GREIF INC
Form 10-Q
September 04, 2008

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, 2008

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, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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, 2008 was as follows:

Class A Common Stock	24,006,629 shares
Class B Common Stock	22,662,266 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, 2008	Three months ended July 31, 2007	Nine months ended July 31, 2008	Nine months ended July 31, 2007
Net sales	$ 1,034,081	$ 874,237	$ 2,798,392	$ 2,440,039
Cost of products sold	841,221	711,948	2,298,040	2,005,133
Gross profit	192,860	162,289	500,352	434,906
Selling, general and administrative expenses	88,078	77,306	252,021	229,585
Restructuring charges	6,558	6,061	24,370	12,147
Timberland disposals, net	156	56	346	(264)
Gain on disposal of properties, plants and equipment, net	2,906	930	52,651	9,517
Operating profit	101,286	79,908	276,958	202,427
Interest expense, net	13,142	12,400	38,194	34,480
Debt extinguishment charge				23,479
Other expense, net	(2,104)	(707)	(9,213)	(5,770)
Income before income tax expense and equity earnings and minority interests	86,040	66,801	229,551	138,698
Income tax expense	20,047	17,502	53,486	36,339
Equity earnings and minority interests	(1,403)	(518)	(2,134)	(975)
Net income	$ 64,590	$ 48,781	$ 173,931	$ 101,384
Basic earnings per share:				
Class A Common Stock	$ 1.11	$ 0.84	$ 2.99	$ 1.75
Class B Common Stock	$ 1.67	$ 1.26	$ 4.48	$ 2.62
Diluted earnings per share:				
Class A Common Stock	$ 1.10	$ 0.82	$ 2.95	$ 1.72
Class B Common Stock	$ 1.67	$ 1.26	$ 4.48	$ 2.62

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS

	July 31, 2008 (Unaudited)	October 31, 2007
Current assets		
Cash and cash equivalents	$ 99,310	$ 123,699
Trade accounts receivable, less allowance of $12,776 in 2008 and $12,539 in 2007	477,612	339,328
Inventories	341,243	242,994
Deferred tax assets	20,355	27,917
Net assets held for sale	19,182	11,564
Prepaid expenses and other current assets	122,545	96,283
	1,080,247	841,785
Long-term assets		
Goodwill	563,775	493,252
Other intangible assets, net of amortization	101,837	96,256
Assets held by special purpose entities (Note 8)	50,891	50,891
Long-term notes receivable	3,611	36,434
Other long-term assets	62,397	59,547
	782,511	736,380
Properties, plants and equipment		
Timber properties, net of depletion	199,268	197,235
Land	131,591	126,018
Buildings	363,191	356,878
Machinery and equipment	1,093,490	1,032,677
Capital projects in progress	121,561	90,659
	1,909,101	1,803,467
Accumulated depreciation	(794,927)	(728,921)
	1,114,174	1,074,546
	$ 2,976,932	$ 2,652,711

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS EQUITY

	July 31, 2008 (Unaudited)	October 31, 2007
Current liabilities		
Accounts payable	$ 469,757	$ 411,095
Accrued payroll and employee benefits	81,491	84,977
Restructuring reserves	10,033	15,776
Short-term borrowings	59,600	15,848
Other current liabilities	175,428	121,214
	796,309	648,910
Long-term liabilities		
Long-term debt	708,214	622,685
Deferred tax liabilities	73,390	159,494
Pension liability	20,944	19,892
Postretirement benefit liabilities	31,604	32,983
Liabilities held by special purpose entities (Note 8)	43,250	43,250
Other long-term liabilities	225,012	119,180
	1,102,414	997,484
Minority interest	6,122	6,405
Shareholders equity		
Common stock, without par value	81,569	75,156
Treasury stock, at cost	(108,290)	(92,028)
Retained earnings	1,116,742	1,004,300
Accumulated other comprehensive income (loss):		
- foreign currency translation	15,757	43,260
- interest rate derivatives	(2,057)	(997)
- energy and other derivatives	(1,756)	226
- minimum pension liability	(29,878)	(30,005)
	1,072,087	999,912
	$ 2,976,932	$ 2,652,711

