GREIF INC
Form 10-Q
September 07, 2007

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended July 31, 2007**

**OR**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ______ to ______**

**Commission File Number 001-00566**

# GREIF, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **31-4388903** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **425 Winter Road, Delaware, Ohio** | **43015** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code (740) 549-6000**

**Not Applicable**

**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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The number of shares outstanding of each of the issuer s classes of common stock at the close of business on July 31, 2007 was as follows:

| | |
|---|---|
| Class A Common Stock | 23,650,057 shares |
| Class B Common Stock | 22,959,666 shares |

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**GREIF, INC. AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**(UNAUDITED)**

**(Dollars in thousands, except per share amounts)**

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Net sales | $ 874,237 | $ 690,475 | $ 2,440,039 | $ 1,892,898 |
| Cost of products sold | 711,948 | 553,732 | 2,005,133 | 1,557,040 |
| Gross profit | 162,289 | 136,743 | 434,906 | 335,858 |
| Selling, general and administrative expenses | 77,306 | 70,348 | 229,585 | 192,180 |
| Restructuring charges | 6,061 | 7,087 | 12,147 | 22,842 |
| Gain (loss) on sale of timberlands | 56 | 364 | (264) | 41,171 |
| Gain on sale disposal of properties, plants and equipment, net | 930 | 8,809 | 9,517 | 15,999 |
| Operating profit | 79,908 | 68,481 | 202,427 | 178,006 |
| Interest expense, net | 12,400 | 8,071 | 34,480 | 27,038 |
| Debt extinguishment charge | | | 23,479 | |
| Other expense, net | (707) | (3,879) | (5,770) | (3,086) |
| Income before income tax expense | 66,801 | 56,531 | 138,698 | 147,882 |
| Income tax expense | 17,502 | 17,820 | 36,339 | 46,139 |
| Equity in losses of affiliates and minority interests | (518) | (375) | (975) | (1,362) |
| Net income | $ 48,781 | $ 38,336 | $ 101,384 | $ 100,381 |
| **Basic earnings per share:** | | | | |
| Class A Common Stock | $ 0.84 | $ 0.66 | $ 1.75 | $ 1.74 |
| Class B Common Stock | $ 1.26 | $ 1.00 | $ 2.62 | $ 2.61 |
| **Diluted earnings per share:** | | | | |
| Class A Common Stock | $ 0.82 | $ 0.65 | $ 1.72 | $ 1.71 |
| Class B Common Stock | $ 1.26 | $ 1.00 | $ 2.62 | $ 2.61 |

See accompanying Notes to Consolidated Financial Statements

**GREIF, INC. AND SUBSIDIARY COMPANIES**

**CONSOLIDATED BALANCE SHEETS**

**(Dollars in thousands)**

**ASSETS**

| | July 31, 2007 (Unaudited) | October 31, 2006 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 97,116 | $ 187,101 |
| Trade accounts receivable, less allowance of $12,480 in 2007 and $8,575 in 2006 | 361,115 | 315,661 |
| Inventories | 248,368 | 205,004 |
| Net assets held for sale | 4,662 | 3,374 |
| Deferred tax assets | 14,951 | 15,814 |
| Prepaid expenses and other current assets | 89,770 | 66,083 |
| | 815,982 | 793,037 |
| **Long-term assets** | | |
| Long-term notes receivable | 32,266 | 626 |
| Goodwill | 425,370 | 286,552 |
| Other intangible assets, net of amortization | 111,842 | 63,587 |
| Assets held by special purpose entities (Note 8) | 50,891 | 50,891 |
| Other long-term assets | 85,957 | 52,359 |
| | 706,326 | 454,015 |
| **Properties, plants and equipment** | | |
| Timber properties, net of depletion | 195,636 | 195,115 |
| Land | 130,009 | 81,768 |
| Buildings | 347,992 | 317,110 |
| Machinery and equipment | 1,012,390 | 930,924 |
| Capital projects in progress | 88,845 | 53,099 |
| | 1,774,872 | 1,578,016 |
| Accumulated depreciation | (714,016) | (637,067) |
| | 1,060,856 | 940,949 |
| | $ 2,583,164 | $ 2,188,001 |

See accompanying Notes to Consolidated Financial Statements

**GREIF, INC. AND SUBSIDIARY COMPANIES**

**CONSOLIDATED BALANCE SHEETS**

**(Dollars in thousands)**

**LIABILITIES AND SHAREHOLDERS EQUITY**

| | July 31, 2007 (Unaudited) | October 31, 2006 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 361,792 | $ 301,753 |
| Accrued payroll and employee benefits | 63,720 | 65,513 |
| Restructuring reserves | 6,096 | 8,391 |
| Short-term borrowings | 25,772 | 29,321 |
| Other current liabilities | 129,878 | 86,321 |
| | 587,258 | 491,299 |
| **Long-term liabilities** | | |
| Long-term debt | 676,259 | 481,408 |
| Deferred tax liability | 178,084 | 179,329 |
| Pension liability | 11,180 | 18,639 |
| Postretirement benefit liability | 47,574 | 47,702 |
| Liabilities held by special purpose entities (Note 8) | 43,250 | 43,250 |
| Other long-term liabilities | 115,115 | 77,488 |
| | 1,071,462 | 847,816 |
| **Minority interest** | 5,222 | 4,875 |
| **Shareholders equity** | | |
| Common stock, without par value | 69,019 | 56,765 |
| Treasury stock, at cost | (91,420) | (81,643) |
| Retained earnings | 965,613 | 901,267 |
| Accumulated other comprehensive income (loss): | | |
| - foreign currency translation | 7,685 | 1,525 |
| - interest rate derivatives | (275) | (1,861) |
| - energy and other derivatives | (303) | (945) |
| - minimum pension liability | (31,097) | (31,097) |
| | 919,222 | 844,011 |
| | $ 2,583,164 | $ 2,188,001 |

See accompanying Notes to Consolidated Financial Statements

**GREIF, INC. AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

**(Dollars in thousands)**

| **For the nine months ended July 31,** | **2007** | **2006** |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 101,384 | $ 100,381 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 76,292 | 68,621 |
| Asset impairments | 921 | 6,245 |
| Deferred income taxes | (5,317) | 19,315 |
| Gain on disposal of properties, plants and equipment, net | (9,517) | (15,999) |
| Loss (gain) on the sale of timberland (Note 8) | 264 | (41,171) |
| Gain on insurance settlement | | (1,526) |
| Loss on extinguishment of debt | 23,479 | |
| Equity in losses of affiliates and minority interests | 975 | 1,362 |
| Increase (decrease) in cash from changes in certain assets and liabilities: | | |
| Trade accounts receivable | 4,058 | (45,989) |
| Inventories | (10,837) | (10,777) |
| Prepaid expenses and other current assets | (20,339) | (26,363) |
| Other long-term assets | (51,032) | (1,499) |
| Long-term notes receivable | (8,159) | |
| Accounts payable | 21,472 | 49,014 |
| Accrued payroll and employee benefits | (1,854) | 6,431 |
| Restructuring reserves | (2,280) | (2,372) |
| Other current liabilities | 10,314 | 429 |
| Pension and postretirement benefit liability | (8,609) | (327) |
| Other long-term liabilities | 44,408 | 36,592 |
| Net cash provided by operating activities | 165,623 | 142,367 |
| **Cash flows from investing activities:** | | |
| Acquisitions of companies, net of cash acquired | (313,464) | (3,109) |
| Purchases of properties, plants and equipment | (80,144) | (72,425) |
| Purchases of timber properties | (1,500) | (35,459) |
| Issuance of notes receivable | (29,748) | |
| Proceeds from the sale of properties, plants and equipment | 13,515 | 60,218 |
| Proceeds from insurance settlement for properties, plants and equipment | | 2,562 |
| Net cash used in investing activities | (411,341) | (48,213) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of long-term debt | 1,635,984 | 586,804 |
| Payments on long-term debt | (1,441,133) | (607,359) |
| Proceeds from short-term borrowings | 17,820 | 4,736 |
| Payment of premiums for extinguishment of debt | (14,271) | |
| Debt issuance costs | (2,839) | |
| Dividends paid | (37,038) | (24,114) |
| Acquisitions of treasury stock | (9,743) | (5,833) |
| Exercise of stock options | 12,283 | 3,476 |
| Net cash provided by (used in) financing activities | 161,063 | (42,290) |

| | | |
|---|---|---|
| **Effects of exchange rates on cash** | (5,330) | (6,624) |
| **Net increase (decrease) in cash and cash equivalents** | (89,985) | 45,240 |
| **Cash and cash equivalents at beginning of period** | 187,101 | 122,411 |
| **Cash and cash equivalents at end of period** | $ 97,116 | $ 167,651 |

See accompanying Notes to Consolidated Financial Statements

**GREIF, INC. AND SUBSIDIARY COMPANIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**July 31, 2007**

## NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***

The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the consolidated balance sheets as July 31, 2007 and October 31, 2006 and the consolidated statements of income and cash flows for the three-month and nine-month periods ended July 31, 2007 and 2006 of Greif, Inc. and subsidiaries (the Company ). These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for its fiscal year ended October 31, 2006 (the 2006 Form 10-K ).

The Company s fiscal year begins on November 1 and ends on October 31 of the following year. Any references to the year 2007 or 2006, or to any quarter of those years, relates to the fiscal year or quarter, as the case may be, ending in that year.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimates.

Certain prior year amounts have been reclassified to conform to the 2007 presentation.

***Industrial Packaging Acquisitions***

During the first nine months of 2007, the Company completed five acquisitions of industrial packaging companies for an aggregate purchase price of $313.3 million. These five acquisitions were Blagden Packaging Group, two tuck-in North American companies in November 2006, one tuck-in North African company in January 2007, and the acquisition of the remaining ownership of two minority owned companies in Russia in July. These industrial packaging acquisitions are expected to complement the Company s existing product lines that together will provide growth opportunities and scale. These acquisitions, included in operating results from the acquisition dates, were accounted for using the purchase method of accounting and, accordingly, the purchase prices were allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the dates of acquisition. The estimated fair values of the assets acquired were $162.5 million (including $43.5 million of inventory and $61.2 million of accounts receivable) and liabilities assumed were $52.2 million. Identifiable intangible assets, with a combined fair value of $66.6 million, including trade-names, customer relationships, and certain non-compete agreements, have been recorded for these acquisitions. The excess of the purchase prices over the estimated fair values of the net tangible and intangible assets acquired of $136.4 million was recorded as goodwill. The final allocation of the purchase prices may differ due to additional refinements in the fair values of the net assets acquired in accordance with SFAS No. 141, Business Combinations.

In the fourth quarter of 2006, the Company completed two acquisitions for an aggregate purchase price of $102.1 million. These two acquisitions were Delta Petroleum Company, Inc. and its subsidiaries ( Delta ), a blender and packager of lubricants, chemicals and glycol-based products in North America, and an industrial packaging company located in Russia. These acquisitions, included in operating results from the acquisition dates, were accounted for using the purchase method of accounting and, accordingly, the purchase prices were allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the dates of acquisition. The estimated fair values of the assets acquired were $106.1 million (including $25.7 million of inventory and $28.0 million of accounts receivable) and liabilities assumed were $48.8 million. Identifiable intangible assets, with a combined fair value of $17.4 million, including trade-names, customer relationships, and certain non-compete agreements, have been recorded for these acquisitions. The excess of the purchase prices over the estimated fair values of the net tangible and intangible assets acquired of $27.4 million was recorded as goodwill. The final allocation of the purchase prices may differ due to additional refinements in the fair values of the net assets acquired in accordance with SFAS No. 141, Business Combinations.

During the first nine months of 2007, the Company implemented various restructuring plans at certain of the acquired businesses discussed above that were previously in the planning and evaluation stages. As of the consummation date of the acquisitions, management began to assess and formulate plans to close certain acquired locations. The Company s restructuring activities, which were accounted for in accordance with Emerging Issues Task Force Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination ( EITF 95-3 ), primarily have included reductions in staffing levels, other exit costs associated with the consolidation of certain management or sales and marketing personnel, and the reduction of excess capacity. In connection with these restructuring activities, as part of the cost of the

above acquisitions, the Company established reserves, primarily for severance and excess facilities, with a remaining liability at July 31 of $1.5 million, and $2.4 million of restructuring charges for the first nine months of 2007. These accruals have been recorded as adjustments to acquisition costs (increases to goodwill) pursuant to the provisions of EITF 95-3. These charges primarily reflect severance, other exit costs associated with the consolidation of certain sales and marketing personnel, and the reduction of excess capacity.

Had the transactions occurred on November 1, 2005, results of operations would not have differed materially from reported results.

***Stock-Based Compensation Expense***

On November 1, 2005, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payment, which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards made to employees and directors, including stock options, restricted stock, restricted stock units and participation in the Company s employee stock purchase plan. In adopting SFAS No. 123(R), the Company used the modified prospective application transition method, as of November 1, 2005, the first day of the Company s fiscal year 2006. Share-based compensation expense recognized under SFAS No. 123(R) for the third quarter of 2006 was $0.2 million and none in the third quarter of 2007.

SFAS No. 123(R) requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company s consolidated statements of income over the requisite service periods. Share-based compensation expense recognized in the Company s consolidated statements of income for the first three months of 2007 and the first nine months of 2006 includes compensation expense for share-based awards granted prior to, but not yet vested as of October 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123. No options have been granted in 2007 and 2006. For any options granted in the future, compensation expense will be based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

The Company will use the straight-line single option method of expensing stock options to recognize compensation expense in its consolidated statements of income for all share-based awards. Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense will be reduced to account for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

**NOTE 2 RECENT ACCOUNTING STANDARDS**

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes , and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. It applies to all voluntary changes in accounting principle and requires that they be reported via retrospective application. It is effective for all accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (2007 for the Company). The adoption of this statement did not have a material impact on the consolidated financial statements.

