guarantor (a) ratifies and confirms in all respects each Loan Document to which it is a party; (b) agrees that each Loan Document remains in full force and effect; and (c) confirms, ratifies and agrees that, as applicable, the terms “Obligations”, “Guaranteed Obligations”, “Secured Obligations”, “Indebtedness” and any other similar term as used in any of the Loan Documents (including the Loan Agreement, the Security Agreement, the Mortgage, and any Guaranty Agreement), each include all indebtedness and obligations of Borrower to Lender under the Loan Documents, including the Loan extended by this Amendment.

5. Conditions. The effectiveness of this Amendment is subject to satisfaction of the following conditions precedent, each of which exist for Lender’s sole benefit and may be waived by Lender only (in its sole discretion):

(a) Documents. Lender’s receipt of the following, each properly executed, each dated the Effective Date (or, in the case of certificates of governmental officials, a recent date before the date of the Amendment) and each in form and substance satisfactory to Lender and its legal counsel:

(i) this Amendment;

(ii) the Revolving Note;

(iii) one or more certificates of resolutions or other action, incumbency certificates and/or other certificates as Lender requires with accompanying governing documents for the Borrowers and actions and resolutions of the Borrowers in connection with this Amendment; and

(iv) all other documents and instruments requested by Lender.

(b) Fees and Expenses. If required by Lender, Borrowers’ shall pay all fees and out-of-pocket expenses required under Section 7 of this Amendment. If Lender elects, in its sole discretion, to waive collection of any fees and expenses as a condition to the effectiveness of this Amendment, Borrowers will remain obligated to pay those fees and expenses, which are due and payable on the Effective Date.

6. Representations and Warranties. Each Borrower and the undersigned Guarantor represents and warrants to the Lender that as of the date of this Amendment:

(a) its representations and warranties in the Loan Documents to which it is a party are true and correct in all material respects as though made on Effective Date, except to the extent that any of them speak to a different specific date, in which case they are true and correct in all material respects as of the earlier date;

(b) as of the Effective Date, (A) no Default or Event of Default exists, and (B) no Default or Event of Default exists under, and as defined in, the Greystone Real Estate Loan Agreement;

(c) its execution, delivery and performance of this Amendment and all other Loan Documents executed by it in connection with this Amendment have been duly authorized by all necessary corporate or limited liability company action, as applicable, and do not and will not contravene the terms of any of its organizational documents, any law or any indenture, loan or credit agreement, or any other material agreement or instrument to which it is a party or by which it is bound or to which it or its properties are subject;

(d) no authorizations, approvals or consents of, and no filings or registrations with, any governmental authority or any other Person are necessary for the execution, delivery or performance by such Borrower or Guarantor of this Amendment or the other Loan Documents executed by it in connection with this Amendment, or for the validity or enforceability thereof; and

(e) this Amendment and each other Loan Document to which it is a party constitutes such Borrower's or Guarantor's legal, valid and binding obligations, enforceable against it in accordance with its terms, in all cases except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability, and by judicial discretion regarding the enforcement of or any applicable laws affecting remedies (whether considered in a court of law or a proceeding in equity).

7. Fees and Expenses. In accordance with Section 10.5 of the Loan Agreement (and without in any way limiting its provisions), Borrowers shall pay all reasonable out-of-pocket expenses incurred by the Lender, including the reasonable fees, charges and disbursements of Lender's counsel (determined on the basis of such counsel's generally applicable rates) in connection with (a) this Amendment, the preparation of this Amendment and any other Loan Documents, and any filings or other documents or instruments required in connection with the preparation of this Amendment or the other Loan Documents, and (b) the enforcement, collection or protection of its rights in connection with the Loan Documents, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect the Loan Documents. Expenses being reimbursed by Borrowers under this Section include, without limitation, costs and expenses incurred in connection with appraisals, field examinations, insurance reviews, flood determinations, lien and title searches and title insurance, and recording and filing fees or taxes.

8. Events of Default Unaffected. Nothing in this Amendment is a waiver of any Default or Event of Default, or of any right or remedy available to the Lender by reason of the occurrence or existence of any Default or Event of Default.

9. Releases. Each Borrower and Guarantor, for itself and on behalf of all its predecessors, successors, assigns, agents, employees, representatives, officers, directors, managers, members, shareholders, beneficiaries, trustees, administrators, subsidiaries, Affiliates, employees, servants and attorneys (collectively the “Releasing Parties”), releases and forever discharges Lender and its successors, assigns, partners, directors, officers, agents, attorneys, and employees from any and all claims, demands, cross-actions, controversies, causes of action, damages, rights, liabilities and obligations, at law or in equity whatsoever, known or unknown, now held, owned or possessed by any or all of the Releasing Parties or that any or all of the Releasing Parties hold or claim to hold in the future as a result of any actions or inactions occurring on or before the Effective Date, under common law or statutory right, arising directly or indirectly out of out of the Loans, any of the Loan Documents, or any of the documents, instruments or any other transactions relating thereto or the transactions contemplated thereby. Each Borrower and Guarantor understands and agrees that this is a full, final and complete release and agrees that this release may be pleaded as an absolute and final bar to any or all suit or suits pending or that are filed or prosecuted in the future by any of the Releasing Parties, or anyone claiming by, through or under any of the Releasing Parties, in respect of any of the matters released hereby, and that no recovery on account of the matters described herein may hereafter be had from anyone whomsoever, and that the consideration given for this release is not an admission of liability.

10. Governing Law; Miscellaneous. This Amendment is governed by the Loan Agreement, including the rules of construction provided in Section 1.2 and the miscellaneous provisions of Article X thereof. Unless stated otherwise, (a) the singular number includes the plural and *vice versa* and words of any gender include each other gender, in each case, as appropriate, (b) headings and captions may not be construed in interpreting provisions, and (c) this Amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document.

[*SIGNATURE PAGES ATTACHED*]

THIS SEVENTH AMENDMENT TO LOAN AGREEMENT is executed and delivered by the undersigned effective as of the Effective Date.

“BORROWERS”

GREYSTONE LOGISTICS, INC. , an Oklahoma corporation

By: */s/ Warren F. Kruger*

Warren F. Kruger, President/CEO

GREYSTONE MANUFACTURING, L.L.C. , an Oklahoma limited liability company

By: */s/ Warren F. Kruger*

Warren F. Kruger, Manager

SIGNATURE PAGE
SEVENTH AMENDMENT TO LOAN AGREEMENT

THIS SEVENTH AMENDMENT TO LOAN AGREEMENT is executed and delivered by the undersigned effective as of the Effective Date.

“LENDER”

INTERNATIONAL BANK OF COMMERCE , an Oklahoma state banking corporation, successor in interest to International Bank of Commerce, a Texas state banking association

By: /s/ Andrew J. Levinson

Andrew J. Levinson
President - Tulsa Region

SIGNATURE PAGE
SEVENTH AMENDMENT TO LOAN AGREEMENT



International Bank of Commerce

PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan Number	Officer	Initial
\$ 4,000,000.00	12/28/2018	1/31/2020	1602937869	Andrew Levinson	

Borrower(s): Greystone Logistics, Inc.
 Greystone Manufacturing, L.L.C. Lender: International Bank of Commerce

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned, jointly and severally, (hereinafter “Borrower”, whether one or more) promise to pay to the order of International Bank of Commerce (hereinafter “Lender”), at 3817 NW Expressway, Suite 100, Oklahoma City, Oklahoma 73112, or such other address as Lender may specify from time to time, the sum of Four Million Dollars and No Cents (\$4,000,000.00), in legal and lawful money of the United States of America, with interest as it accrues on the outstanding principal balance from date of advance of such principal until paid.