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,	**2008**	**2007**
Cash flows from operating activities:		
Net income	$ 173,931	$ 101,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	78,974	76,292
Asset impairments	9,395	921
Deferred income taxes	(78,542)	(5,317)
Gain on disposals of properties, plants and equipment, net	(52,651)	(9,517)
Timberland disposals, net	(346)	264
Loss on extinguishment of debt		23,479
Equity earnings and minority interests	2,134	975
Increase (decrease) in cash from changes in certain assets and liabilities:		
Trade accounts receivable	(103,611)	4,058
Inventories	(74,833)	(10,837)
Prepaid expenses and other current assets	(16,587)	(20,339)
Other long-term assets	(15,860)	(59,191)
Accounts payable	64,909	21,472
Accrued payroll and employee benefits	(6,685)	(1,854)
Restructuring reserves	(5,743)	(2,280)
Other current liabilities	28,911	10,314
Pension and postretirement benefit liability	(327)	(8,609)
Other, including long-term liabilities	15,992	44,408
Net cash provided by operating activities	19,061	165,623
Cash flows from investing activities:		
Acquisitions of companies, net of cash acquired	(73,744)	(313,464)
Purchases of properties, plants and equipment	(107,237)	(80,144)
Purchases of timber properties	(1,500)	(1,500)
Receipt (issuance) of notes receivable	33,178	(29,748)
Proceeds from the disposal of properties, plants, equipment and other assets	55,628	13,515
Net cash used in investing activities	(93,675)	(411,341)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,693,310	1,635,984
Payments on long-term debt	(1,609,663)	(1,441,133)
Proceeds from short-term borrowings	31,139	17,820
Payment of premiums for extinguishment of debt		(14,271)
Debt issuance costs		(2,839)
Dividends paid	(54,474)	(37,038)
Acquisitions of treasury stock and other	(16,683)	(9,743)
Exercise of stock options	3,440	12,283
Net cash provided by financing activities	47,069	161,063
Effects of exchange rates on cash	3,156	(5,330)

Net decrease in cash and cash equivalents	(24,389)	(89,985)
Cash and cash equivalents at beginning of period	123,699	187,101
Cash and cash equivalents at end of period	$ 99,310	$ 97,116

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

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 of July 31, 2008 and October 31, 2007 and the consolidated statements of income and cash flows for the three-month and nine-month periods ended July 31, 2008 and 2007 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, 2007 (the 2007 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 2008 or 2007, 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 2008 presentation.

Industrial Packaging and Paper Packaging Acquisitions and Divestitures

During the first nine months of 2008, the Company completed acquisitions of four industrial packaging companies and one paper packaging company for an aggregate purchase price of $73.7 million. These five acquisitions consisted of a joint venture in the Middle East in November 2007, the acquisition of a 70 percent interest in a South American company in November 2007, the acquisition of a North American company in December 2007, the acquisition of a company in Asia in May 2008, and the acquisition of a North American paper packaging company in July 2008. These industrial packaging and paper 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 net assets acquired were $45.3 million (including $16.1 million of accounts receivable and $8.2 million of inventory) and liabilities assumed were $22.6 million. Identifiable intangible assets, with a combined fair value of $10.3 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 $40.7 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 as well as the execution of consolidation plans to eliminate duplicate operations, in accordance with SFAS No. 141, Business Combinations. This is due to the valuation of certain other assets and liabilities that are subject to refinement and therefore the actual fair value may vary from the preliminary estimates. Adjustments to the acquired net assets resulting from final valuations are not expected to be significant. The Company is finalizing certain closing date adjustments with the sellers, as well as the allocation of income tax adjustments.

During 2007, the Company completed acquisitions of seven industrial packaging companies for an aggregate purchase price of $346.4 million. These seven acquisitions consisted of the acquisition of the Blagden Packaging Group, the acquisition of two small North American companies in November 2006, the acquisition of one small North African company in January 2007, the acquisition of the remaining ownership in two of the Company s minority owned plants in Russia in July 2007, the acquisition of a North American joint venture in October 2007, and the acquisition of one small South American company in October 2007. These industrial packaging acquisitions complemented the Company s existing product lines to 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 $158.0 million (including $61.2 million of accounts receivable and $43.5 million of inventory) and liabilities assumed were $75.1 million. Identifiable intangible assets, with a combined fair value of $56.4 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 $207.1 million was recorded as goodwill. The final allocation of the purchase prices for the last three 2007 acquisitions may differ due to additional refinements in the fair values of the net assets acquired as well as the execution of consolidation plans to eliminate duplicate operations, in accordance with SFAS No. 141, Business Combinations. This is due to the valuation of certain other assets and liabilities that are subject to refinement and therefore the actual fair value may vary from the preliminary estimates. Adjustments to the acquired net assets resulting from final valuations are not expected to be significant. The Company is finalizing certain closing date adjustments with the sellers, as well as the allocation of income tax adjustments.