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes, to create a single model to address accounting for uncertainty in tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of November 1, 2007, as required. The cumulative effect of adopting FIN No. 48 will be recorded in retained earnings and other accounts as applicable. The Company has not determined the effect, if any, the adoption of FIN No. 48 will have on the Company s consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No.157 is effective in fiscal years beginning after November 15, 2007 (2008 for the Company). The adoption of this statement is not expected to have a material impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Pension and Other Postretirement Plans . This Statement requires recognition of the funded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position. Funded status is determined as the difference between the fair value of plan assets and the benefit obligation. Changes in that funded status should be recognized in other

comprehensive income. This recognition provision and the related disclosures are effective as of the end of the fiscal year ending after December 15, 2006 (2007 for the Company). The Statement also requires the measurement of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position. This measurement provision is effective for fiscal years ending after December 15, 2008 (2009 for the Company). The effect of this pronouncement on the Company s consolidated financial statements for 2007 is expected to be an increase in the Company s liabilities of $34 million and a decrease in shareholder s equity of $34 million.

In February, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 further establishes certain additional disclosure requirements. SFAS No. 159 is effective for the Company s financial statements for the fiscal year beginning on November 1, 2008, with earlier adoption permitted. Management is currently evaluating the impact and timing of the adoption of SFAS No. 159 on the Company s consolidated financial statements.

**NOTE 3 SALE OF EUROPEAN ACCOUNTS RECEIVABLE**

Pursuant to the terms of a Receivable Purchase Agreement (the RPA ) dated October 28, 2004 between Greif Coordination Center BVBA (the Seller ), an indirect wholly-owned subsidiary of Greif, Inc., and a major international bank (the Buyer ), the Seller agreed to sell trade receivables meeting certain eligibility requirements that Seller had purchased from other indirect wholly-owned subsidiaries of Greif, Inc., including Greif Belgium BVBA, Greif Germany GmbH, Greif Nederland BV, Greif Spain SA and Greif UK Ltd, under discounted receivables purchase agreements and from Greif France SAS under a factoring agreement. The RPA was amended on October 28, 2005 to include receivables originated by Greif Portugal Lda, also an indirect wholly-owned subsidiary of Greif, Inc. In addition, on October 28, 2005, Greif Italia S.P.A., also an indirect wholly-owned subsidiary of Greif, Inc., entered into the Italian Receivables Purchase Agreement with the Italian branch of the major international bank (the Italian RPA ) with Greif Italia S.P.A., agreeing to sell trade receivables that meet certain eligibility criteria to the Italian branch of the major international bank. The Italian RPA is similar in structure and terms as the RPA.

On April 30, 2007, the RPA was amended and restated and the Italian RPA was amended by the parties thereto. As a result of the amended and restated RPA and the amended Italian RPA: (i) the maximum amount of aggregate receivables that may be sold under the Company s European accounts receivable sales program was increased from 90.0 million to 118.0 million ($161.8 million at July 31, 2007); (ii) Greif Packaging Belgium NV and Greif Packaging Spain S.A., both indirect wholly owned subsidiaries of Greif, Inc., have established discounted receivables purchase agreements with the Seller; and (iii) Greif Packaging France SAS, an indirect wholly owned subsidiary of Greif, Inc., has established a factoring agreement with the Seller.

The structure of the transaction provides for a legal true sale, on a revolving basis, of the receivables transferred from the various Greif, Inc. subsidiaries to Seller and from Seller to Buyer. The Buyer funds an initial purchase price of a certain percentage of eligible receivables based on a formula with the initial purchase price approximating 70 percent to 80 percent of eligible receivables, as defined. The remaining deferred purchase price is settled upon collection of the receivables. At the balance sheet reporting dates, the Company removes from accounts receivable the amount of proceeds received from the initial purchase price since they meet the applicable criteria of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and continues to recognize the deferred purchase price in its accounts receivable. The receivables are sold on a non-recourse basis with the total funds in the servicing collection accounts pledged to Buyer between the semi-monthly settlement dates. At July 31, 2007, 100.4 million ($137.7 million) of accounts receivable were sold under the RPA and Italian RPA.

At the time the receivables are initially sold, the difference between the carrying amount and the fair value of the assets sold are included as a loss on sale in the consolidated statements of income. Expenses, primarily related to the loss on sale of receivables, associated with the RPA and Italian RPA totaled 1.1 million ($1.4 million) and 0.4 million ($0.6 million) for the three months ended July 31, 2007 and 2006, respectively. Expenses associated with the RPA and Italian RPA totaled 2.6 million ($3.4 million) and 1.3 million ($1.6 million) for the nine months ended July 31, 2007 and 2006, respectively. Additionally, the Company performs collections and administrative functions on the receivables sold similar to the procedures it uses for collecting all of its receivables, including receivables that are not sold under the RPA and Italian RPA. The servicing liability for these receivables is not material to the consolidated financial statements.

**NOTE 4 INVENTORIES**

Inventories are summarized as follows (Dollars in thousands):

| | July 31, 2007 | October 31, 2006 |
|---|---|---|
| Finished goods | $ 74,227 | $ 53,621 |
| Raw materials and work-in-process | 208,127 | 186,065 |
| | 282,354 | 239,686 |
| Reduction to state inventories on last-in, first-out basis | (33,986) | (34,682) |
| | $ 248,368 | $ 205,004 |

**NOTE 5 NET ASSETS HELD FOR SALE**

Net assets held for sale represent land, buildings and land improvements less accumulated depreciation for locations that meet the classification requirements of net assets held for sale as defined in SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. As of July 31, 2007, there were five facilities held for sale. The net assets held for sale are being marketed for sale and it is the Company s intention to complete the sales within the upcoming year.

**NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS**

The Company periodically reviews goodwill and indefinite-lived intangible assets for impairment as required by SFAS No. 142, Goodwill and Other Intangible Assets. The Company has concluded that no impairment exists at this time.

Changes to the carrying amount of goodwill by segment for the nine-month period ended July 31, 2007 are as follows (Dollars in thousands):

| | Industrial Packaging & Services | Paper Packaging & Services | Total |
|---|---|---|---|
| Balance at October 31, 2006 | $ 251,769 | $ 34,783 | $ 286,552 |
| Goodwill acquired | 141,396 | | 141,396 |
| Currency translation | (2,578) | | (2,578) |
| Balance at July 31, 2007 | $ 390,587 | $ 34,783 | $ 425,370 |

The 2007 goodwill acquired of $141.4 million is preliminary and primarily relates to acquisition of industrial packaging companies in Europe, Asia, North Africa and North America.

All other intangible assets for the periods presented, except for $4.9 million, related to the Tri-Sure Trademark, Blagden Express Tradename, and Closed-loop Tradename, are subject to amortization and are being amortized using the straight-line method over periods that range from two to 20 years. The detail of other intangible assets by class as of July 31, 2007 and October 31, 2006 are as follows (Dollars in thousands):

| | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets |
|---|---|---|---|
| July 31, 2007: | | | |
| Trademark and patents | $ 26,039 | $ 8,746 | $ 17,293 |
| Non-compete agreements | 11,204 | 4,663 | 6,541 |
| Customer relationships | 89,638 | 6,506 | 83,132 |
| Other | 8,725 | 3,849 | 4,876 |
| Total | $ 135,606 | $ 23,764 | $ 111,842 |
| October 31, 2006: | | | |
| Trademark and patents | $ 17,290 | $ 7,992 | $ 9,298 |
| Non-compete agreements | 5,033 | 3,709 | 1,324 |
| Customer relationships | 43,115 | 2,343 | 40,772 |
| Other | 15,575 | 3,382 | 12,193 |
| Total | $ 81,013 | $ 17,426 | $ 63,587 |

During the first nine months of 2007, other intangible assets increased by $50.4 million. The increase in other intangible assets is based on preliminary purchase price allocations related to the acquisition of industrial packaging companies in Europe, Asia and North America. Amortization expense for the nine months ended July 31, 2007 was $6.2 million. Amortization expense for the next five years is expected to be $10.5 million in 2008, $10.4 million in 2009, $10.3 million in 2010, $9.0 million in 2011 and $7.8 million in 2012.

**NOTE 7 RESTRUCTURING CHARGES**

The focus for restructuring activities in 2007 is on integration of acquisitions in the Industrial Packaging & Services segment and on alignment to market focused strategy and implementation of the Greif Business System in the Paper, Packaging & Services segment. During the first nine months of 2007, the Company recorded restructuring charges of $12.1 million, consisting of $5.3 million in employee separation costs, $0.9 million in asset impairments, $1.0 million in professional fees and $4.9 million in other costs. One company-owned plant in the Industrial Packaging & Services segment was closed. The remaining restructuring charges for the above activities are anticipated to be $9.2 million for the remainder of 2007.

In 2006, the focus was primarily on the final waves of global implementation of the Greif Business System for the Industrial Packaging & Services segment. During the first nine months of 2006, the Company recorded restructuring charges of $22.8 million, consisting of $11.1 million in employee separation costs, $6.2 million in asset impairments, $0.3 million of professional fees, and $5.2 million in other costs. Two company-owned plants in the Paper, Packaging & Services segment, and one in the Industrial Packaging & Services segment were closed. The Industrial Packaging & Services segment reduced the number of plants in the United Kingdom from five to three. In addition, severance costs were incurred due to the elimination of certain operating and administrative positions throughout the world.

For each business segment, costs incurred in 2007 are as follows (Dollars in thousands):

| | Three months ended July 31, 2007 | Nine months ended July 31, 2007 | Total Amounts Expected to be incurred |
|---|---|---|---|
| Industrial Packaging & Services: | | | |
| Employee separation costs | $ 3,957 | $ 4,850 | $ 9,864 |
| Asset impairments | (18) | 710 | 1,440 |
| Professional fees | | 1 | 2 |
| Other restructuring costs | 765 | 1,986 | 4,038 |
| | 4,704 | 7,547 | 15,344 |
| Paper, Packaging & Services: | | | |
| Employee separation costs | 23 | 460 | 1,416 |
| Asset impairments | | 211 | 273 |
| Professional fees | | 1,035 | 1,341 |
| Other restructuring costs | 1,334 | 2,894 | 2,926 |
| | 1,357 | 4,600 | 5,956 |
| | $ 6,061 | $ 12,147 | $ 21,300 |

The following is a reconciliation of the beginning and ending restructuring reserve balances for the nine-month period ended July 31, 2007 (Dollars in thousands):

| | Cash Charges | | Non-cash Charges | |
|---|---|---|---|---|
| | Employee Separation Costs | Other Costs | Asset Impairments | Total |
| Balance at October 31, 2006 | $ 8,391 | $ | $ | $ 8,391 |
| Costs incurred and charged to expense | 5,310 | 5,916 | 921 | 12,147 |
| Costs paid or otherwise settled | (8,153) | (5,368) | (921) | (14,442) |
| Balance at July 31, 2007 | $ 5,548 | $ 548 | $ | $ 6,096 |

**NOTE 8 SIGNIFICANT NONSTRATEGIC TIMBERLAND TRANSACTIONS AND CONSOLIDATION OF VARIABLE INTEREST ENTITIES**

On March 28, 2005, Soterra LLC (a wholly owned subsidiary) entered into two real estate purchase and sale agreements with Plum Creek Timberlands, L.P. ( Plum Creek ) to sell approximately 56,000 acres of timberland and related assets located primarily in Florida for an aggregate sales price of approximately $90 million, subject to closing adjustments. In connection with the closing of one of these agreements, Soterra LLC sold approximately 35,000 acres of timberland and associated assets in Florida, Georgia and Alabama for $51.0 million, resulting in a pretax gain of $42.1 million, on May 23, 2005. The purchase price was paid in the form of cash and a $50.9 million purchase note payable by an indirect subsidiary of Plum Creek (the Purchase Note ). Soterra LLC contributed the Purchase Note to STA Timber LLC ( STA Timber ), one of the Company s indirect wholly owned subsidiaries. The Purchase Note is secured by a Deed of Guarantee issued by Bank of America, N.A., London Branch, in an amount not to exceed $52.3 million (the Deed of Guarantee ), as a guarantee of the due and punctual payment of principal and interest on the Purchase Note. The Company completed the second phase of its previously reported $90 million sale of timberland, timber and associated assets in the first quarter of 2006. In this phase, the Company sold 15,300 acres of timberland holdings in Florida for $29.3 million in cash, resulting in a pre-tax gain of $27.4 million. The final phase of this transaction, approximately 5,700 acres sold for $9.7 million, occurred on April 28, 2006 and the Company recognized additional timberland gains in its consolidated statements of income in the periods that these transactions occurred resulting in a pre-tax gain of $9.0 million.

On May 31, 2005, STA Timber issued in a private placement its 5.20 percent Senior Secured Notes due August 5, 2020 (the Monetization Notes ) in the principal amount of $43.3 million. In connection with the sale of the Monetization Notes, STA Timber entered into note purchase agreements with the purchasers of the Monetization Notes (the Note Purchase Agreements ) and related documentation. The Monetization Notes are secured by a pledge of the Purchase Note and the Deed of Guarantee. The Monetization Notes may be accelerated in the event of a default in payment or a breach of the other obligations set forth therein or in the Note Purchase Agreements or related documents, subject in certain cases to any applicable cure periods, or upon the occurrence of certain insolvency or bankruptcy related events. The Monetization Notes are subject to a mechanism that may cause them, subject to certain conditions, to be extended to November 5, 2020. The proceeds from the sale of the Monetization Notes were primarily used for the repayment of indebtedness.

The Company has consolidated the assets and liabilities of STA Timber in accordance with FASB Interpretation No. 46R, Consolidation of Variable Interest Entities. Because STA Timber is a separate and distinct legal entity from Greif, Inc. and its other subsidiaries, the assets of STA Timber are not available to satisfy the liabilities and obligations of these entities and the liabilities of STA Timber are not liabilities or obligations of these entities. In addition, Greif, Inc. and its other subsidiaries have not extended any form of guaranty of the principal or interest on the Monetization Notes. Accordingly, Greif, Inc. and its other subsidiaries will not become directly or contingently liable for the payment of the Monetization Notes at any time.

The Company has also consolidated the assets and liabilities of the buyer-sponsored special purpose entity (the Buyer SPE ) involved in these transactions as the result of Interpretation 46R. However, because the Buyer SPE is a separate and distinct legal entity from the Company, the assets of the Buyer SPE are not available to satisfy the liabilities and obligations of the Company and the liabilities of the Buyer SPE are not liabilities or obligations of the Company.