The interest rate shall be floating at 0.5% per annum above the New York Prime Rate (Prime Rate) (as described below) as it fluctuates from time to time; provided, however, that in no event shall the rate of interest to be paid on the unpaid principal of this Note be less than 4.75% per annum, nor more than the lesser of (i) 45% per annum, or (ii) the maximum legal rate allowed by applicable law. The starting interest rate on this Note shall be 5.75% per annum. The rate of interest due hereunder shall be recomputed as of the date of any change in the Prime Rate.

The NEW YORK PRIME RATE shall mean the annual lending rate of interest announced from time to time by the JP Morgan Chase & Co., New York, New York, as its prime rate. If the New York Prime Rate has been selected as the Prime Rate and if, thereafter, a prime rate is not announced by JP Morgan Chase & Co., New York, New York, then the International Bank of Commerce Prime Rate minus one percent (1%) shall be the Prime Rate.

The INTERNATIONAL BANK OF COMMERCE PRIME RATE shall mean the annual lending rate of interest announced from time to time by International Bank of Commerce, as its prime rate.

Use of the term Prime Rate is not to be construed as a warranty or representation that such rate is more favorable than another rate or index, that rates on other loans or credit facilities may not be based on other indices or that rates on loans to others may not be made below such prime rate.

At Lenders sole discretion, any interest rate increase will take the form of higher periodic payments, a greater balloon payment (if applicable), and/or an increase in the number of periodic payments. The periodic payment amount will not increase more than once per month, with no limitation on such increase. Any new periodic payment amount will be due and payable only after timely and proper notice of such new payment amount from Lender. This paragraph is inapplicable if the maturity of the outstanding indebtedness under this Note is accelerated and/or demanded in full.

REVOLVING LINE OF CREDIT

1. Note. This Note is a multiple advance revolving line of credit for the Borrower as provided herein and in some of the other Loan Documents. The term Loan Documents means, collectively, this Note and any other document or instrument executed in connection with this Note by Borrower, any guarantor of this Note, and any party pledging property as security for the repayment of this Note (Pledgor).

2. Principal and Interest. The principal of this Note represents funds which Lender may advance to Borrower from time to time upon request of Borrower pursuant to the terms of the Loan Documents. Any part of the principal may be repaid by Borrower and thereafter reborrowed, subject to the conditions set out below. Each advance shall constitute a part of the principal hereof and shall bear interest from the date of the advance.

3. Advances. The advances of principal shall be made pursuant to and subject to the terms and conditions hereof and of the other Loan Documents and agreements between the parties, and if and only if (i) all conditions precedent to an advance have been fulfilled, (ii) there has been no Event of Default which is continuing, and (iii) the aggregate amount of the outstanding unpaid principal on this Note, plus the amount of any and all pending requests for an advance, plus the amount of any and all advances in process, plus the amount of any and all advances that have been authorized, plus all accrued and unpaid interest and accrued and unpaid late charges, and plus any amounts advanced by Lender on Borrower’s behalf, does not exceed the original principal balance of this Note. Borrower may, at any time, and from time to time, pay the outstanding unpaid balance of this Note, or a portion thereof, and all accrued and unpaid interest due. The revolving feature of this Note expires on, and no additional advances of principal will be made after, Final Maturity.

4. Continuation of Lien. Lender and Borrower contemplate that by reason of payments of this Note, there may be times when no indebtedness is owing on this Note, but notwithstanding such occurrences, this Note, all liens securing this Note, and the other Loan Documents shall remain in full force and effect unless same be released in writing by Lender, at the request of Borrower or the Pledgor of the property subject to the lien or liens; otherwise this Note and the other Loan Documents and all liens securing same shall remain in full force and effect to secure any and all advances, and any other indebtedness of Borrower, regardless of any additional security that may be taken as collateral for the repayment of any future indebtedness, and shall be unaffected by any renewals, extensions, rearrangements, modifications and/or partial releases hereunder.

~~The indebtedness evidenced by this Note was evaluated, analyzed and ultimately priced based upon (i) Borrower's representation that it would establish and maintain its primary deposit relationship with Lender, and/or (ii) the entire banking relationship between Borrower and Lender. Therefore, (i) if Borrower's primary deposit relationship is not established and maintained with Lender, and/or (ii) if there is a material adverse change in the deposit relationship between Borrower and Lender, then Lender, in its sole and absolute discretion, may, after ninety (90) days written notice, increase the interest rate charged in connection with this credit facility by up to 2% above the interest rate as set forth above, as it may float from time to time.~~

To secure payment of this Note, and, to the extent allowed by law, all other indebtedness which may at any time be owing by the Borrower, or any of them, Borrower hereby grants to Lender a security interest and lien on the following collateral (collectively, the "Collateral"): All Borrowers' assets, wherever located, however arising or created, and whether now owned or existing or hereafter arising, created or acquired, including without limitation Borrowers' collectively right title and interest in and to the Collateral under, and as described in the Security Agreement dated as of January 31, 2014 made by Borrowers in favor of Lender's predecessor in interest.

Borrower agrees to take adequate care of the Collateral and to insure the Collateral with a company satisfactory to Lender, for such risks and/or hazards, and in such amounts as Lender directs. If Borrower fails to furnish Lender with proof of required insurance coverage, Lender shall have the authority to purchase insurance (including single interest insurance, which may provide protection only for Lender) and add the premium for such insurance, together with interest at the rate set forth above, to the balance of this Note.

Interest shall be calculated on a 360-day factor applied on a 365-day year or a 366-day year, in the event that the year is a leap year, on the unpaid principal to the date of each installment paid; provided, however, that in the event the interest rate reaches the maximum rate allowed by applicable law, said maximum legal rate shall be computed on a full calendar year 365/365 days basis or on a 366/366 days basis, in the event that the year is a leap year. The interest charged and herein contracted for will not exceed the maximum rate allowed by law.

To the extent allowed by law, any and all matured unpaid amounts will bear interest computed on a full calendar year 365/365 days basis, or on a 366/366 days basis in the event that the year is a leap year, at the maximum legal rate of interest allowed by applicable state law, unless federal law allows a higher interest rate, in which case Borrower agrees to pay the rate allowed by federal law. If applicable state or federal law does not set a maximum rate of interest for matured unpaid amounts, then Borrower agrees that the maximum rate for such amounts shall be eighteen percent (18%) per annum.

To the extent allowed by law, as the late payment charge under this Note, Lender may in its sole discretion ~~(i) increase the interest on the principal portion of any payment amount that is not received by the payment due date to the maximum rate allowed by law, computed on a full calendar year basis from the payment due date until paid, or (ii) should any payment not be made within ten (10) days from the due date, require Borrower to pay a one time "late charge" per late payment equal to five percent (5%) of the amount of the past due principal and interest of such payment, with a minimum of \$10.00 and a maximum of \$1,500.00 per late payment. The "late charge" may be assessed without notice, and shall be immediately due and payable. No late charge will be assessed on any payment which is current and is a full payment of principal and/or interest then due regardless of whether late charge(s) are due for any prior payments. This paragraph is inapplicable if the outstanding indebtedness under the Note is accelerated and/or demanded in full.~~

Notwithstanding anything contained herein to the contrary, if the Loan is subject to the provisions of 24 Code of Federal Regulations Part 201 (Title 1 Property Improvement and Manufactured Home Loans), then the late charge provisions of this paragraph shall be applicable to the exclusion of any other late charge and/or default interest provisions in any instrument relating to any past due installment of principal and/or interest due under this Note. Borrower agrees to pay to Lender a late charge for installments of principal and interest which are in arrears for fifteen (15) calendar days or more. The late charge shall be in an amount equal to the lesser of: (a) five percent (5%) of each late installment of principal and interest, up to a maximum of \$10.00 per installment for any property improvement loan and \$15.00 per installment for any manufactured home loan, or (b) the maximum amount permitted by applicable federal or state law. The sum of such late charges plus the interest charged under this Note and other charges deemed interest by law shall be limited to the maximum nonusurious amount permitted by applicable federal or state law. This paragraph is inapplicable if the outstanding indebtedness under this Note is accelerated and/or demanded in full.

