GREIF INC
Form 10-Q/A
June 09, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended April 30, 2015

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated ¨
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 as of the close of business on June 5, 2015:

Class A Common Stock	25,703,564 shares
Class B Common Stock	22,119,966 shares

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EXPLANATORY NOTE

This Quarterly Report on Form 10-Q/A, Amendment No. 1 (this Amendment), amends the Quarterly Report on Form 10-Q of Greif, Inc. (the Company) for the quarterly period ended April 30, 2015, that was originally filed yesterday on June 8, 2015 (the Original Form 10-Q). This Amendment is being filed solely to revise two paragraphs contained in Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations, of the Original Form 10-Q at page 31 and page 39 (see page 10 and page 18 of this Amendment). This Amendment corrects clerical errors that are immaterial and that relate to the description of changes in operating profit for the geographic regions within the Company s Rigid Industrial Packaging & Services segment for the three months and six months ended April 30, 2015 compared to the prior year periods.

No other changes have been made to the Original Form 10-Q by this Amendment. This Amendment speaks as of the original filing date of the Original Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the Original Form 10-Q, except to reflect the amendment described above.

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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. O 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 2015 or 2014, or to any quarter of those years, relates to the fiscal year or quarter, as the case may be, ended in that year.

The discussion and analysis presented below relates to the material changes in financial condition and results of operations for our condensed consolidated balance sheets as of April 30, 2015 and October 31, 2014, and for the condensed consolidated statements of income for the three and six months ended April 30, 2015 and 2014. This discussion and analysis should be read in conjunction with the condensed 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, 2014 (the 2014 Form 10-K). Readers are encouraged to review the entire 2014 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, trends and plans and objectives of management for future operations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, project, believe, continue, on track or target or t variations thereon or similar terminology. All forward-looking statements made in this Form 10-Q are based on assumptions, expectations and other information currently available to 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 our actual results to differ materially from those forecasted, projected or anticipated, whether expressed in or implied by the statements. Such risks and uncertainties that might cause a difference include, but are not limited to, the following: (i) historically, our business has been sensitive to changes in general economic or business conditions, (ii) our operations subject us to currency exchange and political risks that could adversely affect our results of operations, (iii) the current and future challenging global economy and disruption and volatility of the financial and credit markets may adversely affect our business, (iv) the continuing consolidation of our customer base and suppliers may intensify pricing pressure, (v) we operate in highly competitive industries, (vi) our business is sensitive to changes

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in industry demands, (vii) raw material and energy price fluctuations and shortages may adversely impact our manufacturing operations and costs, (viii) we may encounter difficulties arising from acquisitions, (ix) we may incur additional restructuring costs and there is no guarantee that our efforts to reduce costs will be successful, (x) tax legislation initiatives or challenges to our tax positions may adversely impact our results or condition, (xi) full realization of our deferred tax assets may be affected by a number of factors, (xii) several operations are conducted by joint ventures that we cannot operate solely for our benefit, (xiii) our ability to attract, develop and retain talented and qualified employees, managers and executives is critical to our success, (xiv) our business may be adversely impacted by work stoppages and other labor relations matters, (xv) we may be subject to losses that might not be covered in whole or in part by existing insurance reserves or insurance coverage, (xvi) our business depends on the uninterrupted operations of our facilities, systems and business functions, including our information technology and other business systems, (xvii) a security breach of customer, employee, supplier or company information may have a material adverse effect on our business, financial condition and results of operations, (xviii) legislation/regulation related to environmental and health and safety matters and corporate social responsibility could negatively impact our operations and financial performance, (xix) product liability claims and other legal proceedings could adversely affect our operations and financial performance, (xx) we may incur fines or penalties, damage to our reputation or other adverse consequences if our employees, agents or business partners violate, or are alleged to have violated, anti-bribery, competition or other laws, (xxi) changing climate, climate change regulations and greenhouse gas effects may adversely affect our operations and financial performance, (xxii) the frequency and volume of our timber and timberland sales will impact our financial performance, (xxiii) changes in U.S. generally accepted accounting principles and SEC rules and regulations could materially impact our reported results, (xxiv) if the company fails to maintain an effective system of internal control, the company may not be able to accurately report financial results or prevent fraud, and (xxv) the company has a significant amount of goodwill, and if impaired in the future, would adversely impact our results of operations. Changes in business results may impact our book tax rates. The risks described above are not all-inclusive, and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. For a more detailed discussion of the most significant risks and uncertainties that could cause our actual results to differ materially from those forecasted, projected or anticipated, see Risk Factors in Part I, Item 1A of our 2014 Form 10-K and our other filings with the Securities and Exchange Commission. 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, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