Assets of the Buyer SPE at July 31, 2007 and October 31, 2006 consist of restricted bank financial instruments of $50.9 million. STA Timber had long-term debt of $43.3 million as of July 31, 2007 and October 31, 2006. STA Timber is exposed to credit-related losses in the event of nonperformance by the issuer of the Deed of Guarantee, but the Company does not expect that issuer to fail to meet its obligations. The accompanying consolidated income statements for the nine month periods ended July 31, 2007 and 2006 includes interest expense on STA Timber debt of $1.7 million and interest income on Buyer SPE investments of $1.8 million.

**NOTE 9 DEBT**

Long-term debt is summarized as follows (Dollars in thousands):

| | July 31, 2007 | October 31, 2006 |
|---|---|---|
| Credit Agreement | $ 237,603 | $ 115,198 |
| Senior Notes | 300,000 | |
| Senior Subordinated Notes | 2,496 | 242,560 |
| Trade accounts receivable credit facility | 103,479 | 120,000 |
| Other long-term debt | 32,681 | 3,650 |
| | $ 676,259 | $ 481,408 |

***Credit Agreement***

The Company and certain of its international subsidiaries, as borrowers, have entered into a Credit Agreement (the Credit Agreement ) with a syndicate of financial institutions that provides for a $450.0 million revolving multicurrency credit facility due in 2010. The revolving multicurrency credit facility is available for ongoing working capital and general corporate purposes. Interest is based on a euro currency rate or an alternative base rate that resets periodically plus a calculated margin amount. As of July 31, 2007, $237.6 million was outstanding under the Credit Agreement. The weighted average interest rate on the Credit Agreement was 5.16 percent for the nine months ended July 31, 2007, and the interest rate was 5.43 percent at July 31, 2007 and 5.85 percent at October 31, 2006.

The Credit Agreement contains certain covenants, which include financial covenants that require the Company to maintain a certain leverage ratio and a minimum coverage of interest expense. At July 31, 2007, the Company was in compliance with these covenants.

***Senior Notes***

On February 9, 2007, the Company issued $300.0 million of 6 $^{3}$/4 percent Senior Notes due February 1, 2017. Interest on the Senior Notes is payable semi-annually. Proceeds from the issuance of Senior Notes were principally used to fund the purchase of the 8 $^{7}$/8 percent Senior Subordinated Notes in the tender offer and for general corporate purposes.

The fair value of the Senior Notes was $291.8 million at July 31, 2007 based on quoted market prices. The Indenture pursuant to which the Senior Notes were issued contains certain covenants. At July 31, 2007, the Company was in compliance with these covenants.

***Senior Subordinated Notes***

On February 9, 2007, the Company completed a tender offer for its 8 7/8 percent Senior Subordinated Notes. In the tender offer, the Company purchased $245.6 million aggregate principal amount of the outstanding $248.0 million Senior Subordinated Notes. As a result of this transaction, a debt extinguishment charge of $23.5 million ($14.5 million in cash and $9.0 million in non-cash items, such as write-off of unamortized capitalized debt issuance costs) was recorded. The fair value of the remaining Senior Subordinated Notes was $2.5 million and $256.0 million at July 31, 2007 and October 31, 2006, respectively, based upon quoted market prices. The remaining Senior Subordinated Notes are to be redeemed by the Company during the fourth quarter of 2007.

A description of the guarantees of the Senior Subordinated Notes by the Company s United States subsidiaries is included in Note 18.

***Trade Accounts Receivable Credit Facility***

On October 31, 2003, the Company entered into a five-year, up to $120.0 million, credit facility with an affiliate of a bank in connection with the securitization of certain of the Company s trade accounts receivable in the United States. The credit facility is secured by certain of the Company s trade accounts receivable in the United States and bears interest at a variable rate based on the London InterBank Offered Rate ( LIBOR ) plus a margin or other agreed upon rate (5.90 percent interest rate at July 31, 2007 and 5.87 percent at October 31, 2006). The Company can terminate this facility at any time upon 60 days prior written notice. In connection with this transaction, the Company established Greif Receivable Funding LLC ( GRF ), which is included in the Company s consolidated financial statements. However, because GRF is a separate and distinct legal entity from the Company, the assets of GRF are not available to satisfy the liabilities and obligations of the Company and the liabilities of GRF are not the liabilities or obligations of the Company. This entity purchases and services the Company s trade accounts receivable that are subject to this credit facility. There was a total of $103.5 million and $120.0 million outstanding under the trade accounts receivable credit facility at July 31, 2007 and October 31, 2006, respectively.

The trade accounts receivable credit facility provides that in the event the Company breaches any of its financial covenants under the Credit Agreement, and the majority of the lenders thereunder consent to a waiver thereof, but the provider of the trade accounts receivable credit facility does not consent to any such waiver, then the Company must within 90 days of providing notice of the breach, pay all amounts outstanding under the trade accounts receivable credit facility.

***Other***

In addition to the amounts borrowed against the Credit Agreement and proceeds from the Senior Subordinated Notes and the trade accounts receivable credit facility, the Company had outstanding debt of $58.5 million and $33.0 million at July 31, 2007 and October 31, 2006, respectively, composed of $32.7 million and $3.7 million in long-term debt and $25.8 million and $29.3 million in short-term borrowings, respectively.

**NOTE 10 FINANCIAL INSTRUMENTS**

The carrying amounts of cash and cash equivalents, trade accounts receivable, accounts payable, current liabilities and short-term borrowings at July 31, 2007 and October 31, 2006 approximate their fair values because of the short-term nature of these items.

At July 31, 2007, the Company had a note receivable from Lunival Holding BV for the amount of 23.0 million ($31.5 million at July 31, 2007), which matures in November 2008. Under the notes receivable agreement, the Company receives interest at a fixed rate of 6.0 percent. The fair market value of the notes receivable approximates its carrying amount.

The estimated fair values of the Company s long-term debt was $668.0 million and $499.2 million as compared to the carrying amounts of $676.3 million and $481.4 million at July 31, 2007 and October 31, 2006, respectively. The fair values of the Company s long-term obligations are estimated based on either the quoted market prices for the same or similar issues or the current interest rates offered for debt of the same remaining maturities.

The Company uses derivatives from time to time to partially mitigate the effect of exposure to interest rate movements, exposure to foreign currency fluctuations, and commodity cost fluctuations. The Company records derivatives based on SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and related amendments. This Statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives are recognized in either net income or in other comprehensive income, depending on the designated purpose of the derivative.

The Company had interest rate swap agreements with an aggregate notional amount of $180.0 million and $130.0 million at July 31, 2007 and October 31, 2006, respectively, with various maturities through 2010. The interest rate swap agreements are used to fix a portion of the interest on the Company s variable rate debt. Under certain of these agreements, the Company receives interest monthly or quarterly from the counterparties equal to 5.34 percent and pays interest equal to 5.41 percent over the life of the contracts. A liability for the loss on interest rate swap contracts, which represented their fair values, in the amount of $0.4 million and $1.0 million was recorded at July 31, 2007 and October 31, 2006, respectively.

At July 31, 2007, the Company had cross-currency interest rate swaps to hedge its net investment in its European subsidiaries. Under these agreements, the Company receives interest semi-annually from the counterparties equal to a fixed rate of 8.875 percent on $248.0 million and pays interest at a fixed rate of approximately 6.80 percent on 206.7 million. Upon maturity of these swaps on August 1, 2007, the Company was required to pay 206.7 million to the counterparties and receive $248.0 million from the counterparties. A liability for the loss on these agreements of $33.9 million representing their fair values was recorded at July 31, 2007, and accumulated other comprehensive loss of $33.9 million was recorded at July 31, 2007.

On August 1, 2007, the Company settled its existing cross-currency interest rate swaps and entered into new cross-currency interest rate swaps. Under these new agreements, the Company receives interest semi-annually from the counterparties equal to a fixed rate of 6.75 percent on $300.0 million and pays interest at a fixed rate of 6.25 percent on 219.9 million. Upon maturity of these swaps on August 1, 2009, August 1, 2010 and August 1, 2012, the Company will be required to pay 73.3 million to the counterparties and receive $100.0 million from the counterparties on each of these dates.

At July 31, 2007, the Company had outstanding foreign currency forward contracts in the notional amount of $35.3 million ($45.2 million at October 31, 2006). The purpose of these contracts is to hedge the Company s exposure to foreign currency transactions and short-term intercompany loan balances in its international businesses. The fair value of these contracts at July 31, 2007 resulted in a loss of $0.2 million recorded in the consolidated statement of income and an asset of $1.4 million recorded in the consolidated balance sheet. The fair value of similar contracts at October 31, 2006 resulted in a loss of $0.1 million recorded in the consolidated statement of income and an asset of $2.1 million recorded in the consolidated balance sheet.

The Company has entered into certain cash flow hedges to mitigate its exposure to cost fluctuations in natural gas prices through October 31, 2008. The fair value of the energy hedges was in an unfavorable position of $0.5 million ($0.3 million net of tax) at July 31, 2007, compared to an unfavorable position of $1.5 million ($0.9 million net of tax) at October 31, 2006. As a result of the high correlation between the hedged instruments and the underlying transactions, ineffectiveness has not had a material impact on the Company s consolidated statements of income for the quarter ended July 31, 2007.

The Company has entered into certain cash flow hedges to mitigate its exposure to cost fluctuations in Old Corrugated Containers ( OCC ) prices through October 31, 2007. The fair value of these hedges was not significant at July 31, 2007. As a result of the high correlation between the hedged instruments and the underlying transactions, ineffectiveness has not had a material impact on the Company s consolidated statements of income for the quarter ended July 31, 2007.

While the Company may be exposed to credit losses in the event of nonperformance by the counterparties to its derivative financial instrument contracts, its counterparties are established banks and financial institutions with high credit ratings. The Company has no reason to believe that such counterparties will not be able to fully satisfy their obligations under these contracts.

The fair values of all derivative financial instruments are estimated based on current settlement prices of comparable contracts obtained from dealer quotes or published market prices. The values represent the estimated amounts the Company would pay or receive to terminate the agreements at the reporting date.

During the next three months, the Company expects to reclassify into earnings a net loss from accumulated other comprehensive income (loss) of approximately $0. million after tax at the time the underlying hedge transactions are realized.

**NOTE 11 CAPITAL STOCK**

Class A Common Stock is entitled to cumulative dividends of 1 cent a share per year after which Class B Common Stock is entitled to non-cumulative dividends up to one half cent per share per year. Further distribution in any year must be made in proportion of one cent a share for Class A Common Stock to one and a half cents a share for Class B Common Stock. The Class A Common Stock has no voting rights unless four quarterly cumulative dividends upon the Class A Common Stock are in arrears or unless changes are proposed to the Company s certificate of incorporation. The Class B Common Stock has full voting rights. There is no cumulative voting for the election of directors.

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The following table summarizes the Company s Class A and Class B common and treasury shares at the specified dates:

| | Authorized Shares | Issued Shares | Outstanding Shares | Treasury Shares |
|---|---|---|---|---|
| July 31, 2007: | | | | |
| Class A Common Stock | 128,000,000 | 42,281,920 | 23,650,057 | 18,631,863 |
| Class B Common Stock | 69,120,000 | 34,560,000 | 22,959,666 | 11,600,334 |
| October 31, 2006: | | | | |
| Class A Common Stock | 128,000,000 | 42,281,920 | 23,268,306 | 19,013,614 |
| Class B Common Stock | 69,120,000 | 34,560,000 | 23,031,066 | 11,528,934 |

On February 26, 2007, shareholders approved an increase in the number of the Company s authorized shares to 128,000,000 shares of Class A Common Stock and 69,120,000 shares of Class B Common Stock. Subsequent to the aforementioned approval, the Company s Board of Directors authorized a 2-for-1 stock split of the Company s Class A Common Stock and Class B Common Stock. The split was effective on April 11, 2007 to shareholders of record on March 19, 2007. The stock split means that each holder of Class A Common Stock as of the close of business on March 19, 2007 received on April 11, 2007 one additional share of Class A Common Stock for every share they held of Class A Common Stock and each holder of Class B Common Stock as of the close of business on March 19, 2007 received on April 11, 2007 one additional share of Class B Common Stock for every share they held of Class B Common Stock. The day on which such shares began trading on the New York Stock Exchange reflecting the stock split was April 12, 2007.

All references to the number of shares and per share amounts in the Consolidated Financial Statements are presented on a post-split basis.

**NOTE 12 STOCK OPTIONS**

In 2001, the Company adopted the 2001 Management Equity Incentive and Compensation Plan (the 2001 Plan ). The provisions of the 2001 Plan allow the awarding of incentive and nonqualified stock options and restricted and performance shares of Class A Common Stock to key employees. The maximum number of shares that may be issued each year is determined by a formula that takes into consideration the total number of shares outstanding and is also subject to certain limits. In addition, the maximum number of incentive stock options that will be issued under the 2001 Plan during its term is 5,000,000 shares.

Prior to 2001, the Company had adopted a Nonstatutory Stock Option Plan (the 2000 Plan ) that provides the discretionary granting of nonstatutory options to key employees, and an Incentive Stock Option Plan (the Option Plan ) that provides the discretionary granting of incentive stock options to key employees and nonstatutory options for non-employees. The aggregate number of the Company s Class A Common Stock options that may be granted under the 2000 Plan and Option Plan may not exceed 400,000 shares and 2,000,000 shares, respectively.

Under the terms of the 2001 Plan, the 2000 Plan and the Option Plan, stock options are granted at exercise prices equal to the market value of the common stock on the date options are granted and become fully vested two years after date of grant. Options expire 10 years after date of grant.

In 2005, the Company adopted the 2005 Outside Directors Equity Award Plan (the 2005 Directors Plan ), which provides the granting of stock options, restricted stock or stock appreciation rights to directors who are not employees of the Company. Prior to 2005, the Directors Stock Option Plan (the Directors Plan ) provided the granting of stock options to directors who are not employees of the Company. The aggregate number of the Company s Class A Common Stock options that may be granted may not exceed 200,000 shares under each of these plans. Under the terms of both plans, options are granted at exercise prices equal to the market value of the common stock on the date options are granted and become exercisable immediately. Options expire 10 years after date of grant.