The outstanding and unpaid principal of this Note and all accrued and unpaid interest are payable ~~immediately upon demand, or if no demand is made, then such sums are payable~~ as follows:

<u>NUMBER OF PAYMENTS</u>	<u>FREQUENCY</u>	<u>AMOUNT OF PAYMENTS</u>	<u>WHEN PAYMENTS ARE DUE</u>
12	Monthly	Interest Only	Beginning December 31, 2018
1	Final	Principal balance plus accrued and unpaid interest	At Final Maturity

FINAL MATURITY DATE: January 31, 2020

Each payment shall be applied as of its scheduled due date and in the order of application as the Lender in its sole discretion may from time to time elect.

All outstanding unpaid principal, all accrued and unpaid interest, and all fees, accrued and unpaid late charges, and/or other charges incurred by, or for the benefit of, Borrower in connection with this Note which remain due and owing on the Final Maturity Date are due and payable on such date.

Lender may, at its discretion, adjust the amount of periodic payments described above to ensure that the remaining payments will fully amortize the principal of this Note by the Final Maturity Date, or, if the payment schedule provides for a Balloon Payment (as hereinafter defined), Lender may adjust the amounts of remaining periodic payments so that the Agreed Amortization Amount (as hereinafter defined) will not be reduced. As used herein, (i) the term "Balloon Payment" means a payment of principal (together with any accrued unpaid interest) required on the Final Maturity Date when the scheduled periodic payments do not fully amortize the principal hereof by the Final Maturity Date, and (ii) the term "Agreed Amortization Amount" means the amount of principal that will be repaid prior to the Final Maturity Date assuming all initially scheduled payments are made in a timely manner and the interest rate in effect on the date hereof does not change. Any new monthly payment will be paid from the first monthly payment date after the change date until the amount of the monthly payment changes again.

THIS OBLIGATION HAS THE FOLLOWING DEMAND FEATURE:

At any time, and from time to time, whether prior to and/or during said scheduled payment dates, Lender may, in its sole and absolute discretion, reschedule, rearrange and/or accelerate, in whole or in part, the outstanding and unpaid principal balance, and all accrued and unpaid interest and all accrued and unpaid late charges under this Note. Borrower agrees and promises to pay Lender immediately all accelerated unpaid principal and all accrued and unpaid interest on such principal, and all accrued and unpaid late charges. No notice of intent to accelerate shall be required of Lender and Borrower expressly waives any right to notice of Lender's intent to accelerate. The foregoing right to make demand for immediate payment of this Note, in whole or in part, may be exercised by Lender for any reason whatsoever, whether or not Borrower is in default hereunder and in advance of the Final Maturity Date.

THIS OBLIGATION HAS A BALLOON PAYMENT PROVISION:

THIS LOAN IS PAYABLE IN FULL ON THE FINAL MATURITY DATE SET FORTH HEREIN IF NO PRIOR DEMAND HAS BEEN MADE. ON THE FINAL MATURITY DATE YOU MUST REPAY THE ENTIRE OUTSTANDING UNPAID PRINCIPAL BALANCE, ALL ACCRUED AND UNPAID INTEREST, AND ALL FEES, LATE CHARGES, AND/OR OTHER CHARGES INCURRED BY, OR ON BEHALF OF, BORROWER IN CONNECTION WITH THIS LOAN, WHICH REMAIN UNPAID. LENDER IS UNDER NO OBLIGATION TO REFINANCE THE LOAN, OR ANY PORTION THEREOF, AT THAT TIME. YOU WILL THEREFORE BE REQUIRED TO MAKE PAYMENT OUT OF OTHER ASSETS YOU MAY OWN, OR YOU WILL HAVE TO FIND A LENDER, WHICH MAY BE THIS LENDER, WHICH AGREES TO LEND YOU THE MONEY TO REFINANCE. IF YOU REFINANCE THIS LOAN AT MATURITY, YOU MAY HAVE TO PAY SOME OR ALL OF THE CLOSING COSTS NORMALLY ASSOCIATED WITH A NEW LOAN, EVEN IF YOU OBTAIN REFINANCING FROM THIS LENDER.

The occurrence of any of the following events shall constitute an event of default ("Event of Default") under this Note:

- (a) Borrower fails to pay any of the indebtedness evidenced by this Note when the same shall become due and payable; or
- (b) Borrower (i) fails to perform any of Borrower's other obligations under this Note or the other Loan Documents, or any other event of default or breach occurs under this Note or the other Loan Documents, or (ii) to the extent allowed by law, and except as to loans for homestead, homestead equity, home equity lines of credit, and/or household or other consumer goods, fails to perform any of Borrower's obligations under any other promissory note, security agreement, loan agreement or other agreement between Lender and Borrower or any other event of default or breach occurs thereunder; or
- (c) any (i) statement, representation or warranty made by Borrower in this Note, the other Loan Documents, or in any other agreement between Lender and Borrower, or (ii) any information contained in any financial statement or other document delivered to Lender by or on behalf of Borrower contains any untrue statement of a material fact or omits to state a material fact necessary to make the statement, representation or warranty therein not misleading in light of the circumstances in which they were made; or
- (d) Borrower: (i) dies or becomes physically or mentally incapacitated; or (ii) in the case of a Borrower who is not a natural person, dissolves, terminates or in any other way ceases to legally exist or has its entity powers or privileges suspended or revoked for any reason; or (iii) makes an assignment for the benefit of creditors, or enters into any composition, marshalling of assets or similar arrangement in respect of its creditors generally; or (iv) becomes insolvent or generally does not pay its debts as such debts become due; or (v) conceals, removes, or permits to be concealed or removed, any part of Borrower's property, with intent to hinder, delay or defraud its creditors or any of them, or makes or suffers a transfer of any of Borrower's property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law, or makes any transfer of Borrower's property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or
- (e) a trustee, receiver, agent or custodian is appointed or authorized to take charge of any property of Borrower for the purpose of enforcing a lien against such property or for the purpose of administering such property for the benefit of its creditors; or
- (f) an order (i) for relief as to Borrower is granted under Title 11 of the United States Code or any similar law, or (ii) declaring Borrower to be incompetent is entered by any court; or
- (g) Borrower files any pleading seeking, or authorizes or consents to, any appointment or order described in subsections (e) or (f) of this paragraph above, whether by formal action or by the admission of the material allegations of a pleading or otherwise; or
- (h) application is made for or there is an enforcement of any lien, levy, seizure, garnishment or attachment of any property of the Borrower for the purposes of collecting a lawful debt; or
- (i) any action or proceeding seeking any appointment or order described in subsections (e) or (f) of this paragraph above is commenced without the authority or consent of Borrower, and is not dismissed within thirty (30) days after its commencement; or
- (j) Borrower shall become involved (whether as plaintiff or defendant) in any material litigation (including, without limitation, matrimonial litigation) or arbitral or regulatory proceedings that, if determined adversely to Borrower, could materially and adversely affect Borrower's financial position, or could affect Borrower's ability to repay the indebtedness evidenced by this Note, or could adversely affect the Collateral or any portion thereof or Lender's security interest therein; or
- (k) Borrower, in Lender's opinion, has suffered a material change in financial condition which, in Lender's opinion, impairs the ability of Borrower to repay the indebtedness evidenced by this Note or to properly perform Borrower's obligations under this Note or the other Loan Documents; or
- (l) any of the events or conditions described in subsections (d) through (k) of this paragraph above happen to, by or with respect to any pledge or of the Collateral or to any guarantor or other Obligor of the Note; or
- (m) Lender believes, as a result of any material change in condition whether or not described herein, that Lender will be adversely affected, that this Note is

inadequately secured, or that the prospect of payment of any of the indebtedness evidenced by this Note or performance of any of Borrower's obligations under the Loan Documents is impaired, or