As of the completion date of the acquisitions made during the first nine months of 2008, the Company had only begun to formulate various restructuring plans at certain of the acquired businesses discussed above. The Company s restructuring plans for these newly acquired businesses preliminarily include plans to consolidate locations.

During 2007, the Company implemented various restructuring plans at certain of the 2007 acquired businesses discussed above. 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, in the amount of $11.7 million, of which $1.2 million remains in the restructuring reserve at July 31, 2008. These accruals have been recorded as liabilities to the opening balance sheets (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, 2006, results of operations would not have differed materially from reported results.

During the first quarter of 2008, the Company sold a business unit in Australia and its 51 percent interest in a Zimbabwean drum operation. During the third quarter of 2008, the Company sold a North American paper packaging facility. The net gain from these divestitures was $31.6 million and is included in gain on disposal of properties, plants, and equipment, net in the accompanying consolidated statement of income. The sales in 2007 from these operations were $77.2 million and the 2007 net income from these operations was $2.9 million. Had these sales occurred at the beginning of the prior fiscal year, the October 31, 2007 earnings per share of Class A and Class B common stock would have been $2.64 and $3.96, respectively. The October 31, 2007 earnings per share as reported for Class A and Class B common stock were $2.69 and $4.04, respectively.

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. There was no share-based compensation expense recognized under SFAS No. 123(R) for the third quarter of 2008 and 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 includes compensation expense for share-based awards granted prior to, but not yet vested as of November 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123. No options have been granted in 2008 and 2007. 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.

Equity Earnings and Minority Interests

Equity earnings represent investments in affiliates in which the Company does not exercise control and has a 20 percent or more voting interest. Such investments in affiliates are accounted for using the equity method of accounting. If the fair value of an investment in an affiliate is below its carrying value and the difference is deemed to be other than temporary, the difference between the fair value and the carrying value is charged to earnings. The Company has an equity interest in five affiliates, and the equity earnings of these interests were recorded in net income. Equity earnings for the third quarter of 2008 and 2007 were $0.5 million and $0, respectively. Equity earnings for the nine months ended July 31, 2008 and 2007 were $1.6 million and $0, respectively.

The Company records minority interest expense which reflects the portion of the earnings of majority-owned operations which are applicable to the minority interest partners. The Company has majority holdings in various companies, and the minority interests of other persons in the respective net income of these companies were recorded as an expense. Minority interest expense for the first nine months of 2008 and 2007 was

$1.9 million and $0.5 million, respectively. Minority interest expense for the nine months ended July 31, 2008 and 2007 was $3.8 million and $1.0 million, respectively.

NOTE 2 RECENT ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (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. The Company will be required to adopt SFAS No. 157 on November 1, 2009 (2010 for the Company). The provisions of SFAS No. 157 should be applied prospectively to the beginning of the fiscal year in which SFAS No. 157 is initially applied, except with respect to certain financial instruments as defined by SFAS No. 157. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

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 consolidated financial statements for the fiscal year beginning on November 1, 2008 (2009 for the Company), with earlier adoption permitted. The Company s adoption of SFAS No. 159 is not expected to have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. The Company will be required to adopt SFAS Nos. 141(R) and 160 on November 1, 2009 (2010 for the Company). The Company is currently evaluating the impact, if any, that the adoption of SFAS Nos.141(R) and 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No.161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. The objective of SFAS No.161 is to enhance the current disclosure framework in Statement 133 and improve the transparency of financial reporting for derivative instruments and hedging activities. SFAS No.161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No.161 is effective for the Company s financial statements for the fiscal year beginning November 1, 2010 (2011 for the Company). The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 161 will have on its consolidated financial statements.

NOTE 3 SALE OF NON-UNITED STATES 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 the 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 non-United States accounts receivable sales program was increased from 90.0 million to 100.0 million; (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. On November 15, 2007, the RPA and Italian RPA was amended to increase the maximum amount of the aggregate receivables that may be sold under the Company s non-United States accounts receivable from 100.0 million to 115.0 million ($179.3 million at July 31, 2008).