Business Segments

We operate in four business segments: Rigid Industrial Packaging & Services; Paper Packaging; Flexible Products & Services; and Land Management.

We are a leading global producer of rigid industrial packaging products, such as steel, fibre and plastic drums, rigid intermediate bulk containers, closure systems for industrial packaging products, transit protection products, water bottles and remanufactured and reconditioned industrial containers, and services, such as container life cycle management, blending, filling, logistics, warehousing and other packaging services. We sell our industrial packaging products and services to customers in industries such as chemicals, paints and pigments, food and beverage, petroleum, industrial coatings, agricultural, pharmaceutical and mineral, among others.

We produce and sell containerboard, corrugated sheets, corrugated containers and other corrugated products 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.

We are a leading global producer of flexible intermediate bulk containers and related services. Our flexible intermediate bulk containers consist of a polypropylene-based woven fabric that is produced at our production sites, as well as sourced from strategic regional suppliers. Our flexible products are sold globally and service similar customers and market segments as our Rigid Industrial Packaging & Services segment. Additionally, our flexible products significantly expand our presence in the agricultural and food industries, among others.

As of April 30, 2015, we owned approximately 237,650 acres of timber properties in the southeastern United States and approximately 5,203 acres of timber properties in Canada. Our Land Management team is focused on the active harvesting and regeneration of our United States timber properties to achieve sustainable long-term yields. While timber sales are subject to fluctuations, we seek to maintain a consistent cutting schedule, within the limits of market and weather conditions. We also sell, from time to time, timberland and special use properties, which consist of surplus properties, higher and better use (HBU) properties, and development properties.

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CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these condensed 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 as of the date of our condensed consolidated financial statements.

Our significant accounting policies are discussed in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of the 2014 Form 10-K. We believe that the consistent application of these policies enables us to provide readers of the condensed consolidated financial statements with useful and reliable information about our results of operations and financial condition.

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 2014 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 and six month periods ended April 30, 2015 and 2014. Historical revenues and earnings may or may not be representative of future operating results attributable to various economic and other factors.

The non-GAAP financial measure of EBITDA is used throughout the following discussion of our results of operations. EBITDA is defined as net income, plus interest expense, net, plus income tax expense, less equity earnings of unconsolidated affiliates, net of tax, plus depreciation, depletion and amortization. Since we do not calculate net income by segment, EBITDA by segment is reconciled to operating profit by segment. We use EBITDA as one of the financial measures to evaluate our historical and ongoing operations.

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Second Quarter Results

The following table sets forth the net sales, operating profit (loss) and EBITDA* for each of our business segments for the three month periods ended April 30, 2015 and 2014 (Dollars in millions):

	Three months ended April 30, 2015	Three months ended April 30, 2014
Net sales:		
Rigid Industrial Packaging & Services	$ 666.6	$ 784.3
Paper Packaging	160.4	169.8
Flexible Products & Services	82.0	105.3
Land Management	6.9	6.1
Total net sales	$ 915.9	$ 1,065.5
Operating profit (loss):		
Rigid Industrial Packaging & Services	$ 25.8	$ 51.2
Paper Packaging	27.1	26.5
Flexible Products & Services	(5.3)	(10.3)
Land Management	3.5	11.7
Total operating profit	$ 51.1	$ 79.1
EBITDA*:		
Rigid Industrial Packaging & Services	$ 48.0	$ 77.6
Paper Packaging	34.4	33.8
Flexible Products & Services	(3.7)	(7.6)
Land Management	4.6	12.5
Total EBITDA	$ 83.3	$ 116.3

* EBITDA is defined as net income, plus interest expense, net, plus income tax expense, less equity earnings of unconsolidated affiliates, net of tax, plus depreciation, depletion and amortization.