(n) to the extent allowed by law, and except as to loans for homestead, homestead equity, home equity lines of credit, and/or household or other consumer goods, as to each Borrower with regard to any other credit facility with any other lender, any monetary default and/or any non-monetary default occurs which results in acceleration of the indebtedness by any such other lender; and each Borrower agrees to notify Lender of any such default within fifteen (15) days after the occurrence of the default.

Upon the occurrence of an Event of Default, Lender may, at its option, without notice to Borrower or any other Obligor except as otherwise expressly agreed by Lender in writing, declare the following amounts (or any portion thereof) at once due and payable (and upon such declaration, the same shall be at once immediately due and payable and may be collected forthwith), whether or not there has been a prior demand for payment and regardless of the stipulated date of maturity: (i) the remaining unpaid principal balance of this Note outstanding, (ii) the accrued and unpaid interest under this Note, (iii) the accrued and unpaid late charges under this Note, (iv) any Swap Related Loss Lender is entitled to collect as hereinafter provided, (v) all other sums advanced or otherwise payable under this Note or any other Loan Document and owed by Borrower to Lender and all interest thereon, and (vi) any other indebtedness of Obligor the repayment of which is secured by one or more of the Loan Documents.

Borrower and Lender intend that the loan evidenced by this Note (the "Loan") shall be in strict compliance with applicable usury laws. If at any time any interest contracted for, charged, or received under this Note or otherwise in connection with the Loan would be usurious under applicable law, then regardless of the provisions of this Note or the documents and instruments evidencing, securing or otherwise executed in connection with the Loan or any action or event (including, without limitation, prepayment of principal hereunder or acceleration of maturity by the Lender) which may occur with respect to this Note or the Loan, it is agreed that all sums determined to be usurious shall be immediately credited by the Lender as a payment of principal hereunder, or if this Note has already been paid, immediately refunded to the Borrower. All compensation which constitutes interest under applicable law in connection with the Loan shall be amortized, prorated, allocated and spread over the full period of time any indebtedness is owing by Borrower and/or of the term of the Loan, whichever is longer, to the greatest extent permissible without exceeding the applicable maximum rate allowed by applicable law in effect from time to time during such period.

IN THE EVENT ANY ITEM, ITEMS, TERMS OR PROVISIONS CONTAINED IN THIS INSTRUMENT ARE IN CONFLICT WITH THE APPLICABLE STATE OR FEDERAL LAW, THIS INSTRUMENT SHALL BE AFFECTED ONLY AS TO ITS APPLICATION TO SUCH ITEM, ITEMS, TERMS OR PROVISIONS, AND SHALL IN ALL OTHER RESPECTS REMAIN IN FULL FORCE AND EFFECT. IT IS UNDERSTOOD AND AGREED THAT IN NO EVENT AND UPON NO CONTINGENCY SHALL THE BORROWER OR ANY PARTY LIABLE HEREON, OR HEREFOR BE REQUIRED TO PAY INTEREST IN EXCESS OF THE RATE ALLOWED BY THE APPLICABLE STATE LAW OR FEDERAL LAW, IF SUCH FEDERAL LAW PERMITS A GREATER RATE OF INTEREST. THE INTENTION OF THE PARTIES IS TO CONFORM STRICTLY TO THE APPLICABLE USURY LAWS AS NOW OR HEREINAFTER CONSTRUED BY THE COURTS HAVING JURISDICTION.

THE BORROWER, ENDORSERS, SURETIES, GUARANTORS AND ALL PERSONS TO BECOME LIABLE ON THIS NOTE (THE "OBLIGORS") HEREBY, JOINTLY AND SEVERALLY, WAIVE EXPRESSLY ALL NOTICES OF OVERDUE INSTALLMENT PAYMENTS AND DEMANDS FOR PAYMENT THEREOF, NOTICES OF INTENTION TO ACCELERATE MATURITY, NOTICES OF ACTUAL ACCELERATION OF MATURITY, PRESENTMENT, DEMAND FOR PAYMENT, NOTICES OF DISHONOR, DISHONOR, PROTEST, NOTICES OF PROTEST, AND DILIGENCE IN COLLECTION HEREOF. EACH OBLIGOR AGREES THAT THE LENDER MAY AT ANY TIME, AND FROM TIME TO TIME, UPON REQUEST OF OR BY AGREEMENT WITH ANY OF THEM, RENEW THIS NOTE AND/OR EXTEND THE DATE OF MATURITY HEREOF OR CHANGE AND/OR REARRANGE THE TIME OR METHOD OF PAYMENTS WITHOUT NOTICE TO ANY OF THE OTHER OBLIGORS, WHO SHALL REMAIN LIABLE FOR THE PAYMENT HEREOF. OBLIGORS WAIVE EXPRESSLY THE LATE FILING OF ANY SUIT OR PRECEDING OR CAUSE OF ACTION HEREON, OR ANY DELAY IN THE HANDLING OF ANY COLLATERAL. OBLIGORS AGREE THAT LENDER'S ACCEPTANCE OF PARTIAL OR DELINQUENT PAYMENTS OR FAILURE OF LENDER TO EXERCISE ANY RIGHT OR REMEDY CONTAINED HEREIN OR IN ANY INSTRUMENT GIVEN AS SECURITY FOR THE PAYMENT OF THIS NOTE SHALL NOT BE A WAIVER OF ANY OBLIGATION OF THE OBLIGORS OR CONSTITUTE A WAIVER OF ANY PRIOR OR SUBSEQUENT DEFAULT. THE LENDER MAY REMEDY ANY DEFAULT WITHOUT WAIVING THE DEFAULT REMEDIED AND MAY WAIVE ANY DEFAULT WITHOUT WAIVING ANY OTHER PRIOR OR SUBSEQUENT DEFAULT.

To the extent allowed by law, as security for this Note and all other indebtedness which may at any time be owing by Borrower (and any endorsers and/or guarantors hereof) to Lender, Borrower (and any endorsers and/or guarantors hereof) grants to Lender (i) a security interest and contractual lien in and to all of the Borrower's (and any such endorser's and/or guarantor's) collateral securing other indebtedness of Borrower (or of any such endorsers and/or guarantors) to Lender, and (ii) a security interest, contractual lien and contractual right of set-off in and to all of the Borrower's (and any such endorser's and/or guarantor's) money, credits, accounts and/or other property including repurchase agreements and other non-depository obligations, now in, or at any time hereafter coming within, the custody or control of Lender, or any member Bank or branch Bank of International BancShares Corporation, whether held in a general or special account or deposit, or for safekeeping or otherwise, excluding however, all IRA, KEOGH and trust accounts upon which the grant of security interest or right of set-off would be prohibited. Every such security interest, lien and right of set-off may be exercised without demand or notice to Borrower (or to any endorsers and/or guarantors hereof). No security interest, lien or right of set-off to enforce such security interest or lien shall be deemed to have been waived by any act or conduct on the part of Lender, or by any failure to exercise such right of set-off or to enforce such security interest or lien, or by any delay in so doing. Every right of set-off security interest shall continue in full force and effect until such right of set-off, security interest or lien is specifically waived or released by an instrument in writing executed by Lender. The foregoing provisions of this paragraph are in addition to and not in lieu of any rights of set-off allowed by law.