No stock options were granted during 2007 and 2006.

Stock option activity was as follows (Shares in thousands):

| | Nine months ended July 31, 2007 | | Year ended October 31, 2006 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Beginning balance | 1,634 | $ 15.62 | 1,958 | $ 15.34 |
| Granted | | | | |
| Forfeited | | | | |
| Exercised | 457 | $ 15.52 | 324 | $ 13.94 |
| Ending balance | 1,177 | $ 15.65 | 1,634 | $ 15.62 |

As of July 31, 2007, outstanding stock options had exercise prices and contractual lives as follows:

| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Contractual Life |
|---|---|---|
| $ 9 - $ 14 | 547,843 | 5 |
| $ 14 - $ 24 | 446,818 | 4 |
| $ 24 - $ 33 | 182,346 | 8 |

All outstanding options were exercisable at July 31, 2007 and 1,415,644 options were exercisable at October 31, 2006.

## NOTE 13 DIVIDENDS PER SHARE

The following dividends per share were paid during the periods indicated:

| | Three months ended July 31 | | Nine months ended July 31 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Class A Common Stock | $ 0.28 | $ 0.18 | $ 0.64 | $ 0.42 |
| Class B Common Stock | $ 0.42 | $ 0.27 | $ 0.95 | $ 0.62 |

## NOTE 14 CALCULATION OF EARNINGS PER SHARE

The Company has two classes of common stock and, as such, applies the two-class method of computing earnings per share as prescribed in SFAS No. 128, Earnings Per Share. In accordance with the Statement, earnings are allocated first to Class A and Class B Common Stock to the extent that dividends are actually paid and the remainder allocated assuming all of the earnings for the period have been distributed in the form of dividends.

The following is a reconciliation of the average shares used to calculate basic and diluted earnings per share:

| | Three months ended July 31 | | Nine months ended July 31 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Class A Common Stock: | | | | |
| Basic shares | 23,632,990 | 23,117,428 | 23,565,409 | 23,095,978 |
| Assumed conversion of stock options | 633,067 | 624,834 | 626,451 | 597,328 |
| Diluted shares | 24,266,057 | 23,742,262 | 24,191,860 | 23,693,306 |
| Class B Common Stock: | | | | |
| Basic and diluted shares | 22,976,707 | 23,042,490 | 23,008,118 | 23,060,252 |

There were no stock options that were antidilutive for the three-month and nine-month periods ended July 31, 2007 and 2006.

## NOTE 15 COMPREHENSIVE INCOME

Comprehensive income comprises of net income and other charges and credits to equity that are not the result of transactions with the Company s owners. The components of comprehensive income, net of tax, are as follows (Dollars in thousands):

| | Three months ended July 31 | | Nine months ended July 31 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | $ 48,781 | $ 38,336 | $ 101,384 | $ 100,381 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 1,713 | (10,072) | 6,160 | (14,975) |
| Change in fair value of interest rate derivatives, net of tax | 102 | 326 | 1,586 | 1,203 |
| Changes in fair value of energy and other derivatives, net of tax | (378) | 581 | 642 | 73 |
| Minimum pension liability adjustment, net of tax | | | | (2) |
| Comprehensive income | $ 50,218 | $ 29,171 | $ 109,772 | $ 86,680 |

## NOTE 16 RETIREMENT PLANS AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The components of net periodic pension cost include the following (Dollars in thousands):

| | Three months ended July 31 | | Nine months ended July 31 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | $ 3,419 | $ 3,629 | $ 10,257 | $ 10,887 |
| Interest cost | 6,827 | 6,208 | 20,481 | 18,625 |
| Expected return on plan assets | (7,767) | (7,361) | (23,301) | (22,085) |
| Amortization of prior service cost, initial net asset and net actuarial gain | 1,309 | 1,533 | 3,927 | 4,599 |
| | $ 3,788 | $ 4,009 | $ 11,364 | $ 12,026 |

The Company made $13.7 million in pension contributions in the nine months ended July 31, 2007. Based on minimum funding requirements, $16.3 million of pension contributions are estimated for the entire 2007 fiscal year.

The components of net periodic cost for postretirement benefits include the following (Dollars in thousands):

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | July 31 | | July 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | $ 11 | $ 8 | $ 32 | $ 25 |
| Interest cost | 527 | 586 | $ 1,581 | 1,757 |
| Amortization of prior service cost and recognized actuarial gain | (269) | (163) | $ (807) | (489) |
| | $ 269 | $ 431 | $ 806 | $ 1,293 |

**NOTE 17 BUSINESS SEGMENT INFORMATION**

The Company operates in three business segments: Industrial Packaging & Services; Paper, Packaging & Services; and Timber.

Operations in the Industrial Packaging & Services segment offer a comprehensive line of products and services, including steel, fibre, and plastic drums, intermediate bulk containers, closure systems for industrial packaging products, polycarbonate water bottles, blending and packaging services, logistics and warehousing. These products are manufactured and sold in over 40 countries throughout the world.

Operations in the Paper, Packaging & Services segment involve the production and sale of containerboard, both semi-chemical and recycled, corrugated sheets, corrugated containers, protective packaging and multiwall bags and related services. These products are manufactured and sold in North America.

In the Timber segment, the Company is focused on the active harvesting and regeneration of its United States timber properties (approximately 264,350 acres of timberland were owned at July 31, 2007) to achieve sustainable long-term yields. The Company also owns approximately 36,700 acres of timberland in Canada, which are not actively managed at this time. Timber management is focused on the active harvesting and regeneration of the Company s timber properties to achieve sustainable long-term yields on the Company s timberland. While timber sales are subject to fluctuations, the Company seeks to maintain a consistent cutting schedule, within the limits of available merchantable acreage of timber, market and weather conditions. The Company also sells, from time to time, timberland and special use land, which consists of surplus land, higher and better use land, and development land.

The Company s reportable segments are strategic business units that offer different products. The accounting policies of the reportable segments are substantially the same as those described in the Description of Business and Summary of Significant Accounting Policies note (see Note 1) in the 2006 Form 10-K.

The following segment information is presented for the periods indicated (Dollars in thousands):

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Net sales:** | | | | |
| Industrial Packaging & Services | $ 694,688 | $ 515,881 | $ 1,923,737 | $ 1,404,609 |
| Paper, Packaging & Services | 175,972 | 171,944 | 504,460 | 475,466 |
| Timber | 3,577 | 2,650 | 11,842 | 12,823 |
| Total net sales | $ 874,237 | $ 690,475 | $ 2,440,039 | $ 1,892,898 |
| **Operating profit:** | | | | |
| Operating profit, before the impact of restructuring charges and timberland gains (losses): | | | | |
| Industrial Packaging & Services | $ 66,710 | $ 57,057 | $ 157,056 | $ 115,502 |
| Paper, Packaging & Services | 16,405 | 15,827 | 45,122 | 34,509 |
| Timber | 2,798 | 2,320 | 12,660 | 9,666 |
| Operating profit, before the impact of restructuring charges and timberland gains (losses): | 85,913 | 75,204 | 214,838 | 159,677 |
| Restructuring charges: | | | | |
| Industrial Packaging & Services | 4,704 | 6,999 | 7,547 | 19,486 |
| Paper, Packaging & Services | 1,357 | 88 | 4,600 | 3,346 |
| Timber | | | | 10 |
| Total restructuring charges | 6,061 | 7,087 | 12,147 | 22,842 |
| Timberland gains (losses): | | | | |
| Timber | 56 | 364 | (264) | 41,171 |
| Total | $ 79,908 | $ 68,481 | $ 202,427 | $ 178,006 |
| **Depreciation, depletion and amortization expense:** | | | | |
| Industrial Packaging & Services | $ 15,072 | $ 13,416 | $ 51,327 | $ 43,641 |
| Paper, Packaging & Services | 7,030 | 6,579 | 21,428 | 21,789 |
| Timber | 914 | 627 | 3,537 | 3,191 |
| Total depreciation, depletion and amortization expense | $ 23,016 | $ 20,622 | $ 76,292 | $ 68,621 |

| | July 31, 2007 | October 31, 2006 |
|---|---|---|
| **Assets:** | | |
| Industrial Packaging & Services | $ 1,854,108 | $ 1,396,069 |
| Paper, Packaging & Services | 236,553 | 248,364 |
| Timber | 252,435 | 250,310 |
| Total segments | 2,343,096 | 1,894,743 |
| Corporate and other | 240,068 | 293,258 |
| Total assets | $ 2,583,164 | $ 2,188,001 |

The following table presents net sales to external customers by geographic area (Dollars in thousands):

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Net sales:** | | | | |
| North America | $ 467,783 | $ 397,483 | $ 1,340,342 | $ 1,102,962 |
| Europe | 290,883 | 198,144 | 764,443 | 521,252 |
| Other | 115,571 | 94,848 | 335,254 | 268,684 |
| Total net sales | $ 874,237 | $ 690,475 | $ 2,440,039 | $ 1,892,898 |

The following table presents total assets by geographic area (Dollars in thousands):

| | July 31, 2007 | October 31, 2006 |
|---|---|---|
| **Assets:** | | |
| North America | $ 1,461,937 | $ 1,474,095 |
| Europe | 848,864 | 482,505 |
| Other | 272,363 | 231,401 |
| | $ 2,583,164 | $ 2,188,001 |

**NOTE 18 SUMMARIZED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

The Senior Subordinated Notes, more fully described in Note 9 Debt, are fully guaranteed, jointly and severally, by the Company s United States subsidiaries ( Guarantor Subsidiaries ). The Company s non-United States subsidiaries are not guaranteeing the Senior Subordinated Notes ( Non-Guarantor Subsidiaries ). Presented below are summarized condensed consolidating financial statements of Greif, Inc. (the Parent ), which includes certain of the Company s operating units, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the Company on a consolidated basis. These summarized condensed consolidating financial statements are prepared using the equity method. Separate financial statements for the Guarantor Subsidiaries are not presented based on management s determination that they do not provide additional information that is material to investors. As discussed in Note 9, substantially all (99 percent) of the Senior Subordinated Notes outstanding were redeemed on February 9, 2007 pursuant to the Company s tender offer. The remaining Senior Subordinated Notes are redeemable at the option of the Company beginning August 1, 2007, at a redemption price of 104.438 percent of principal amount, plus accrued interest, if any. The Company intends to redeem the remaining Senior Subordinated Notes during the fourth quarter of 2007.

Condensed Consolidating Statements of Operations

For the nine months ended July 31, 2007

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 978 | $ 1,329,537 | $ 1,275,637 | $ (161,180) | $ 2,444,972 |
| Cost of products sold | (202) | 1,125,501 | 1,045,946 | (161,180) | 2,010,065 |
| Gross profit | 1,180 | 204,036 | 229,691 | | 434,907 |
| Selling, general and administrative expenses | 971 | 109,332 | 119,282 | | 229,585 |
| Restructuring charges | | 9,013 | 3,134 | | 12,147 |
| Gain on sale of assets | | 7,777 | 1,476 | | 9,253 |
| Operating profit | 209 | 93,468 | 108,751 | | 202,428 |
| Interest expense, net | 24,606 | 3,713 | 6,148 | | 34,467 |
| Debt extinguishment charge | 23,492 | | | | 23,492 |
| Other income (expense), net | 3,152 | (15,643) | 5,746 | | (6,745) |
| Income before income taxes and equity in earnings of affiliates | (44,737) | 74,112 | 108,349 | | 137,724 |
| Income taxes | (11,976) | 19,417 | 28,898 | | 36,339 |
| Equity in earnings of affiliates | 134,146 | | | (134,146) | |
| Net income (loss) | $ 101,385 | $ 54,695 | $ 79,451 | $ (134,146) | $ 101,385 |

Condensed Consolidating Statement of Operations

Nine months ended July 31, 2006

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 3,926 | $ 1,033,724 | $ 922,615 | $ (67,367) | $ 1,892,898 |
| Cost of products sold | 2,375 | 871,520 | 750,512 | (67,367) | 1,557,040 |
| Gross profit | 1,551 | 162,204 | 172,103 | | 335,858 |
| Selling, general and administrative expenses | 1,252 | 105,036 | 85,892 | | 192,180 |
| Restructuring charges | (36) | 7,440 | 15,438 | | 22,842 |
| Gain on sale of assets | | 53,336 | 3,834 | | 57,170 |
| Operating profit | 335 | 103,064 | 74,607 | | 178,006 |
| Interest expense, net | 20,810 | 3,776 | 2,564 | (112) | 27,038 |
| Other income (expense), net | (49) | (9,792) | 5,393 | | (4,448) |
| Income before income taxes and equity in earnings of affiliates | (20,524) | 89,496 | 77,436 | 112 | 146,520 |
| Income taxes | (6,031) | 27,744 | 24,427 | (1) | 46,139 |
| Equity in earnings of affiliates | 114,874 | | | (114,874) | |
| Net income (loss) | $ 100,381 | $ 61,752 | $ 53,009 | $ (114,761) | $ 100,381 |

Condensed Consolidating Balance Sheets

As of July 31, 2007

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | $ | $ 4,328 | $ 92,788 | $ | $ 97,116 |
| Trade accounts receivable | 78,081 | 109,981 | 173,053 | | 361,115 |
| Inventories | 322 | 92,499 | 155,547 | | 248,368 |
| Other current assets | 358,864 | 44,008 | 81,282 | (374,771) | 109,383 |
| | 437,267 | 250,816 | 502,670 | (374,771) | 815,982 |
| **Long-term assets** | | | | | |
| Goodwill and other intangible assets | | 268,495 | 268,717 | | 537,212 |
| Assets held by special purpose entities (Note 8) | | 50,891 | | | 50,891 |
| Other long-term assets | 1,283,466 | 1,145,156 | 323,774 | (2,634,173) | 118,223 |
| | 1,283,466 | 1,464,542 | 592,491 | (2,634,173) | 706,326 |
| **Properties, plants and equipment, net** | (528) | 715,920 | 345,464 | | 1,060,856 |
| | 1,720,205 | 2,431,278 | 1,440,625 | (3,008,944) | 2,583,164 |
| **LIABILITIES & SHAREHOLDERS EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable | 93,226 | 79,656 | 917,746 | (728,836) | 361,792 |
| Short-term borrowings | | 29 | 25,743 | | 25,772 |
| Other current liabilities | | 492,867 | 59,041 | (352,214) | 199,694 |
| | 93,226 | 572,552 | 1,002,530 | (1,081,050) | 587,258 |
| **Long-term liabilities** | | | | | |
| Long-term debt | 676,259 | | | | 676,259 |
| Liabilities held by special purpose entities (Note 8) | | 43,250 | | | 43,250 |
| Other long-term liabilities | 31,498 | 437,920 | 194,949 | (312,414) | 351,953 |
| | 707,757 | 481,170 | 194,949 | (312,414) | 1,071,462 |
| **Minority interest** | | 265 | 4,957 | | 5,222 |
| **Shareholders equity** | 919,222 | 1,377,292 | 238,189 | (1,615,481) | 919,222 |
| | 1,720,205 | 2,431,279 | 1,440,625 | (3,008,945) | 2,583,164 |