In October 2007, Greif Singapore Pte. Ltd., an indirect wholly-owned subsidiary of Greif Inc., entered into the Singapore Receivable Purchase Agreement (the Singapore RPA) with a major international bank. The maximum amount of the aggregate receivables that originally was to be sold under the Singapore RPA was 10.0 million Singapore Dollars. On January 23, 2008, the Singapore RPA was amended to increase the maximum amount of the aggregate receivables that may be sold from 10.0 million Singapore Dollars to 15.0 million Singapore Dollars ($11.0 million at July 31, 2008).

The structure of these transactions provides for a legal true sale, on a revolving basis, of the receivables transferred from the various Greif, Inc. subsidiaries to the respective major international bank. The bank funds an initial purchase price of a certain percentage of eligible receivables based on a formula with the initial purchase price approximating 75 percent to 90 percent of eligible receivables. 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 the banks between settlement dates. At July 31, 2008, and 2007, 108.3 million ($168.9 million) and 100.4 million ($137.7 million), respectively, of accounts receivable were sold under the RPA and Italian RPA. At July 31, 2008, 6.7 million Singapore Dollars ($4.9 million) of accounts receivable were sold under the Singapore 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 1.3 million ($2.0 million) and 1.1 million ($1.4 million) for the three months ended July 31, 2008 and 2007, respectively. Expenses, primarily related to the loss on sale of receivables, associated with the RPA and Italian RPA totaled 3.4 million ($5.4 million) and 2.6 million ($3.4 million) for the nine months ended July 31, 2008 and 2007, respectively. Expenses associated with the Singapore RPA were not material to the consolidated financial statements for the three months ended July 31, 2008 and 0.2 million Singapore Dollars ($0.1 million) for the nine months ended July 31, 2008. 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, Italian RPA and Singapore 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, 2008	October 31, 2007
Finished goods	$ 85,756	$ 75,428
Raw materials and work-in-process	296,295	202,392
	382,051	277,820
Reduction to state inventories on last-in, first-out basis	(40,808)	(34,826)
	$ 341,243	$ 242,994

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, 2008, there were ten 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 facility sales within the upcoming year.

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS

The Company annually 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 there are no impairment indicators at this time.

Changes to the carrying amount of goodwill by segment for the nine-month period ended July 31, 2008 are as follows (Dollars in thousands):

	Industrial Packaging	Paper Packaging	Total
Balance at October 31, 2007	$ 468,132	$ 25,120	$ 493,252
Goodwill acquired	41,193	13,823	55,016

Goodwill disposals	(6,890)	(259)	(7,149)
Goodwill adjustments	9,329		9,329
Currency translation	13,327		13,327
Balance at July 31, 2008	$ 525,091	$ 38,684	$ 563,775

The goodwill acquired of $55.0 million is preliminary, $41.2 million relates to acquisition of industrial packaging companies in North and South America, the Middle East and Southeast Asia, and $13.8 relates to acquisition of a paper packaging company in North America. The goodwill disposals of $7.1 million primarily represents the divestiture of the Australian drum operations, and the goodwill adjustments represent a net increase in goodwill of $9.3 million primarily related to purchase price adjustments on 2007 acquisitions.

All other intangible assets for the periods presented, except for $8.9 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 five to 20 years. The detail of other intangible assets by class as of July 31, 2008 and October 31, 2007 are as follows (Dollars in thousands):

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
July 31, 2008:			
Trademark and patents	$ 31,687	$ 12,636	$ 19,051
Non-compete agreements	17,673	3,400	14,273
Customer relationships	72,481	10,340	62,141
Other	10,688	4,316	6,372
Total	$ 132,529	$ 30,692	$ 101,837
October 31, 2007:			
Trademark and patents	$ 31,983	$ 10,922	$ 21,061
Non-compete agreements	19,708	5,328	14,380
Customer relationships	61,145	6,470	54,675
Other	10,032	3,892	6,140
Total	$ 122,868	$ 26,612	$ 96,256

During the first nine months of 2008, gross intangible assets increased by $9.7 million. The increase in gross intangible assets is based on preliminary purchase price allocations related to the acquisition of industrial packaging companies in Europe, Asia, Middle East and North America, as well as a paper packaging company in North America. Amortization expense for the nine months ended July 31, 2008 and 2007 was $7.0 million and $6.2 million, respectively. Amortization expense for the next five years is expected to be $10.9 million in 2009, $10.5 million in 2010, $9.5 million in 2011, $9.4 million in 2012 and $8.8 million in 2013.