To the extent allowed by law, in connection with any transaction between Borrower and Lender at any time in the past, present or future, in the event Borrower, individually or jointly with others, has granted or grants Lender a lien on any real and/or personal property, Borrower agrees that the lien on such real and/or personal property, to the extent of Borrower's interest therein, shall also secure the indebtedness of Borrower to Lender evidenced by this Note and all renewals, extensions, rearrangements and modifications hereof.

If this Note, or any part hereof, is not paid according to its terms, is placed in the hands of an attorney for collection, or is collected through probate, bankruptcy or other judicial or non-judicial proceedings, whether matured by expiration of time or by the exercise of the option given to the Lender to mature it, Borrower and all parties now or hereafter liable hereon hereby agree to pay an additional amount equal to a reasonable and necessary attorney's fees and associated costs for collection. Said attorney's fees and costs of collection, once liquidated and paid by Lender, will bear interest at the rate of interest applied to the matured and past-due principal balance of this Note as such rate may change from time to time from the date advanced by Lender until paid.

Subject to the provisions of this Note pertaining to Swap Transactions as hereinafter set out, Borrower reserves the right to prepay, prior to maturity, all or any part of the principal of this Note without penalty, and interest shall immediately cease on any amount so prepaid. All prepayments shall be applied to the last maturing installments of principal, without interrupting the regular installment payments. Borrower will provide Lender written notice of any prepayment of principal together with such prepayment.

Any assumption, if permitted by Lender, by any other person or persons, partnership, corporation, organization or any other entity without an express written release signed by Lender, shall not release the liability of Borrower or any other Obligor for the payment of this Note.

In the event that the Collateral is sold, conveyed, or otherwise disposed of without the prior written consent of the Lender, the maturity of this Note may, at the option of the Lender, be accelerated and Lender may immediately demand payment of the then outstanding principal sum, together with all accrued and unpaid interest and late charges due thereon.

Borrower shall be obligated to repay only that portion of the principal amount which has actually been advanced and not repaid, and interest shall accrue on the

unpaid outstanding principal balance from the date of the advance until paid.

Borrower agrees to provide to Lender, at least on an annual basis, a Financial Statement, a Profit And Loss/Net Income Statement, copies of U.S. Tax Returns, and any other information that may be reasonably requested by Lender.

The parties intend to conform strictly to the applicable federal, state, and local laws as now or hereafter construed by the courts having jurisdiction. All agreements between the parties hereto (or any other party liable with respect to any portion of the indebtedness under this Note or any instrument executed in connection herewith) are hereby limited by the provisions of this paragraph, which shall override and control all such agreements, whether now existing or thereafter arising and whether written or oral. If from a construction of any document related to any agreement between the parties hereto (or any other party liable with respect to any portion of the indebtedness under this Note or any instrument executed in connection herewith), any term(s) or provision(s) of the document is in conflict with, or in violation of, applicable laws, any such construction shall be subject to the provisions of this paragraph and such document shall be automatically reformed as to comply with applicable law, without the necessity of execution of any amendment or new document.

Financing Statements: At Lender's request Borrower will promptly sign all other documents, including financing statements and certificates of title, to perfect, protect, and continue Lender's security interest in the Collateral at the sole cost of Borrower. Borrower hereby authorizes Lender to file a Financing Statement, an Amended Financing Statement and a Continuation Financing Statement (collectively referred to as the "Financing Statement") describing the Collateral. Where Collateral is in the possession of a third party, Borrower will join with Lender in notifying the third party of Lender's security interest and obtaining a Control Agreement from the third party that it is holding the Collateral for the benefit of Lender.

In the event any legal action or proceeding, by arbitration or otherwise, is commenced in connection with the enforcement of, or declaration of rights under, this Note and/or any instrument or written agreement required or delivered under, in connection with, or pursuant to the terms of this Note (collectively, the "Loan Documents"), and/or any controversy or claim, whether sounding in contract, tort or statute, legal or equitable, involving in any way the financing or the transaction(s) evidenced by this Note, or any other proposed or actual loan or extension of credit, the prevailing party shall be entitled to recover reasonable and necessary attorney's fees and paralegal costs (including allocated costs for in-house legal services), costs, expenses, expert witness fees and costs, and other necessary disbursements made in connection with any such action or proceeding, in the amount determined by the fact-finder.

Lender, in its sole discretion and without obligation on Lender to do so, may advance and pay sums on behalf and for the benefit of Borrower for costs necessary for the protection and preservation of the Collateral and other costs that may be appropriate, in Lender's sole discretion, including but not limited to insurance premiums, ad valorem taxes, and attorney's fees. Any sums which may be so paid out by Lender and all sums paid for insurance premiums, as aforesaid, including the costs, expenses and attorney's fees paid in any suit affecting said property when necessary to protect Lender's lien therein shall bear interest from the dates of such payments at the interest rate applied to the matured and past-due principal balance of this Note and shall be paid by Borrower to Lender upon demand, at the same place at which this Note is payable, and shall be deemed a part of the debt evidenced hereby and recoverable as such in all aspects.

Borrower and Lender hereby expressly acknowledge and agree that in the event of a default under this Note, or under any document executed by Borrower in connection with, or to secure the payment of, this Note (1) Lender shall not be required to comply with Article 6132b-3.05(d) of the Texas Revised Partnership Act or Subsection 152.306 of the Texas Business Organizations Code, if applicable, and (2) Lender shall not be required to proceed against or exhaust the assets of Borrower before pursuing any remedy directly against one or more of the partners of Borrower or the property of such partners.

If Borrower is an entity formed under and/or governed by the Texas Business Organizations Code ("BOC") the following shall apply: (i) Notice to known claimants under BOC Section 11.052(a)(2) [or any similar statute of Borrower's domiciliary state if Borrower is not domiciled in the State of Texas] shall not be effective with respect to Lender unless it is delivered by certified mail, return receipt requested and addressed to Dennis E. Nixon, President, at International Bancshares Corporation, P.O. Drawer 1359, Laredo, Texas 78042-1359 within thirty (30) days following the occurrence of the event requiring the winding up of Borrower, (ii) to the extent allowed by applicable law, Borrower agrees that BOC Section 11.359 [or any similar statute of Borrower's domiciliary state if Borrower is not domiciled in the State of Texas] shall have no force or effect on the existence or validity of the indebtedness evidenced by the Loan Documents and Borrower hereby waives all rights under said statutory provision, and (iii) in the event any portion of the indebtedness evidenced by the Loan Documents shall be deemed to be extinguished pursuant to the provisions of BOC Section 11.359 [or any similar statute of Borrower's domiciliary state if Borrower is not domiciled in the State of Texas], such extinguishment shall have no effect on the existence, validity, or enforceability of the Loan Documents other than Lender's ability to obtain a judgment against Borrower for repayment of the extinguished portion of such indebtedness.