Condensed Consolidating Balance Sheets

As of October 31, 2006

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | $ | $ 1,507 | $ 185,594 | $ | $ 187,101 |
| Trade accounts receivable | 55,729 | 59,916 | 200,016 | | 315,661 |
| Inventories | 301 | 81,388 | 123,315 | | 205,004 |
| Other current assets | 279,062 | 28,978 | 62,282 | (285,051) | 85,271 |
| | 335,092 | 171,789 | 571,207 | (285,051) | 793,037 |
| **Long-term assets** | | | | | |
| Goodwill and other intangible assets | | 253,576 | 96,563 | | 350,139 |
| Assets held by special purpose entities (Note 8) | | 50,891 | | | 50,891 |
| Other long-term assets | 1,043,898 | 824,398 | 265,462 | (2,080,773) | 52,985 |
| | 1,043,898 | 1,128,865 | 362,025 | (2,080,773) | 454,015 |
| **Properties, plants and equipment, net** | (616) | 709,747 | 231,818 | | 940,949 |
| | 1,378,374 | 2,010,401 | 1,165,050 | (2,365,824) | 2,188,001 |
| **LIABILITIES & SHAREHOLDERS EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable | 51,692 | 66,438 | 502,677 | (319,054) | 301,753 |
| Short-term borrowings | | 8,957 | 23,618 | (3,254) | 29,321 |
| Other current liabilities | | 401,968 | 34,410 | (276,153) | 160,225 |
| | 51,692 | 477,363 | 560,705 | (598,461) | 491,299 |
| **Long-term liabilities** | | | | | |
| Long-term debt | 481,408 | | | | 481,408 |
| Liabilities held by special purpose entities (Note 8) | | 43,250 | | | 43,250 |
| Other long-term assets | 1,263 | 166,926 | 440,997 | (286,028) | 323,158 |
| | 482,671 | 210,176 | 440,997 | (286,028) | 847,816 |
| **Minority interest** | | 265 | 4,610 | | 4,875 |
| **Shareholders equity** | 844,011 | 1,322,597 | 158,738 | (1,481,335) | 844,011 |
| | 1,378,374 | 2,010,401 | 1,165,050 | (2,365,824) | 2,188,001 |

Condensed Consolidating Statements of Cash Flows

For the nine months ended July 31, 2007

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Net cash provided by (used in) operating activities | $ (143,243) | $ 78,782 | $ 230,084 | $ | $ 165,623 |
| **Cash flows from investing activities:** | | | | | |
| Acquisitions of other companies, net of cash acquired | | (37,325) | (276,139) | | (313,464) |
| Purchases of properties, plants and equipment | | (46,175) | (33,969) | | (80,144) |
| Purchases of timber properties | | (1,500) | | | (1,500) |
| Proceeds from the sale of properties, plants and equipment | | 9,039 | 4,476 | | 13,515 |
| Increase in note receivable | | | (29,748) | | (29,748) |
| Net cash used in investing activities | | (75,961) | (335,380) | | (411,341) |
| **Cash flows from financing activities:** | | | | | |
| Proceeds from issuance of long-term debt | 1,635,984 | | | | 1,635,984 |
| Payments on long-term debt | (1,441,133) | | | | (1,441,133) |
| Proceeds on short-term borrowings | | | 17,820 | | 17,820 |
| Payment of premiums for extinguishment of debt | (14,271) | | | | (14,271) |
| Debt issuance costs | (2,839) | | | | (2,839) |
| Dividends paid | (37,038) | | | | (37,038) |
| Acquisition of treasury stock | (9,743) | | | | (9,743) |
| Exercise of stock options | 12,283 | | | | 12,283 |
| Net cash provided by financing activities | 143,243 | | 17,820 | | 161,063 |
| **Effects of exchange rates on cash** | | | (5,330) | | (5,330) |
| **Net decrease in cash and cash equivalents** | | 2,821 | (92,806) | | (89,985) |
| **Cash and cash equivalents at beginning of period** | | 1,507 | 185,594 | | 187,101 |
| **Cash and cash equivalents at end of period** | $ | $ 4,328 | $ 92,788 | $ | $ 97,116 |

Condensed Consolidating Statements of Cash Flows

For the nine months ended July 31, 2006

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Net cash provided by (used in) operating activities | $ 47,026 | $ 6,806 | $ 85,072 | $ | $ 138,904 |
| **Cash flows from investing activities:** | | | | | |
| Acquisitions of companies, net of cash acquired | | (3,109) | | | (3,109) |
| Purchases of properties, plants and equipment | | (89,720) | (18,164) | | (107,884) |
| Proceeds from the sale of properties, plants and equipment | | 59,037 | 1,181 | | 60,218 |
| Proceeds from insurance settlement | | | 6,025 | | 6,025 |
| Net cash used in investing activities | | (33,792) | (10,958) | | (44,750) |
| **Cash flows from financing activities:** | | | | | |
| Proceeds from issuance of long-term debt | 586,804 | | | | 586,804 |
| Payments on long-term debt | (607,359) | | | | (607,359) |
| Proceeds on short-term borrowings | | | 4,736 | | 4,736 |
| Acquisition of treasury stock | (5,833) | | | | (5,833) |
| Exercise of stock options | 3,476 | | | | 3,476 |
| Dividends paid | (24,114) | | | | (24,114) |
| Net cash provided by financing activities | (47,026) | | 4,736 | | (42,290) |
| **Effects of exchange rates on cash** | | | (6,624) | | (6,624) |
| **Net decrease in cash and cash equivalents** | | (26,986) | 72,226 | | 45,240 |
| **Cash and cash equivalents at beginning of period** | | 29,513 | 92,898 | | 122,411 |
| **Cash and cash equivalents at end of period** | $ | $ 2,527 | $ 165,124 | $ | $ 167,651 |

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**GENERAL**

The terms Greif, our company, we, us and our as used in this discussion refer to Greif, Inc. and its subsidiaries. Our fiscal year begins on November 1 and ends on October 31 of the following year. Any references in this Form 10-Q to the years 2007 or 2006, or to any quarter of those years, relates to the fiscal year or quarter, as the case may be, ending in that year.

The discussion and analysis presented below relates to the material changes in financial condition and results of operations for our consolidated balance sheets as of July 31, 2007 and October 31, 2006, and for the consolidated statements of income for the three-month and nine-month periods ended July 31, 2007 and 2006. This discussion and analysis should be read in conjunction with the consolidated financial statements that appear elsewhere in this Form 10-Q and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006 (the 2006 Form 10-K ). Readers are encouraged to review the entire 2006 Form 10-K, as it includes information regarding Greif not discussed in this Form 10-Q. This information will assist in your understanding of the discussion of our current period financial results.

All statements, other than statements of historical facts, included in this Form 10-Q, including without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, goals and plans and objectives of management for future operations, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, project, believe, target or the negative thereof or variations thereon or similar terminology. All forward-looking statements made in this Form 10-Q are based on information currently available to our management. Although we believe that the expectations reflected in forward-looking statements have a reasonable basis, we can give no assurance that these expectations will prove to be correct. Forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. For a discussion of the most significant risks and uncertainties that could cause Greif s actual results to differ materially from those projected, see Risk Factors in Item 1A of the 2006 Form 10-K, which information is incorporated in this Form 10-Q by reference, updated by Part II, Item 1A of this Form 10-Q. All forward-looking statements made in this Form 10-Q are expressly qualified in their entirety by reference to such risk factors. Except to the limited extent required by applicable law, Greif undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**OVERVIEW**

We operate in three business segments: Industrial Packaging & Services; Paper, Packaging & Services; and Timber.

We are a leading global provider of industrial packaging products such as steel, fibre and plastic drums, intermediate bulk containers, closure systems for industrial packaging products, and polycarbonate water bottles, which are complemented with a variety of value-added services, including blending, packaging, logistics and warehousing. We seek to provide complete packaging solutions to our customers by offering a comprehensive range of products and services on a global basis. We sell our products to customers in industries such as chemicals, paint and pigments, food and beverage, petroleum, industrial coatings, agricultural, pharmaceutical and mineral, among others. In addition, we provide a variety of blending and packaging services, logistics and warehousing to customers in many of these same industries in North America.

We sell our containerboard, corrugated sheets and other corrugated products and multiwall bags to customers in North America in industries such as packaging, automotive, food and building products. Our corrugated container products are used to ship such diverse products as home appliances, small machinery, grocery products, building products, automotive components, books and furniture, as well as numerous other applications. Our full line of multiwall bag products is used to ship a wide range of industrial and consumer products, such as fertilizers, chemicals, concrete, flour, sugar, feed, seed, pet foods, popcorn, charcoal and salt, primarily for the agricultural, chemical, building products and food industries

As of July 31, 2007, we owned approximately 264,350 acres of timberland in the southeastern United States, which is actively managed, and approximately 36,700 acres of timberland in Canada. Our timber management is focused on the active harvesting and regeneration of our timber properties to achieve sustainable long-term yields on our timberland. While timber sales are subject to fluctuations, we seek to maintain a consistent cutting schedule, within the limits of available merchantable acreage of timber, market and weather conditions. We also sell, from time to time, timberland and special use land, which consists of surplus land, higher and better use ( HBU ) land, and development land.

In 2003, we began a transformation to become a leaner, more market-focused/performance-driven company, a transformation to what we call the Greif Business System. We believe the Greif Business System has and will continue to generate productivity improvements and achieve permanent cost reductions. The Greif Business System continues to focus on opportunities such as improved labor productivity, material yield and other manufacturing efficiencies, along with further plant consolidations. In addition, as part of the Greif Business System, we have launched a strategic sourcing initiative to more effectively leverage our global spending, including a transportation management system, and lay the foundation for a world-class sourcing and supply chain capability.

**CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). The preparation of these consolidated financial statements, in accordance with these principles, require us to make estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements.

A summary of our significant accounting policies is included in Note 1 to the Notes to Consolidated Financial Statements included in the 2006 Form 10-K. We believe that the consistent application of these policies enables us to provide readers of the consolidated financial statements with useful and reliable information about our results of operations and financial condition. The following are the accounting policies that we believe are most important to the portrayal of our results of operations and financial condition and require our most difficult, subjective or complex judgments.

***Allowance for Accounts Receivable.*** We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer s inability to meet its financial obligations to us, we record a specific allowance for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. In addition, we recognize allowances for bad debts based on the length of time receivables are past due with allowance percentages, based on our historical experiences, applied on a graduated scale relative to the age of the receivable amounts. If circumstances change (e.g., higher than expected bad debt experience or an unexpected material adverse change in a major customer s ability to meet its financial obligations to us), our estimates of the recoverability of amounts due to us could change by a material amount.

***Inventory Reserves.*** Reserves for slow moving and obsolete inventories are provided based on historical experience and product demand. We continuously evaluate the adequacy of these reserves and make adjustments to these reserves as required.

***Net Assets Held for Sale.*** Net assets held for sale represent land, buildings and land improvements less accumulated depreciation for locations that have been closed. We record net assets held for sale in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, at the lower of carrying value or fair value less cost to sell. Fair value is based on the estimated proceeds from the sale of the facility utilizing recent purchase offers, market comparables and/or data obtained from our commercial real estate broker. Our estimate as to fair value is regularly reviewed and subject to changes in the commercial real estate markets and our continuing evaluation as to the facility s acceptable sale price.

***Properties, Plants and Equipment.*** Depreciation on properties, plants and equipment is provided on the straight-line method over the estimated useful lives of our assets.

We own timber properties in the southeastern United States and in Canada. With respect to our United States timber properties, which consisted of approximately 264,350 acres at July 31, 2007, depletion expense is computed on the basis of cost and the estimated recoverable timber acquired. Our land costs are maintained by tract. Merchantable timber costs are maintained by five product classes, pine sawtimber, pine chip-n-saw, pine pulpwood, hardwood sawtimber and hardwood pulpwood, within a depletion block, with each depletion block based upon a geographic district or subdistrict. Currently, we have 12 depletion blocks. These same depletion blocks are used for pre-merchantable timber costs. Each year, we estimate the volume of our merchantable timber for the five product classes by each depletion block. These estimates are based on the current state in the growth cycle and not on quantities to be available in future years. Our estimates do not include costs to be incurred in the future. We then project these volumes to the end of the year. Upon acquisition of a new timberland tract, we record separate amounts for land, merchantable timber and pre-merchantable timber allocated as a percentage of the values being purchased. These acquisition volumes and costs acquired during the year are added to the totals for each product class within the appropriate depletion block(s). The total of the beginning, one-year growth and acquisition volumes are divided by the total undepleted historical cost to arrive at a depletion rate, which is then used for the current year. As timber is sold, we multiply the volumes sold by the depletion rate for the current year to arrive at the depletion cost. Our Canadian timberland, which consisted of approximately 36,700 acres at July 31, 2007, did not have any depletion expense since it is not actively managed at this time.

We believe that the lives and methods of determining depreciation and depletion are reasonable; however, using other lives and methods could provide materially different results.

***Restructuring Reserves.*** Restructuring reserves are determined in accordance with appropriate accounting guidance, including SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, and Staff Accounting Bulletin No. 100, Restructuring and Impairment Charges, depending upon the facts and circumstances surrounding the situation. Restructuring reserves are further discussed in Note 7 to the Notes to Consolidated Financial Statements included in this Form 10-Q.