NOTE 7 RESTRUCTURING CHARGES

The focus for restructuring activities in 2008 is on integration of recent acquisitions in the Industrial Packaging (formerly known as Industrial Packaging & Services) segment and on alignment to market focused strategy and implementation of the Greif Business System in the Paper Packaging (formerly known as Paper, Packaging & Services) segment. During the first nine months of 2008, the Company recorded restructuring charges of $24.4 million, consisting of $9.3 million in employee separation costs, $9.4 million in asset impairments, $0.5 million in professional fees and $5.2 million in other costs. Three company-owned plants in the Industrial Packaging segment were closed and one in the Paper Packaging segment had expenses primarily related to market consolidation. The remaining restructuring charges for the above activities are anticipated to be $5.3 million for the remainder of 2008.

In 2007, the focus for restructuring activities was on integration of acquisitions in the Industrial Packaging segment and on alignment to market-focused strategy in the Paper Packaging 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.

For each relevant business segment, costs incurred in 2008 are as follows (Dollars in thousands):

	Three months ended July 31, 2008	Nine months ended July 31, 2008	Total Amounts Expected to be incurred
Industrial Packaging			
Employee separation costs	$ 3,016	$ 8,052	$ 11,500
Asset impairments (reclassifications)	(741)	9,395	9,500
Professional fees		446	750
Other restructuring costs	2,461	3,100	3,870
	4,736	20,993	25,620
Paper Packaging			
Employee separation costs	1,222	1,222	1,500
Asset impairments			360
Professional fees			40
Other restructuring costs	600	2,088	2,110
	1,822	3,310	4,010
Timber - Employee separation costs		67	70
	$ 6,558	$ 24,370	$ 29,700

The following is a reconciliation of the beginning and ending restructuring reserve balances for the nine month period ended July 31, 2008 (Dollars in thousands):

	Cash Charges		Non-cash Charges	
	Employee Separation Costs	Other Costs	Asset Impairments	Total
Balance at October 31, 2007	$ 12,296	$ 3,480	$	$ 15,776
Costs incurred and charged to expense	9,341	5,634	9,395	24,370
Reserves established in the purchase price of business combinations	1,109	323		1,432
Costs paid or otherwise settled	(14,315)	(7,835)	(9,395)	(31,545)
Balance at July 31, 2008	$ 8,431	$ 1,602	$	$ 10,033

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 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, 2008 and October 31, 2007 consist of restricted bank financial instruments of $50.9 million. STA Timber had long-term debt of $43.3 million as of July 31, 2008 and October 31, 2007. 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, 2008 and 2007 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, 2008	**October 31, 2007**
Credit agreements	$ 285,267	$ 173,131
Senior notes	300,000	300,000
Trade accounts receivable credit facility	117,213	116,024
Other long-term debt	5,734	33,530
	$ 708,214	$ 622,685

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, 2008 and October 31, 2007, $285.3 million and $173.1 million were outstanding under the Credit Agreement, respectively. The weighted average interest rate on the Credit Agreement was 4.12 percent for the nine months ended July 31, 2008, and the interest rate was 3.27 percent at July 31, 2008 and 5.50 percent at October 31, 2007.

The Credit Agreement contains financial covenants that require the Company to maintain a certain leverage ratio and a minimum coverage of interest expense. At July 31, 2008, 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 previously outstanding 8 7/8 percent Senior Subordinated Notes in a tender offer and for general corporate purposes.

The fair value of the Senior Notes was $285.0 million at July 31, 2008 based on quoted market prices. The Indenture pursuant to which the Senior Notes were issued contains certain covenants. At July 31, 2008, the Company was in compliance with these covenants.

United States 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. On October 24, 2007, the trade accounts receivable credit facility was amended to extend the maturity date to October 20, 2010. 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 (3.16 percent interest rate at July 31, 2008 and 5.38 percent at October 31, 2007). The Company can terminate this facility at any time upon 60 days prior written notice. In connection with this transaction, the Company established Greif Receivables 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 $117.2 million and $116.0 million outstanding under the United States trade accounts receivable credit facility at July 31, 2008 and October 31, 2007, respectively.