Swap Transactions and Swap Related Loss: The term "Swap Transaction", as used herein, means (i) any transaction effected pursuant to one or more agreements now existing or hereafter entered into between Borrower and Lender and/or any financial institution affiliated with International BancShares Corporation (a "Lender Affiliate") which is a rate swap, swap option, interest rate option or other financial instrument or interest (including one or more options with respect to any such transaction), (ii) any type of transaction that is similar to any transaction referred to in clause (i) above that is currently, or in the future becomes, recurrently entered into in the financial markets and which is a forward swap, future, option or other derivative on one or more rates, or any combination of the foregoing transactions, or (iii) any transaction that is similar to any transaction referred to in clause (i) or (ii) above except that it is between Lender and/or a Lender Affiliate and any party or entity other than Borrower and is entered into by Lender and/or such Lender Affiliate on account of a corresponding Swap Transaction that is described in clause (i) or (ii) above.

Notwithstanding anything to the contrary contained in this Note or any other Loan Document, during any time that any Swap Transaction is in effect, Borrower shall have no right whatsoever to make any prepayment of all or any part of the principal owing under this Note without Lender's prior written approval, which Lender may grant or withhold in Lender's sole and absolute discretion,

For purposes hereof, "prepayment" shall mean any instance wherein the principal under this Note is satisfied in full or in part in advance and/or in excess of scheduled installments in any manner prior to the Final Maturity Date, whether voluntarily or involuntarily. Prepayment shall include, but not be limited to: (i) payment upon or following acceleration of the maturity of this Note by Lender pursuant to any applicable provision of this Note or any of the other Loan Documents, (ii) any payment of principal made prior to the Final Maturity Date pursuant to any demand provisions of this Note, (iii) application of insurance or condemnation proceeds to discharge all or any portion of the outstanding principal of this Note, (iv) payment of principal to Lender by any holder of a subordinate or superior interest in the Collateral, or (v) any payment of principal after the Final Maturity Date is accelerated for any reason permitted hereunder or under any of the other Loan Documents, including, without limitation, any acceleration of the Final Maturity Date resulting from any sale or transfer of the Collateral pursuant to foreclosure, sale under power of sale, judicial order or trustee's sale under the Loan Documents; any payment of principal by sale, transfer or offsetting credit in connection with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors, or receivership proceedings under any statute of the United States or any State thereof involving Borrower and/or the Collateral

In the event of any prepayment during any time that any Swap Transaction is in effect, whether or not approved by Lender, Borrower shall be obligated to pay to Lender upon demand, in addition to all other amounts due and payable to Lender under the Loan Documents at the time of such prepayment, an amount determined by Lender to be the loss, cost and expense incurred by Lender and/or a Lender Affiliate under, related to or arising from such Swap Transaction that is attributable to such prepayment (the "Swap Related Loss"). Lender's determination of the Swap Related Loss incurred by Lender or a Lender Affiliate shall be conclusive and binding upon Borrower absent manifest error.

ARBITRATION.

BINDING ARBITRATION AGREEMENT
PLEASE READ THIS CAREFULLY. IT AFFECTS YOUR RIGHTS.

BORROWER AND LENDER AGREE TO ARBITRATION AS FOLLOWS (hereinafter referred to as the "Arbitration Provisions"):

I. Special Provisions and Definitions applicable to both CONSUMER DISPUTES and BUSINESS DISPUTES:

- (a) Informal Resolution of Customer Concerns. Most customer concerns can be resolved quickly and to the customer's satisfaction by contacting your account officer, branch manager or by calling the Customer Service Department in your region. The region and numbers are:
- | | | |
|-----|----------------|--------------|
| 1. | Laredo | 956-722-7611 |
| 2. | Austin | 512-397-4506 |
| 3. | Brownsville | 956-547-1000 |
| 4. | Commerce Bank | 956-724-1616 |
| 5. | Corpus Christi | 361-888-4000 |
| 6. | Eagle Pass | 830-773-2313 |
| 7. | Houston | 713-526-1211 |
| 8. | McAllen | 956-686-0263 |
| 9. | Oklahoma | 405-841-2100 |
| 10. | Port Lavaca | 361-552-9771 |
| 11. | San Antonio | 210-518-2500 |
| 12. | Zapata | 956-765-8361 |

In the unlikely event that your account officer, branch manager or the customer service department is unable to resolve a complaint to your satisfaction or if the Lender has not been able to resolve a dispute it has with you after attempting to do so informally, you and the Lender agree to resolve those disputes through binding arbitration or small claims court instead of in courts of general jurisdiction.

- (b) Sending Notice of Dispute. If either you or the Lender intend to seek arbitration, then you or the Lender must first send to the other by certified mail, return receipt requested, a written Notice of Dispute. The Notice of Dispute to the Lender should be addressed to: Dennis E. Nixon, President, at International Bancshares Corporation, P.O. Drawer 1359, Laredo, Texas 78042-1359 or if by email, ibcchairman@ibc.com. The Notice of Dispute must (a) describe the nature and basis of the claim or dispute; and (b) explain specifically what relief is sought. You may download a copy of the Notice of Dispute at www.ibc.com or you may obtain a copy from your account officer or branch manager.
- (c) If the Dispute is not Informally Resolved. If you and the Lender do not reach an agreement to resolve the claim or dispute within thirty (30) days after the Notice of Dispute is received, you or the Lender may commence a binding arbitration proceeding. During the binding arbitration proceeding, any settlement offers made by you or the Lender shall not be disclosed to the Arbitrator.
- (d) "DISPUTE(S)". As used herein, the word "DISPUTE(S)" includes any and all controversies or claims between the PARTIES of whatever type or manner, including without limitation, any and all claims arising out of or relating to this Note, compliance with applicable laws and/or regulations, any and all services or products provided by the Lender, any and all past, present and/or future loans, lines of credit, letters of credit, credit facilities or other form of indebtedness and/or agreements involving the PARTIES, any and all transactions between or involving the PARTIES, and/or any and all aspects of any past or present relationship of the PARTIES, whether banking or otherwise, specifically including but not limited to any claim founded in contract, tort, fraud, fraudulent inducement, misrepresentation or otherwise, whether based on statute, regulation, common law or equity.
- (e) "CONSUMER DISPUTE" and "BUSINESS DISPUTE". As used herein, "CONSUMER DISPUTE" means a DISPUTE relating to an account (including a deposit account), agreement, extension of credit, loan, service or product provided by the Lender that is primarily for personal, family or household purposes. "BUSINESS DISPUTE" means any DISPUTE that is not a CONSUMER DISPUTE.
- (f) "PARTIES" or "PARTY". As used in these Arbitration Provisions, the term "PARTIES" or "PARTY" means Borrower, Lender, and each and all persons and entities signing this Note or any other agreements between or among any of the PARTIES as part of this transaction. "PARTIES" or "PARTY" shall be broadly construed and include individuals, beneficiaries, partners, limited partners, limited liability members, shareholders, subsidiaries, parent companies, affiliates, officers, directors, employees, heirs, agents and/or representatives of any party to such documents, any other person or entity claiming by or through one of the foregoing and/or any person or beneficiary who receives products or services from the Lender and shall include any other owner and holder of this Note. Throughout these Arbitration Provisions, the term "you" and "your" refer to Borrower, and the term "Arbitrator" refers to the individual arbitrator or panel of arbitrators, as the case may be, before which the DISPUTE is arbitrated.
- (g) BINDING ARBITRATION. The PARTIES agree that any DISPUTE between the PARTIES shall be resolved by mandatory binding arbitration pursuant to these Arbitration Provisions at the election of either PARTY. BY AGREEING TO RESOLVE A DISPUTE IN ARBITRATION, THE PARTIES ARE WAIVING THEIR RIGHT TO A JURY TRIAL OR TO LITIGATE IN COURT (except for matters that may be taken to small claims court for a CONSUMER DISPUTE as provided below).