***Pension and Postretirement Benefits.*** Our actuaries using assumptions about the discount rate, expected return on plan assets, rate of compensation increase and health care cost trend rates determine pension and postretirement benefit expenses. Further discussion of our pension and postretirement benefit plans and related assumptions is contained in Note 16 to the Notes to Consolidated Financial Statement included in this Form 10-Q. The results would be different using other assumptions.

***Income Taxes.*** Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating its tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may not succeed. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit. Our effective tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate as well as related interest.

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would require use of our cash. Favorable resolution would be recognized as a reduction to our effective tax rate in the period of resolution.

Valuation allowances are established where expected future taxable income does not support the realization of the deferred tax assets.

***Environmental Cleanup Costs.*** We expense environmental costs related to existing conditions caused by past or current operations and from which no current or future benefit is discernable. Expenditures that extend the life of the related property, or mitigate or prevent future environmental contamination, are capitalized.

Our reserves for environmental liabilities at July 31, 2007 amounted to $24.3 million, which included reserves of $3.8 million related to our facility in Lier, Belgium, $6.0 million related to our blending facility in Chicago, Illinois, $9.9 million related to the Blagden Packaging acquisition completed in the first quarter of 2007 (which amount is subject to post-closing purchase price adjustments) and $4.6 million for asserted and unasserted environmental litigation, claims and/or assessments at several manufacturing sites and other locations where we believe the outcome of such matters will be unfavorable to us. The environmental exposures for those sites included in the $4.6 million reserve were not individually significant. The reserve for the Lier, Belgium and Chicago, Illinois sites were based on environmental studies conducted at those locations. The Lier, Belgium site is monitored by the Public Flemish Waste Company ( PFWC ), which is the Belgian body for waste control. PFWC must approve all remediation efforts that are undertaken by us at this site. Environmental expenses were $0.4 million and insignificant for the nine months ending July 31, 2007 and 2006, respectively. Environmental cash expenditures were $0.5 million and insignificant for the nine months ending July 31, 2007 and 2006, respectively.

We anticipate that cash expenditures in future periods for remediation costs at identified sites will be made over an extended period of time. Given the inherent uncertainties in evaluating environmental exposures, actual costs may vary from those estimated at July 31, 2007. Our exposure to adverse developments with respect to any individual site is not expected to be material. Although environmental remediation could have a material effect on results of operations if a series of adverse developments occur in a particular quarter or fiscal year, we believe that the chance of a series of adverse developments occurring in the same quarter or fiscal year is remote. Future information and developments will require us to continually reassess the expected impact of these environmental matters.

***Self-Insurance***. We are self-insured for certain of the claims made under our employee medical and dental insurance programs. We had recorded liabilities totaling $2.8 million and $2.7 million of estimated costs related to outstanding claims at July 31, 2007 and October 31, 2006, respectively. These costs include an estimate for expected settlements on pending claims, administrative fees and an estimate for claims incurred but not reported. These estimates are based on our assessment of outstanding claims, historical analysis and current payment trends. We record an estimate for the claims incurred but not reported using an estimated lag period based upon historical information. This lag period assumption has been consistently applied for the periods presented. If the lag period were hypothetically adjusted by a period equal to a half month, the impact on earnings would be approximately $0.7 million. However, we believe the liabilities recorded are adequate based upon current facts and circumstances.

We have certain deductibles applied to various insurance policies including general liability, product, auto and workers compensation. Deductible liabilities are insured primarily through our captive insurance subsidiary. We recorded liabilities totaling $19.9 million and $19.7 million for anticipated costs related to general liability, product, auto and workers compensation at July 31, 2007 and October 31, 2006, respectively. These costs include an estimate for expected settlements on pending claims, defense costs and an estimate for claims incurred but not reported. These estimates are based on our assessment of outstanding claims, historical analysis, actuarial information and current payment trends.

***Contingencies.*** Various lawsuits, claims and proceedings have been or may be instituted or asserted against us, including those pertaining to environmental, product liability, and safety and health matters. We are continually consulting legal counsel and evaluating requirements to reserve for contingencies in accordance with SFAS No. 5, Accounting for Contingencies. While the amounts claimed may be substantial, the ultimate liability cannot currently be determined because of the considerable uncertainties that exist. Based on the facts currently available, we believe the disposition of matters that are pending will not have a material effect on the consolidated financial statements.

***Goodwill, Other Intangible Assets and Other Long-Lived Assets.*** Goodwill and indefinite-lived intangible assets are no longer amortized, but instead are periodically reviewed for impairment as required by SFAS No. 142, Goodwill and Other Intangible Assets. The costs of acquired intangible assets determined to have definite lives are amortized on a straight-line basis over their estimated economic lives of two to 20 years. Our policy is to periodically review other intangible assets subject to amortization and other long-lived assets based upon the evaluation of such factors as the occurrence of a significant adverse event or change in the environment in which the business operates, or if the expected future net cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related assets.

***Other Items.*** Other items that could have a significant impact on the financial statements include the risks and uncertainties listed in Part I, Item 1A Risk Factors, of the 2006 Form 10-K. Actual results could differ materially using different estimates and assumptions, or if conditions are significantly different in the future.

**RESULTS OF OPERATIONS**

The following comparative information is presented for the three-month and nine-month periods ended July 31, 2007 and 2006. Historically, revenues or earnings may or may not be representative of future operating results due to various economic and other factors.

The financial measure of operating profit, before the impact of restructuring charges and timberland gains (losses), is used throughout the following discussion of our results of operations (except with respect to the segment discussions for Industrial Packaging & Services and Paper, Packaging & Services, where timberland gains (losses) are not applicable). Operating profit, before the impact of restructuring charges and timberland gains (losses), is equal to operating profit plus restructuring charges less timberland gains plus timberland losses. We use operating profit, before the impact of restructuring charges and timberland gains (losses), because we believe that this measure provides a better indication of our operational performance because it excludes restructuring charges, which are not representative of ongoing operations, and timberland gains (losses), which are volatile from period to period, and it provides a more stable platform on which to compare our historical performance.

**Third Quarter Results**

**Overview**

Net sales increased 27 percent to $874.2 million in the third quarter of 2007 compared to $690.5 million in the third quarter of 2006 an increase of 11 percent including 4 percent from foreign currency translation and excluding the impact of the acquisitions of Blagden Packaging Group s steel drum manufacturing and closures businesses ( Blagden ) in the first quarter of 2007 and Delta Petroleum Company, Inc. s blending and filling businesses ( Delta ) in the fourth quarter of 2006. The $183.8 million increase is primarily due to higher sales for Industrial Packaging & Services ($178.8 million) driven by generally higher volumes, especially steel and plastic drums, which benefited from the Industrial Packaging & Services Blagden and Delta acquisitions and strong organic growth in Europe and the emerging markets.

Operating profit was $79.9 million in the third quarter of 2007 compared to $68.5 million in the third quarter of 2006. Operating profit, before the impact of restructuring charges and timberland gains, was $85.9 million for the third quarter of 2007 compared to $75.2 million for the third quarter of 2006. The $10.7 million increase was primarily due to higher operating profit for Industrial Packaging & Services ($9.7 million). During the third quarter of 2006, there were $8.8 million of gains on disposal of certain assets, including the sale of corporate surplus property and disposal of a warehouse in Europe. For the third quarter of 2007 and 2006, respectively, restructuring charges were $6.1 million compared to $7.1 million and timberland gains were $0.1 million compared to $0.4 million.

The following table sets forth the net sales and operating profit for each of our business segments (Dollars in thousands):

| **For the three months ended July 31,** | **2007** | **2006** |
|---|---|---|
| **Net sales:** | | |
| Industrial Packaging & Services | $ 694,688 | $ 515,881 |
| Paper, Packaging & Services | 175,972 | 171,944 |
| Timber | 3,577 | 2,650 |
| Total net sales | 874,237 | 690,475 |
| **Operating profit:** | | |
| Operating profit, before the impact of restructuring charges and timberland gains: | | |
| Industrial Packaging & Services | $ 66,710 | $ 57,057 |
| Paper, Packaging & Services | 16,405 | 15,827 |
| Timber | 2,798 | 2,320 |
| Total operating profit before the impact of restructuring charges and timberland gains | 85,913 | 75,204 |
| Restructuring charges: | | |
| Industrial Packaging & Services | 4,704 | 6,999 |
| Paper, Packaging & Services | 1,357 | 88 |
| Timber | | |
| Total restructuring charges | $ 6,061 | $ 7,087 |
| Timberland gains: | | |
| Timber | 56 | 364 |
| Operating profit: | | |
| Industrial Packaging & Services | 62,006 | 50,058 |
| Paper, Packaging & Services | 15,048 | 15,739 |
| Timber | 2,854 | 2,684 |
| Total operating profit | $ 79,908 | $ 68,481 |

**Segment Review**

*Industrial Packaging & Services*

Our Industrial Packaging & Services segment offers a comprehensive line of industrial packaging products and services, such as steel, fibre and plastic drums, intermediate bulk containers, closure systems for industrial packaging products, polycarbonate water bottles, blending, filling and other packaging services, logistics and warehousing. The key factors influencing profitability in the Industrial Packaging & Services segment are:

Selling prices and sales volumes;

Raw material costs, primarily steel, resin and containerboard;

Energy and transportation costs;

Benefits from executing the Greif Business System;

Contributions from recent acquisitions; and

Impact of foreign currency translation.

In this segment, net sales were up 35 percent to $694.7 million in the third quarter of 2007 compared to $515.9 million in the third quarter of 2006 an increase of 14 percent excluding the impact of the Blagden and Delta acquisitions, and including 5 percent from foreign currency translation. The increase in net sales was primarily attributable to the Blagden and Delta acquisitions and organic growth, which included higher sales volumes across all regions with particular strength in Europe and emerging markets. In the third quarter of 2007, contributions from our acquisitions included a full quarter of sales volume for Blagden and Delta.

Gross profit margin for the Industrial Packaging & Services segment was 18.7 percent in the third quarter of 2007 versus 20.5 percent in the third quarter of 2006. This decline was primarily due to portfolio mix and fluctuations in raw material costs, partially offset by positive contributions from the continued execution of the Greif Business System.

Operating profit was $62.0 million in the third quarter of 2007 compared to $50.1 million in the third quarter of 2006. Operating profit before restructuring charges rose to $66.7 million in the third quarter of 2007 from $57.1 million in the third quarter of 2006 primarily due to the improvement in net sales and the execution of the Greif Business System, partially offset by $8.8 million of gains on disposal of certain assets, during the third quarter of 2006. Restructuring charges were $4.7 million in the third quarter of 2007 compared with $7.0 million during the same period last year.

*Paper, Packaging & Services*

Our Paper, Packaging & Services segment sells containerboard, corrugated sheets and other corrugated products and multiwall bags in North America. The key factors influencing profitability in the Paper, Packaging & Services segment are:

- Selling prices and sales volumes;
- Raw material costs, primarily old corrugated containers ( OCC );
- Energy and transportation costs; and
- Benefits from executing the Greif Business System.

In this segment, net sales were $176.0 million in the third quarter of 2007 compared to $171.9 million in the third quarter of 2006. This was principally due to higher containerboard selling prices and volumes, which benefited from the acceleration of major annual maintenance activities at one of our containerboard mills to the second quarter from the third quarter of 2007.

The Paper, Packaging & Services segment s gross profit margin remained the same at approximately 17.2 percent in the third quarter of 2007 compared to the third quarter of 2006. Higher average OCC costs were offset by contributions from execution of the Greif Business System.

Operating profit was $15.0 million in the third quarter of 2007 compared to $15.7 million in the third quarter of 2006. Operating profit before restructuring charges was $16.4 million in the third quarter of 2007 compared to $15.8 million in the third quarter of 2006 primarily due to the increase in net sales. Restructuring charges were $1.4 million in the third quarter of 2007 compared to $0.1 million in the third quarter of 2006.

*Timber*

Our Timber segment consists of approximately 264,350 acres of timber properties in the southeastern United States, which are actively harvested and regenerated, and approximately 36,700 acres in Canada. The key factors influencing profitability in the Timber segment are:

- Planned level of timber sales;
- Gains (losses) on sale of timberland; and
- Sale of special use properties (surplus, HBU, and development properties).

Net sales were $3.6 million in the third quarter of 2007, consistent with the planned level of timber sales, compared to $2.7 million in the third quarter of 2006. Operating profit was $2.9 million in the third quarter of 2007 compared to $2.7 million in the third quarter of 2006. Operating profit, before the impact of timberland gains, was $2.8 million (including $0.8 million of profits on special use property sales) in the third quarter of 2007 compared to $2.3 million (including $1.9 million of profits on special use property sales) in the third quarter of 2006. For the third quarter of 2007 and 2006, respectively, timberland gains were $0.1 million compared to $0.4 million.

**Other Income Statement Changes**

*Cost of Products Sold*

The cost of products sold, as a percentage of net sales, was 81.4 percent for the third quarter of 2007 versus 80.2 percent for the third quarter of 2006. The increase in cost of products sold for the third quarter of 2007 compared to third quarter of 2006 was primarily due to portfolio mix and fluctuations in raw material costs, including higher OCC costs .

*Selling, General and Administrative ( SG&A ) Expenses*

SG&A expenses were $77.3 million, or 8.8 percent of net sales, in the third quarter of 2007 compared to $70.3 million, or 10.2 percent of net sales, in the third quarter of 2006. The dollar increase is primarily due to our Blagden and Delta acquisitions and the impact of foreign currency translation, partially offset by tighter controls over SG&A expenses and the impact of acquisition integration activities.

*Restructuring Charges*

During the third quarter of 2007, we recorded restructuring charges of $6.1 million, consisting of $4.0 million in employee separation costs and $2.1 million in other costs. The focus of the 2007 restructuring activities are on integration of acquisitions in the Industrial Packaging & Services segment and alignment of the market-focused strategy and implementation of the Greif Business System in the Paper, Packaging & Services segment.