The United States 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 Notes and the United States trade accounts receivable credit facility, the Company had outstanding debt of $65.3 million, comprised of $5.7 million in long-term debt and $59.6 million in short-term borrowings, at July 31, 2008 and outstanding debt of $49.3 million, comprised of $33.5 million in long-term debt and $15.8 million in short-term borrowings, at October 31, 2007.

Annual maturities of the Company s long-term debt are $5.7 million in 2009, $402.4 million in 2010 and $300.1 million after 2013.

At July 31, 2008 and October 31, 2007, the Company had deferred financing fees and debt issuance costs of $5.0 million and $6.2 million, respectively, which are included in other long-term assets.

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, 2008 and October 31, 2007 approximate their fair values because of the short-term nature of these items.

The estimated fair value of the Company s long-term debt was $693.2 million and $620.4 million as compared to the carrying amounts of $708.2 million and $622.7 million at July 31, 2008 and October 31, 2007, 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 $230.0 million at July 31, 2008 and October 31, 2007, 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 LIBOR and pays interest at a fixed rate (5.05 percent at July 31, 2008) over the life of the contracts.

The Company has entered into new cross-currency interest rate swaps which are designated as a hedge of a net investment in a foreign operation. 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. The other comprehensive loss on these agreements of $35.1 million, representing their fair values, was recorded in other long-term liabilities at July 31, 2008.

At July 31, 2008, the Company had outstanding foreign currency forward contracts in the notional amount of $109.1 million ($82.5 million at October 31, 2007). 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, 2008 resulted in a gain of $0.6 million recorded in other comprehensive income and a loss of $0.4 million recorded in the consolidated statements of income for 2008. The fair value of similar contracts at October 31, 2007 resulted in a gain of $1.1 million recorded in other comprehensive income and a loss of $0.4 million recorded in the consolidated statements of income for 2007.

The Company has entered into certain cash flow hedges to mitigate its exposure to cost fluctuations in natural gas prices through October 31, 2009. The fair value of the energy hedges was in an unfavorable position of $2.6 million ($1.7 million net of tax) at July 31, 2008, compared to an unfavorable position of $0.3 million ($0.2 million net of tax) at October 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, 2008.

The Company has entered into certain cash flow hedges to mitigate its exposure to cost fluctuations in old corrugated containers (OCC) prices through July 31, 2009. The fair value of these hedges was not significant at July 31, 2008. 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, 2008.

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 of approximately $1.4 million after tax at the time the underlying hedge transactions are realized.

NOTE 11 CONTINGENT LIABILITIES

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company, including those pertaining to environmental, product liability and safety and health matters. While the amounts claimed in these matters may be substantial, the ultimate liability to the Company may not be currently determinable because of considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particularly period could be materially affected by certain contingencies.

All lawsuits, claims and proceedings are considered by the Company in establishing reserves for contingencies in accordance with SFAS No. 5, Accounting for Contingencies. In accordance with the provisions of SFAS No. 5, the Company accrues for a litigation-related liability when it is probable that a liability has been incurred and the amount of the loss is reasonably estimated. Based on currently available information known to the Company, the Company believes that its reserves for these litigation-related liabilities are reasonable and that the ultimate outcome of any pending matters is not likely to have a material adverse effect on the Company s financial position or results from operations.

NOTE 12 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 (1/2) 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 one-half (1 1/2) 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.

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, 2008:				
Class A Common Stock	128,000,000	42,281,920	24,006,629	18,275,291
Class B Common Stock	69,120,000	34,560,000	22,662,266	11,897,734
October 31, 2007:				
Class A Common Stock	128,000,000	42,281,920	23,754,753	18,527,167
Class B Common Stock	69,120,000	34,560,000	22,943,666	11,616,334

All share information in the above table has been adjusted to reflect the following: On February 26, 2007, the Company s shareholders approved an amendment to the Company s certificate of incorporation increasing 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 payable 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 share information, including the number of shares and per share amounts, included in the Consolidated Financial Statements has been adjusted to reflect the aforementioned 2-for-1 stock split.

NOTE 13 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 the nine months ended 2008 or in 2007.

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