- (h) CLASS ACTION WAIVER. The PARTIES agree that (i) no arbitration proceeding hereunder whether a CONSUMER DISPUTE or a BUSINESS DISPUTE shall be certified as a class action or proceed as a class action, or on a basis involving claims brought in a purported representative capacity on behalf of the general public, other customers or potential customers or persons similarly situated, and (ii) no arbitration proceeding hereunder shall be consolidated with, or joined in any way with, any other arbitration proceeding. THE PARTIES AGREE TO ARBITRATE A CONSUMER DISPUTE OR BUSINESS DISPUTE ON AN INDIVIDUAL BASIS AND EACH WAIVES THE RIGHT TO PARTICIPATE IN A CLASS ACTION.
- (i) FEDERAL ARBITRATION ACT AND TEXAS LAW. The PARTIES acknowledge that this Note evidences a transaction involving interstate commerce. The Federal Arbitration Act shall govern (i) the interpretation and enforcement of these Arbitration Provisions, and (ii) all arbitration proceedings that take place pursuant to these Arbitration Provisions. THE PARTIES AGREE THAT, EXCEPT AS OTHERWISE EXPRESSLY AGREED TO BY THE PARTIES IN WRITING, OR UNLESS EXPRESSLY PROHIBITED BY LAW, TEXAS SUBSTANTIVE LAW (WITHOUT REGARD TO ANY CONFLICT OF LAWS PRINCIPLES) WILL APPLY IN ANY BINDING ARBITRATION PROCEEDING OR SMALL CLAIMS COURT ACTION REGARDLESS OF WHO INITIATES THE PROCEEDING, WHERE YOU RESIDE OR WHERE THE DISPUTE AROSE.

II. Provisions applicable only to a CONSUMER DISPUTE:

- (a) Any and all CONSUMER DISPUTES shall be resolved by arbitration administered by the American Arbitration Association (“AAA”) under the Commercial Arbitration Rules and the Supplemental Procedures for Resolution of Consumer Disputes and Consumer Due Process Protocol (which are incorporated herein for all purposes). It is intended by the PARTIES that these Arbitration Provisions meet and include all fairness standards and principles of the American Arbitration Association’s Consumer Due Process Protocol and due process in predispute arbitration. If a CONSUMER DISPUTE is for a claim of actual damages above \$250,000 it shall be administered by the AAA before three neutral arbitrators at the request of any PARTY.
- (b) Instead of proceeding in arbitration, any PARTY hereto may pursue its claim in your local small claims court, if the CONSUMER DISPUTE meets the small claims court’s jurisdictional limits. If the small claims court option is chosen, the PARTY pursuing the claim must contact the small claims court directly. The PARTIES agree that the class action waiver provision also applies to any CONSUMER DISPUTE brought in small claims court.
- (c) For any claim for actual damages that does not exceed \$2,500, the Lender will pay all arbitration fees and costs provided you submitted a Notice of Dispute with regard to the CONSUMER DISPUTE prior to initiation of arbitration. For any claim for actual damages that does not exceed \$5,000, the Lender also agrees to pay your reasonable attorney’s fees and reasonable expenses your attorney charges you in connection with the arbitration (even if the Arbitrator does not award those to you) plus an additional \$2,500 if you obtain a favorable arbitration award for your actual damages which is greater than any written settlement offer for your actual damages made by the Lender to you prior to the selection of the Arbitrator.
- (d) Under the AAA’s Supplemental Procedures for Consumer Disputes, if your claim for actual damages does not exceed \$10,000, you shall only be responsible for paying up to a maximum of \$125 in arbitration fees and costs. If your claim for actual damages exceeds \$10,000 but does not exceed \$75,000, you shall only be responsible for paying up to a maximum of \$375 in arbitration fees and costs. For any claim for actual damages that does not exceed \$75,000, the Lender will pay all other arbitrator’s fees and costs imposed by the administrator of the arbitration. With regard to a CONSUMER DISPUTE for a claim of actual damages that exceeds \$75,000, or if the claim is a non-monetary claim, the Lender agrees to pay all arbitration fees and costs you would otherwise be responsible for that exceed \$1,000. The fees and costs stated above are subject to any amendments to the fee and cost schedules of the AAA. The fee and cost schedule in effect at the time you submit your claim shall apply. The AAA rules also permit you to request a waiver or deferral of the administrative fees and costs of arbitration if paying them would cause you financial hardship.
- (e) Although under some laws, the Lender may have a right to an award of attorney’s fees and expenses if it prevails in arbitration, the Lender agrees that it will not seek such an award in a binding arbitration proceeding with regard to a CONSUMER DISPUTE for a claim of actual damages that does not exceed \$75,000.
- (f) To request information on how to submit an arbitration claim, or to request a copy of the AAA rules or fee schedule, you may contact the AAA at 1-800-778-7879 (toll free) or at www.adr.org.

III. Provisions applicable only to a BUSINESS DISPUTE:

- (a) Any and all BUSINESS DISPUTES between the PARTIES shall be resolved by arbitration in accordance with the Commercial Arbitration Rules of the AAA in effect at the time of filing, as modified by, and subject to, these Arbitration Provisions. A BUSINESS DISPUTE for a claim of actual damages that exceeds \$250,000 shall be administered by AAA before at least three (3) neutral arbitrators at the request of any PARTY. In the event the aggregate of all affirmative claims asserted exceeds \$500,000, exclusive of interest and attorney’s fees, or upon the written request of any PARTY, the arbitration shall be conducted under the AAA Procedures for Large, Complex Commercial Disputes. If the payment of arbitration fees and costs will cause you extreme financial hardship you may request that AAA defer or reduce the administrative fees or request the Lender to cover some of the arbitration fees and costs that would be your responsibility.
- (b) The PARTIES shall have the right to (i) invoke self-help remedies (such as setoff, notification of account debtors, seizure and/or foreclosure of collateral, and nonjudicial sale of personal property and real property collateral) before, during or after any arbitration, and/or (ii) request ancillary or provisional judicial remedies (such as garnishment, attachment, specific performance, receiver, injunction or restraining order, and sequestration) before or after the commencement of any arbitration proceeding (individually, and not on behalf of a class). The PARTIES need not await the outcome of the arbitration proceeding before using self-help remedies. Use of self-help or ancillary and/or provisional judicial remedies shall not operate as a waiver of either PARTY’s right to compel arbitration. Any ancillary or provisional judicial remedy which would be available from a court at law shall be available from the Arbitrator. The PARTIES agree that the AAA Optional Rules for Emergency Measures of Protection shall apply in an arbitration proceeding where emergency interim relief is requested.

- (c) Except to the extent the recovery of any type or types of damages or penalties may not be waived under applicable law, the Arbitrator shall not have the authority to award either PARTY (i) punitive, exemplary, special or indirect damages, (ii) statutory multiple damages, or (iii) penalties, statutory or otherwise.
- (d) The Arbitrator may award attorney's fees and costs including the fees, costs and expenses of arbitration and of the Arbitrator as the Arbitrator deems appropriate to the prevailing PARTY. The Arbitrator shall retain jurisdiction over questions of attorney's fees for fourteen (14) days after entry of the decision.