During the third quarter of 2006, we recorded restructuring charges of $7.1 million, consisting of $4.3 million in employee separation costs, $0.7 million in asset impairments and $2.1 million in other costs. In 2006, our restructuring charges were primarily related to the final waves of the Industrial Packaging & Services segment s global implementation of the Greif Business System.

*Gain on Sale of Timberland*

During the third quarter of 2007, we recorded a gain on sale of timber property of $0.1 million compared to a gain of $0.4 million in the third quarter of 2006.

*Gain on Disposal of Properties, Plants, and Equipment, Net*

During the third quarter of 2007, we recorded a net gain on disposal of properties, plants and equipment, net of $0.9 million, primarily consisting of $0.8 million in gains from the sale of surplus and HBU timber properties. During the third quarter of 2006, gain on disposals of properties, plants and equipment, net was $8.8 million, primarily consisting of a gain on sale of corporate surplus property for $5.8 million.

*Interest Expense, Net*

Interest expense, net was $12.4 million and $8.1 million for the third quarter of 2007 and 2006, respectively. The increase was primarily attributable to higher average debt outstanding due to our recent acquisitions partially offset by lower interest expense for the Company s 6 3/4 percent Senior Notes, compared to the previously outstanding 8 7/8 percent Senior Subordinated Notes acquired during a tender offer earlier this year.

*Other Expense, Net*

Other expense, net during third quarter of 2007 was $0.7 million compared to $3.9 million during the third quarter of 2006, resulting in a favorable variance of $3.3 million. In 2007, hyperinflation remeasurement for the third quarter of 2007 resulted in income of $1.5 million due to of lower inventory levels compared to an expense of $3.6 million for the same period last year.

*Income Tax Expense*

The effective tax rate was 26.2 percent and 31.5 percent in the third quarter of 2007 and 2006, respectively. The lower effective tax rate resulted from a change in the mix of income outside the United States in the third quarter 2007 compared to the same period last year.

*Net Income*

Based on the foregoing, we recorded net income of $48.8 million for the third quarter of 2007 compared to $38.3 million in the third quarter of 2006.

**Year-to-Date Results**

**Overview**

Net sales were $2.4 billion for the first nine months of 2007 compared to $1.9 billion for the first nine months of 2006. Net sales increased 29 percent, including 4 percent from impact of foreign currency translation. The increase in net sales was attributable to the Industrial Packaging & Services segment ($519.1 million increase) and Paper, Packaging & Services segment ($29.0 million increase) offset by the Timber segment ($1.0 million decrease).

Operating profit was $202.4 million for the first nine months of 2007 compared with $178.0 million for the same period last year. Operating profit, before the impact of restructuring charges and timberland gains (losses), increased 35 percent to $214.8 million for the nine months ending July 31, 2007 compared to $159.7 million for the same period last year. This increase in operating profit, before the impact of restructuring charges and timberland gains (losses), was attributable to the Industrial Packaging & Services segment ($41.6 million increase), Paper, Packaging & Services segment ($10.6 million increase) and the Timber segment ($3.0 million increase). There were $12.1 million and $22.8 million of restructuring charges for the nine months ending July 31, 2007 and 2006, respectively, and $0.3 million of timberland losses for the first nine months of 2007 and $41.2 million of timberland gains for the first nine months of 2006.

The following table sets forth the net sales and operating profit for each of our business segments (Dollars in thousands):

| **For the nine months ended July 31,** | **2007** | **2006** |
|---|---|---|
| **Net sales:** | | |
| Industrial Packaging & Services | $ 1,923,737 | $ 1,404,609 |
| Paper, Packaging & Services | 504,460 | 475,466 |
| Timber | 11,842 | 12,823 |
| Total net sales | $ 2,440,039 | $ 1,892,898 |
| **Operating profit:** | | |
| Operating profit, before the impact of restructuring charges and timberland gains: | | |
| Industrial Packaging & Services | $ 157,056 | $ 115,502 |
| Paper, Packaging & Services | 45,122 | 34,509 |
| Timber | 12,660 | 9,666 |
| Total operating profit before the impact of restructuring charges and timberland gains | 214,838 | 159,677 |
| Restructuring charges: | | |
| Industrial Packaging & Services | 7,547 | 19,486 |
| Paper, Packaging & Services | 4,600 | 3,346 |
| Timber | | 10 |
| Total restructuring charges | 12,147 | 22,842 |
| Timberland gains (losses): | | |
| Timber | (264) | 41,171 |
| Operating profit: | | |
| Industrial Packaging & Services | 149,509 | 96,016 |
| Paper, Packaging & Services | 40,522 | 31,163 |
| Timber | 12,396 | 50,827 |
| Total operating profit | $ 202,427 | $ 178,006 |

**Segment Review**

*Industrial Packaging & Services*

In our Industrial Packaging & Services segment, we offer a comprehensive line of industrial packaging products, such as steel, fibre and plastic drums, intermediate bulk containers, closure systems for industrial packaging products and polycarbonate water bottles, blending, filling and other packaging services, logistics and warehousing. The key factors influencing profitability in the first nine months of 2007 compared to the first nine months of 2006 in the Industrial Packaging & Services segment were:

- Selling prices and sales volumes;
- Raw material costs, primarily steel, resin and containerboard;
- Benefits from executing the Greif Business System;
- Contributions from recent acquisitions; and
- Impact of foreign currency translation.

In this segment, net sales increased 37 percent to $1.9 billion for the first nine months of 2007 compared to $1.4 billion for the same period last year, including 5 percent from impact of foreign currency translation. The improvement in net sales was primarily due to the Blagden and Delta acquisitions and organic growth, which included higher sales volumes across all regions with particular strength in the Americas, Europe and emerging markets.

Our Industrial Packaging & Services segment s gross profit margin was 17.8 percent for the first nine months of 2007 versus 18.5 percent in the first nine months of 2006. This decline was primarily due to portfolio mix and fluctuations in raw materials, partially offset by positive contributions from the continued execution of the Greif Business System.

Operating profit was $149.5 million for the first nine months of 2007 compared with $96.0 million for the first nine months of 2006. Operating profit, before the impact of restructuring charges, rose to $157.1 million for the first nine months of 2007 from $115.5 million for the same period a year ago. Restructuring charges were $7.5 million for the first nine months of 2007 compared with $19.5 million for the first nine months of 2006.

*Paper, Packaging & Services*

In our Paper, Packaging & Services segment, we sell containerboard, corrugated sheets and other corrugated products and multiwall bags in North America. The key factors influencing profitability in the first nine months of 2007 compared to the first nine months of 2006 in the Paper, Packaging & Services segment were:

- Selling prices and sales volumes;
- Raw material costs, primarily OCC;
- Energy and transportation costs; and

Benefits from executing the Greif Business System.

In this segment, net sales increased 6 percent to $504.5 million for the first nine months of 2007 compared to $475.5 million for the same period last year. The increase in net sales was primarily due to improved selling prices for this segment s products.

The Paper, Packaging & Services segment s gross profit margin increased to 16.9 percent during the first nine months of 2007 compared to 15.4 percent for the same period last year. This improvement was due to an increase in net sales, partially offset by higher OCC costs.

Operating profit was $40.5 million for the first nine months of 2007 compared with $31.2 million for the first nine months of 2006. Operating profit, before the impact of restructuring charges, was $45.1 million for the first nine months of 2007 compared with $34.5 million the prior year. Restructuring charges were $4.6 million for the first nine months of 2007 versus $3.3 million a year ago.

*Timber*

As of July 31, 2007, we owned approximately 264,350 acres of timber properties in southeastern United States, which are actively harvested and regenerated, and approximately 36,700 acres in Canada, which are harvested. The key factors influencing profitability in the first nine months of 2007 compared to the first nine months of 2006 in our Timber segment were:

Planned level of timber sales;

Gains (losses) on sale of timberland; and

Sale of special use properties (surplus, HBU, and development properties).

In this segment, net sales were $11.8 million for the first nine months of 2007 compared to $12.8 million for the first nine months of 2006. Operating profit was $12.3 million for the first nine months of 2007 compared with $50.8 million for the first nine months of 2006. Operating profit, before the impact of restructuring charges and timberland gains (losses), was $12.7 million for the first nine months of 2007 compared to $9.7 million a year ago. Restructuring charges were insignificant for the first nine months in both years. Timberland losses were $0.3 million for the first nine months of 2007 and timberland gains were $41.2 million for the same period last year.

We completed the second and final phases of our previously reported $90 million sales of timber, timberland and associated assets in the first and second quarters of 2006. In these phases, we sold 21,000 acres of timberland holdings in Florida for $39.0 million, resulting in a gain of $36.4 million.

**Other Income Statement Changes**

*Cost of Products Sold*

The cost of products sold, as a percentage of net sales, was 82.2 percent for both the first nine months of 2007 and 2006. The consistency in cost of products sold was achieved by the orderly integration of the newly acquired companies and positive contributions from the continued execution of the Greif Business System, partially offset by higher costs for OCC, which reached their highest level in over a decade.

*Selling, General and Administrative Expenses*

SG&A expenses were $229.6 million, or 9.4 percent of net sales, for the first nine months of 2007 compared to $192.2 million, or 10.2 percent of net sales, for the same period a year ago. The dollar increase was primarily due to our Blagden and Delta acquisitions during the first quarter of 2007 and the fourth quarter of 2006, respectively, and accruals related to performance based incentive plans, partially offset by tighter controls over SG&A expenses and the impact of acquisition integration activities.

*Restructuring Charges*

During the first nine months of 2007, we recorded restructuring charges of $12.1 million, consisting of $5.3 million in employee separation costs, $0.9 million in asset impairments and $5.9 million in other costs. The focus of the 2007 restructuring activities are on integration of acquisitions in the Industrial Packaging & Services segment and on alignment of the market-focused strategy and implementation of the Greif Business System in the Paper, Packaging & Services segment.

During the first nine months of 2006, we recorded restructuring charges of $22.8 million, consisting of $11.1 million in employee separation costs, $6.2 million in asset impairments and $5.5 million in other costs. In 2006, our restructuring charges were primarily related to the final waves of the Industrial Packaging & Services segment s global implementation of the Greif Business System.

*Gain (Loss) on Sale of Timberland*

During the first nine months of 2007, we recorded a loss of $0.3 million compared to a $41.2 million gain during the same period last year, which included the gains from the second and final phases of a sale of our timberland holdings in Florida, Georgia and Alabama.

*Gain on Disposal of Properties, Plants and Equipment, Net*

During the first nine months of 2007, we recorded a net gain on disposal of properties, plants and equipment, net of $9.5 million, primarily consisting of $6.6 million in gains from the sale of surplus and HBU timber properties. During the first nine months of 2006, gain on disposal of properties, plants and equipment, net was $16.0 million, primarily consisting of a gain on sale of corporate surplus property for $5.8 million and gains from the sale of surplus and HBU timber properties for $3.1 million.

*Interest Expense, Net*

Interest expense, net was $34.5 million and $27.0 million for the first nine months of 2007 and 2006, respectively. The increase was primarily due to higher average debt outstanding due to our recent acquisitions partially offset by lower interest expenses for the Company s 6 $^{3}/4$ percent Senior Notes, compared to the previously outstanding 8 $^{7}/8$ percent Senior Subordinated Notes acquired during a tender offer earlier this year.

*Debt Extinguishment Charge*

During the second quarter of 2007, the Company issued $300 million of 6 $^{3}/4$ percent Senior Notes due 2017. At the same time, the Company completed a tender offer for its 8 $^{7}/8$ percent Senior Subordinated Notes due 2012. In the tender offer, the Company purchased $245.6 million aggregate principal amount of Senior Subordinated Notes, which represented 99 percent of the outstanding notes. As a result of this transaction, a debt extinguishment charge was recorded during the second quarter of 2007. This $23.5 million charge included $14.5 million in cash and $9.0 million in non-cash items. Proceeds from the Senior Note issuance were primarily used to fund the purchase of the Senior Subordinated Notes in the tender offer. These actions, excluding the impact of the debt extinguishment charge, were accretive to earnings. The remaining Senior Subordinated Notes are to be redeemed by us during our fourth quarter of 2007.

*Other Expense, Net*

Other expense during the first nine months of 2007 was $5.8 million compared to $3.1 million during the same period last year, resulting in an unfavorable variance of $2.7 million. The unfavorable variance was primarily due to fees associated with our European trade receivable facility and foreign exchange losses totaling $4.4 million for the first nine months of 2007 compared to $2.3 million for the same period last year.

*Income Tax Expense*

The effective tax rate was 26.2 percent and 31.2 percent in the first nine months of 2007 and 2006, respectively, resulting in an income tax expense of $36.3 million for the first nine months of 2007 and $46.1 million for the first nine months of 2006. The lower effective tax rate resulted from a change in the mix of income outside the United States and the debt extinguishment charge of approximately $23.5 million in the second quarter 2007.

*Net Income*

Based on the foregoing, our net income was $101.4 million for the first nine months of 2007 compared to net income of $100.4 million in the same period last year.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are operating cash flows, the proceeds from our trade accounts receivable credit facility, proceeds from the sale of our European accounts receivable and borrowings under our Credit Agreement, further discussed below. We have used these sources to fund our working capital needs, capital expenditures, cash dividends, common stock repurchases and acquisitions. We anticipate continuing to fund these items in a like manner. We currently expect that operating cash flows, the proceeds from our trade accounts receivable credit facility, proceeds from the sale of our European accounts receivable and borrowings under our Credit Agreement will be sufficient to fund our working capital, capital expenditures, debt repayment and other liquidity needs for the foreseeable future.

**Capital Expenditures and Business Acquisitions**

During the first nine months of 2007, we invested $78.5 million in capital expenditures, excluding timberland purchases of $1.5 million, compared with capital expenditures of $55.1 million, excluding timberland purchases of $52.8 million, during the same period last year.

We expect capital expenditures excluding timberland purchases to be approximately $110 million in 2007, which is in line with our anticipated annual depreciation expense.

We acquired Blagden s steel drum manufacturing and closures businesses in the first quarter of 2007. Net sales of the acquired operations, which are located in Europe and Asia, were approximately $265 million for the annual period prior to the acquisition. In addition, in the first quarter of 2007, we acquired two small industrial packaging companies in the United States and one in North Africa. These acquisitions and the Blagden acquisitions are referred to as the 2007 Acquisitions .

**Balance Sheet Changes**

Cash and cash equivalents, along with short-term borrowings and long-term debt, were all primarily impacted by the 2007 Acquisitions.

Our trade accounts receivable increased $45.5 million, primarily due to the 2007 Acquisitions.

Inventories increased $43.4 million, primarily due to the 2007 Acquisitions. Prepaid expenses and other current assets increased $23.7 million, primarily due to the 2007 Acquisitions, with the remainder related to timing and the yearly build up of prepaid balances.

Goodwill increased $138.8 million primarily due to the 2007 Acquisitions.

Intangible assets increased a $48.3 million primarily due to the 2007 Acquisitions. These assets, based on preliminary allocations of purchase price, were primarily related to trade name, customer relationships, and non-compete agreements.

Other long-term assets increased $33.6 million. There were $15.3 million to be allocated in connection with purchase accounting for the 2007 Acquisitions.

Properties, plants and equipment increased $119.9 million, primarily due to the 2007 Acquisitions.

Accounts payable increased $60.0 million, primarily due to the 2007 Acquisitions.

Other current liabilities increased $43.6 million, primarily due to the 2007 Acquisitions, a $3.0 million increase in freight accruals, and $1.4 million in interest accruals.

Other long-term liabilities increased $37.6 million, primarily due to the 2007 Acquisitions, the increase in accruals, and timing of payments.

**Borrowing Arrangements**

***Credit Agreement***

We and certain of our international subsidiaries, as borrowers, and a syndicate of financial institutions are parties to a Credit Agreement (the Credit Agreement ) that provides us with a $450.0 million revolving multicurrency credit facility due 2010. The revolving multicurrency credit facility is available to us for ongoing working capital and general corporate purposes. Interest is based on a euro currency rate or an alternative base rate that resets periodically plus a calculated margin amount. There was $237.6 million and $115.2 million outstanding under the Credit Agreement at July 31, 2007 and October 31, 2006, respectively. The increase in outstanding debt under the Credit Facility was primarily due to funds borrowed to finance the Blagden acquisition, which was completed in the first quarter of 2007.

The Credit Agreement contains certain covenants, which include financial covenants that require us to maintain a certain leverage ratio and a minimum coverage of interest expense. The leverage ratio generally requires that at the end of any fiscal quarter we will not permit the ratio of (a) our total consolidated indebtedness less cash and cash equivalents to (b) our consolidated net income plus depreciation, depletion and amortization, interest expense (including capitalized interest), income taxes, and minus certain extraordinary gains and non-recurring gains (or plus certain extraordinary losses and non-recurring losses) for the preceding twelve months ( EBITDA ) to be greater than 3.5 to 1. The interest coverage ratio generally requires that at the end of any fiscal quarter we will not permit the ratio of (a) our EBITDA to (b) our interest expense (including capitalized interest) for the preceding twelve months to be less than 3.0 to 1. As of July 31, 2007, we were in compliance with these covenants. The terms of the Credit Agreement limit our ability to make restricted payments, which include dividends and purchases, redemptions and acquisitions of our equity interests. The repayment of this facility is secured by a pledge of the capital stock of substantially all of our United States subsidiaries and, in part, by the capital stock of the international borrowers.

***Senior Notes***

On February 9, 2007, we issued $300.0 million of our 6 $^{3}/4$ percent Senior Notes due February 1, 2017. Proceeds from the issuance of the Senior Notes were principally used to fund the purchase of the Senior Subordinated Notes in the tender offer, discussed below, and for general corporate purposes. The Senior Notes are general unsecured obligations of Greif, provide for semi-annual payments of interest at a fixed rate of 6.75 percent, and do not require any principal payments prior to maturity on February 1, 2017. The Senior Notes are not guaranteed by any of our subsidiaries and thereby are effectively subordinated to all of our subsidiaries existing and future indebtedness. The Indenture pursuant to which the Senior Notes were issued contains covenants, which, among other things, limit our ability to create liens on our assets to secure debt and to enter into sale and leaseback transactions. These covenants are subject to a number of limitations and exceptions as set forth in the Indenture. At July 31, 2007, we were in compliance with these covenants. The fair value of the Senior Notes was $291.8 million at July 31, 2007 based upon quoted market prices.

***Senior Subordinated Notes***

On February 9, 2007, we completed a tender offer for our 8 $^{7}/8$ percent Senior Subordinated Notes. In the tender offer, we purchased $245.6 million aggregate principal amount of our outstanding Senior Subordinated Notes. As a result of this transaction, a debt extinguishment charge of $23.5 million ($14.5 million in cash and $9.0 million in non-cash items, such as the write-off of unamortized capitalized debt issuance costs) was recorded during the second quarter 2007. The Indenture pursuant to which the Senior Subordinated Notes were issued contains certain covenants. At July 31, 2007, we were in compliance with these covenants. In connection with the completion of the tender offer for our Senior Subordinated Notes, we received the requisite consent and amended this Indenture to eliminate substantially all of the restrictive covenants and certain events of default contained in the Indenture. The fair value of the Senior Subordinated Notes was $2.5 million and $256.0 million at July 31, 2007 and October 31, 2006, respectively, based upon quoted market prices. The remaining Senior Subordinated Notes are to be redeemed by us during the fourth quarter of 2007.

***Trade Accounts Receivable Credit Facility***

We have a $120.0 million credit facility with an affiliate of a bank in connection with the securitization of certain of our United States trade accounts receivable. The credit facility is secured by certain of our United States trade accounts receivable and bears interest at a variable rate based on the London InterBank Offered Rate ( LIBOR ) plus a margin or other agreed upon rate. We can terminate this facility at any time upon 60 days prior written notice. In connection with this transaction, we established Greif Receivables Funding LLC ( GRF ), which is included in our consolidated financial statements. However, because GRF is a separate and distinct legal entity from us, the assets of GRF are not available to satisfy our liabilities and obligations and the liabilities of GRF are not our liabilities or obligations. This entity purchases and services our trade accounts receivable that are subject to this credit facility. There was a total of $103.5 million and $120.0 million outstanding under the trade accounts receivable credit facility at July 31, 2007 and October 31, 2006, respectively.

The trade accounts receivable credit facility provides that in the event we breach any of our financial covenants under the Credit Agreement, and the majority of the lenders there under consent to a waiver thereof, but the provider of the trade accounts receivable credit facility does not consent to any such waiver, then we must within 90 days of providing notice of the breach, pay all amounts outstanding under the trade accounts receivable credit facility.

***Sale of European Accounts Receivable***

Pursuant to the terms of a Receivable Purchase Agreement (the RPA ) between Greif Coordination Center BVBA (the Seller ), an indirect wholly-owned subsidiary of Greif, Inc., and a major international bank (the Buyer ), the Seller has agreed to sell trade receivables to Buyer that meet certain eligibility requirements and that Seller has purchased from other indirect wholly-owned subsidiaries of Greif, Inc. under discounted receivables purchase agreements and from Greif France SAS under a factoring agreement. In addition, Greif Italia S.p.A., also an indirect wholly-owned subsidiary of Greif, Inc., is a party to an Italian Receivables Purchase Agreement with the Italian branch of the major international bank (the Italian RPA ) pursuant to which it sells trade receivables that meet certain eligibility criteria to the Italian branch of the major international bank. The Italian RPA is similar in structure and terms as the RPA.

On April 30, 2007, the RPA was amended and restated and the Italian RPA was amended by the parties thereto. As a result of the amended and restated RPA and the amended Italian RPA: (i) the maximum amount of aggregate receivables that may be sold under our European accounts receivable sales program was increased from €90.0 million to €118.0 million ($161.8 million at July 31, 2007); (ii) Greif Packaging Belgium NV and Greif Packaging Spain S.A., both indirect wholly owned subsidiaries of Greif, Inc., have established discounted receivables purchase agreements with the Seller; and (iii) Greif Packaging France SAS, an indirect wholly owned subsidiary of Greif, Inc., has established a factoring agreement with the Seller.

The structure of the transaction provides for a legal true sale, on a revolving basis, of the receivables transferred from the various Greif, Inc. subsidiaries to Seller and from Seller to Buyer. The Buyer funds an initial purchase price of a certain percentage of eligible receivables based on a formula with the initial purchase price approximating 70 percent to 80 percent of eligible receivables, as defined. The remaining deferred purchase price is settled upon collection of the receivables. At the balance sheet reporting dates, we remove from accounts receivable the amount of proceeds received from the initial purchase price since they meet the applicable criteria of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and continues to recognize the deferred purchase price in its accounts receivable. The receivables are sold on a non-recourse basis with the total funds in the servicing collection accounts pledged to Buyer between the semi-monthly settlement dates. At July 31, 2007, €100.4 million ($137.7 million) of accounts receivable were sold under the RPA and Italian RPA.

At the time the receivables are initially sold, the difference between the carrying amount and the fair value of the assets sold are included as a loss on sale in the consolidated statements of income. Expenses, primarily related to the loss on sale of receivables, associated with the RPA and Italian RPA totaled €1.1 million ($1.4 million) and €0.5 million ($0.6 million) for the three months ended July 31, of 2007 and 2006, respectively. Expenses associated with the RPA and Italian RPA totaled €2.6 million ($3.4 million) and €1.3 million ($1.6 million) for the nine months ended July 31, 2007 and 2006, respectively. Additionally, we perform collections and administrative functions on the receivables sold similar to the procedures it uses for collecting all of its receivables, including receivables that are not sold under the RPA and Italian RPA. The servicing liability for these receivables is not material to the consolidated financial statements.

***Other***

In addition to the borrowings and facilities described above, we had outstanding debt of $58.5 million and $33.0 million, comprised of $32.7 million and $3.7 million in long-tem debt and $25.8 million and $29.3 million in short-term borrowings, at July 31, 2007 and October 31, 2006, respectively.

**SIGNIFICANT NONSTRATEGIC TIMBERLAND TRANSACTIONS**

In connection with one of our 2005 timberland transactions with Plum Creek Timberlands, L.P. ( Plum Creek ), Soterra LLC (one of our wholly owned subsidiaries) received cash and a $50.9 million purchase note payable by an indirect subsidiary of Plum Creek (the Purchase Note ). Soterra LLC contributed the Purchase Note to STA Timber LLC ( STA Timber ), one of our indirect wholly owned subsidiaries. The Purchase Note is secured by a Deed of Guarantee issued by Bank of America, N.A., London Branch, in an amount not to exceed $52.3 million (the Deed of Guarantee ). STA Timber has issued in a private placement 5.20 percent Senior Secured Notes due August 5, 2020 (the Monetization Notes ) in the principal amount of $43.3 million. The Monetization Notes are secured by a pledge of the Purchase Note and the Deed of Guarantee. Greif, Inc. and its other subsidiaries have not extended any form of guaranty of the principal or interest on the Monetization Notes. Accordingly, Greif, Inc. and its other subsidiaries will not become directly or contingently liable for the payment of the Monetization Notes at any time.

**Contractual Obligations**

As of July 31, 2007, we had the following contractual obligations (Dollars in millions):

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| Long-term debt | $ 919.5 | $ 20.6 | $ 469.8 | $ 40.5 | $ 388.6 |
| Short-term borrowings | 26.2 | 26.2 | | | |
| Non-cancelable operating leases | 29.5 | 3.1 | 15.6 | 7.2 | 3.6 |
| Timber note securitized | 72.4 | 0.6 | 4.5 | 4.5 | 62.8 |
| Total contractual cash obligations | $ 1,047.6 | $ 50.5 | $ 489.9 | $ 52.2 | $ 455.0 |

**Stock Repurchase Program**

Our Board of Directors has authorized us to purchase up to four million shares of Class A Common Stock or Class B Common Stock or any combination of the foregoing. During the first nine months of 2007, we repurchased 187,600 shares of Class A and Class B Common Stock. As of July 31, 2007, we had repurchased 2,338,728 shares, including 1,419,608 shares of Class A Common Stock and 919,120 shares of Class B Common Stock, under this program. The total cost of the shares repurchased from 1999 through July 31, 2007 was approximately $51.4 million.

**Recent Accounting Standards**

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes , and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. It applies to all voluntary changes in accounting principle and requires that they be reported via retrospective application. It is effective for all accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (2007 for us). The adoption of this statement did not have a material impact on our consolidated financial statements.

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes, to create a single model to address accounting for uncertainty in tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 as of November 1, 2007, as required. The cumulative effect of adopting FIN No. 48 will be recorded in retained earnings and other accounts as applicable. We have not determined the effect, if any, the adoption of FIN No. 48 will have on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective in fiscal years beginning after November 15, 2007 (2008 for us). The adoption of this statement is not expected to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Pension and Other Postretirement Plans . This Statement requires recognition of the funded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position. Funded status is determined as the difference between the fair value of plan assets and the benefit obligation. Changes in that funded status should be recognized in other comprehensive income. This recognition provision and the related disclosures are effective as of the end of the fiscal year ending after December 15, 2006 (2007 for us). The Statement also requires the measurement of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position. This measurement provision is effective for years ending after December 15, 2008 (2009 for us). The effect of this pronouncement on our consolidated financial statements for 2007 is expected to be an increase in our liabilities of $34 million and a decrease in shareholder s equity of $34 million.

On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 further establishes certain additional disclosure requirements. SFAS No. 159 is effective for our financial statements for the fiscal year beginning on November 1, 2008, with earlier adoption permitted. We are currently evaluating the impact and timing of the adoption of SFAS No. 159 on our consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

There has not been a significant change in the quantitative and qualitative disclosures about our market risk from the disclosures contained in the 2006 Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

With the participation of our principal executive officer and principal financial officer, Greif s management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )), as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report:

Information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission;

Information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure; and

Our disclosure controls and procedures are effective.

There has been no change in our internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in the 2006 Form 10-K under Part I, Item 1A Risk Factors.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Purchases of Class A Common Stock**

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number (or Approximate Dollar Value ) of Shares that May Yet Be Purchased under the Plans or Programs (1) |
|---|---|---|---|---|
| November 2006 | | | | 1,848,872 |
| December 2006 | | | | 1,848,872 |
| January 2007 | | | | 1,848,872 |
| February 2007 | | | | |