IV. General provisions applicable to both CONSUMER DISPUTES and BUSINESS DISPUTES:

- (a) The Arbitrator is bound by the terms of these Arbitration Provisions. The Arbitrator shall have exclusive authority to resolve any DISPUTES relating to the scope or enforceability of these Arbitration Provisions, including (i) all arbitrability questions, and (ii) any claim that all or a part of these Arbitration Provisions are void or voidable (including any claims that they are unconscionable in whole or in part).
- (b) These Arbitration Provisions shall survive any modification, renewal, extension, repayment (whether partial or full), or discharge (whether partial or full) of this Note, unless all of the PARTIES otherwise expressly agree in writing.
- (c) If a PARTY initiates legal proceedings, the failure of the initiating PARTY to request arbitration pursuant to these Arbitration Provisions within 180 days after the filing of the lawsuit shall be deemed a waiver of the initiating PARTY'S right to compel arbitration with respect to the claims asserted in the litigation. The failure of the defending PARTY in such litigation to request arbitration pursuant to these Arbitration Provisions within 180 days after the defending PARTY'S receipt of service of judicial process, shall be deemed a waiver of the right of the defending PARTY to compel arbitration with respect to the claims asserted in the litigation. If a counterclaim, cross-claim or third party action is filed and properly served on a PARTY in connection with such litigation, the failure of such PARTY to request arbitration pursuant to these Arbitration Provisions within ninety (90) days after such PARTY'S receipt of service of the counterclaim, cross-claim or third party claim shall be deemed a waiver of such PARTY'S right to compel arbitration with respect to the claims asserted therein. The issue of waiver pursuant to these Arbitration Provisions is an arbitrable dispute. Active participation in any pending litigation described above by a PARTY shall not in any event be deemed a waiver of such PARTY'S right to compel arbitration. All discovery obtained in the pending litigation may be used in any subsequent arbitration proceeding.
- (d) Any PARTY seeking to arbitrate shall serve a written notice of intent to any and all opposing PARTIES after a DISPUTE has arisen. The PARTIES agree a timely written notice of intent to arbitrate by either PARTY pursuant to these Arbitration Provisions shall stay and/or abate any and all action in a trial court, save and except a hearing on a motion to compel arbitration and/or the entry of an order compelling arbitration and staying and/or abating the litigation pending the filing of the final award of the Arbitrator.
- (e) Any Arbitrator selected shall be knowledgeable in the subject matter of the DISPUTE and be licensed to practice law.
- (f) For a one (1) member arbitration panel, the PARTIES are limited to an equal number of strikes in selecting the arbitrator from the AAA neutral list, such that at least one arbitrator remains after the PARTIES exercise all of their respective strikes. For a three (3) member arbitration panel, the PARTIES are limited to an equal number of strikes in selecting the arbitrators from the AAA neutral list, such that at least three arbitrators remain after the PARTIES exercise all of their respective strikes. After exercising all of their allotted respective strikes, the PARTIES shall rank those potential arbitrators remaining numerically in order of preference (with "1" designating the most preferred). The AAA shall review the PARTIES rankings and assign a score to each potential arbitrator by adding together the ranking given to such potential arbitrator by each PARTY. The arbitrator(s) with the lowest score total(s) will be selected. In the event of a tie or ties for lowest score total and if the selection of both or all of such potential arbitrators is not possible due to the required panel size, the AAA shall select the arbitrator(s) it believes to be best qualified.
- (g) The PARTIES and the Arbitrator shall treat all aspects of the arbitration proceedings, including, without limitation, any documents exchanged, testimony and other evidence, briefs and the award, as strictly confidential; provided, however, that a written award or order from the Arbitrator may be filed with any court having jurisdiction to confirm and/or enforce such award or order.
- (h) Any statute of limitation which would otherwise be applicable shall apply to any claim asserted in any arbitration proceeding under these Arbitration Provisions, and the commencement of any arbitration proceeding tolls such statute of limitations.
- (i) If the AAA is unable for any reason to provide arbitration services, then the PARTIES agree to select another arbitration service provider that has the ability to arbitrate the DISPUTE pursuant to and consistent with these Arbitration Provisions. If the PARTIES are unable to agree on another arbitration service provider, any PARTY may petition a court of competent jurisdiction to appoint an Arbitrator to administer the arbitration proceeding pursuant to and consistent with these Arbitration Provisions.
- (j) The award of the Arbitrator shall be final and Judgment upon any such award may be entered in any court of competent jurisdiction. The arbitration award shall be in the form of a written reasoned decision and shall be based on and consistent with applicable law.
- (k) Unless the PARTIES mutually agree to hold the binding arbitration proceeding elsewhere, venue of any arbitration proceeding under these Arbitration Provisions shall be in the county and state where Lender is located, which is Lender's address set out in the first paragraph on page 1 hereof.
- (l) If any of these Arbitration Provisions are held to be invalid or unenforceable, the remaining provisions shall be enforced without regard to the invalid or unenforceable term or provision.

JURY WAIVER: IF A DISPUTE BETWEEN YOU AND LENDER PROCEEDS IN COURT RATHER THAN THROUGH MANDATORY BINDING ARBITRATION, THEN YOU AND LENDER BOTH WAIVE THE RIGHT TO A JURY TRIAL, AND SUCH DISPUTE WILL BE TRIED BEFORE A JUDGE ONLY.

THE TERM LENDER INCLUDES ANY OTHER OWNER AND HOLDER OF THIS NOTE AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS. THIS NOTE IS GOVERNED BY OKLAHOMA LAW, EXCEPT TO THE EXTENT THE USURY LAWS OF THE STATE OF OKLAHOMA ARE PRE-EMPTED BY FEDERAL LAW, IN WHICH CASE SUCH FEDERAL LAW SHALL APPLY. VENUE OF ALL ACTIONS ON THIS NOTE, SHALL LIE IN OKLAHOMA COUNTY, OKLAHOMA, AND ALL OBLIGATIONS REQUIRED HEREIN ARE PERFORMABLE IN OKLAHOMA COUNTY, OKLAHOMA.

This Note has been accepted by Lender in the State where Lender is located as set forth in the first paragraph of page 1 hereof.

Please notify us if we report any inaccurate information about your account(s) to a consumer reporting agency. Your written notice describing the specific inaccuracy(ies) should be sent to us at the following address: International Bank of Commerce, 3817 NW Expressway, Suite 100, Oklahoma City, Oklahoma 73112, ATTN: William P. Schonacher.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER ACKNOWLEDGES EXECUTION OF THIS NOTE, AND HAVING READ AND UNDERSTOOD ALL OF ITS PROVISIONS, BORROWER AGREES TO ITS TERMS.

NO ORAL AGREEMENTS

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BORROWER(S):

Greystone Logistics, Inc.
An Oklahoma Corporation

By: /s/ Warren F. Kruger
Name: Warren F. Kruger
Title: President

Address: 1613 East 15th
Tulsa, Oklahoma 74120

Greystone Manufacturing, L.L.C.
An Oklahoma Limited Liability Company

By: /s/ Warren F. Kruger
Name: Warren F. Kruger
Title: Manager

Address: 1613 East 15th Street
Tulsa, Oklahoma 74120

CERTIFICATION

I, Warren F. Kruger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Greystone Logistics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 14, 2019

/s/ Warren F. Kruger

Warren F. Kruger
President and Chief Executive Officer

CERTIFICATION

I, William W. Rahhal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Greystone Logistics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 14, 2019

/s/ William W. Rahhal

William W. Rahhal
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Greystone Logistics, Inc. (the "Company") on Form 10-Q for the period ending November 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Warren F. Kruger, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 14, 2019

/s/ Warren F. Kruger

Warren F. Kruger
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be considered filed as part of the Report.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Greystone Logistics, Inc. (the "Company") on Form 10-Q for the period ending November 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William W. Rahhal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 14, 2019

/s/ William W. Rahhal

William W. Rahhal
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be considered filed as part of the Report.