The following table sets forth EBITDA*, reconciled to net income and operating profit, for our consolidated results for the three month periods ended April 30, 2015 and 2014 (Dollars in millions):

For the three months ended April 30,	**2015**	**2014**
Net income	$ 20.5	$ 37.1
Plus: interest expense, net	18.2	20.4

Plus: income tax expense	9.6	19.5
Plus: depreciation, depletion and amortization expense	34.7	39.4
Less: equity earnings of unconsolidated affiliates, net of tax	(0.3)	0.1
EBITDA*	$ 83.3	$ 116.3
Net income	$ 20.5	$ 37.1
Plus: interest expense, net	18.2	20.4
Plus: income tax expense	9.6	19.5
Plus: other expense, net	2.5	2.2
Less: equity earnings of unconsolidated affiliates, net of tax	(0.3)	0.1
Operating profit	51.1	79.1
Less: other expense, net	2.5	2.2
Plus: depreciation, depletion and amortization expense	34.7	39.4
EBITDA*	$ 83.3	$ 116.3

* EBITDA is defined as net income, plus interest expense, net, plus income tax expense, less equity earnings of unconsolidated affiliates, net of tax, plus depreciation, depletion and amortization.

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The following table sets forth EBITDA* for our business segments, reconciled to the operating profit (loss) for each segment, for the three month periods ended April 30, 2015 and 2014 (Dollars in millions):

For the three months ended April 30,	2015	2014
Rigid Industrial Packaging & Services		
Operating profit	$ 25.8	$ 51.2
Less: other (income) expense, net	2.0	0.4
Plus: depreciation and amortization expense	24.2	26.8
EBITDA*	48.0	77.6
Paper Packaging		
Operating profit	$ 27.1	$ 26.5
Less: other (income) expense, net		0.8
Plus: depreciation and amortization expense	7.3	8.1
EBITDA*	34.4	33.8
Flexible Products & Services		
Operating profit (loss)	$ (5.3)	$ (10.3)
Less: other expense, net	0.5	1.0
Plus: depreciation and amortization expense	2.1	3.7
EBITDA*	(3.7)	(7.6)
Land Management		
Operating profit	$ 3.5	$ 11.7
Plus: depreciation, depletion and amortization expense	1.1	0.8
EBITDA*	$ 4.6	$ 12.5
Consolidated EBITDA	$ 83.3	$ 116.3

* EBITDA is defined as net income, plus interest expense, net, plus income tax expense, less equity earnings of unconsolidated affiliates, net of tax, plus depreciation, depletion and amortization. However, because we do not calculate net income by segment, this table calculates EBITDA as operating profit, less other expense, plus depreciation, depletion and amortization as shown in the tables preceding this one.

Net Sales

Net sales were $915.9 million for the second quarter of 2015 compared with $1,065.5 million for the second quarter of 2014. The 14.0 percent decrease in net sales was primarily due to the negative impact of foreign currency translation of 9.2 percent, a decrease in volumes of 1.7 percent primarily attributable to divestitures completed during 2014, and a decrease in selling prices of 3.2 percent. Compared to the second quarter of 2014, overall volumes were flat after eliminating the impact of divestitures. Volumes in the Rigid Industrial Packaging & Services segment increased 4.8 percent in Europe, but decreased 7.5 percent in Latin America and 2.2 percent in North America. Volumes decreased 12.9 percent within the Flexible Products & Services segment primarily due to the previously reported sale of our multiwall packaging business in August 2014.

Gross Profit

Gross profit was $181.1 million for the second quarter of 2015 compared with $204.3 million for the second quarter of 2014. Gross profit declined in each of our Rigid Industrial Packaging & Services, Paper Packaging and Flexible Products & Services segments. The respective reasons for the decline in each segment are described below in the Segment Review. Gross profit margin was 19.8 percent for the second quarter of 2015 compared to 19.2 percent for the second quarter of 2014.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased 18.2 percent to $108.5 million for the second quarter of 2015 from $132.7 million for the second quarter of 2014. This decrease was primarily due to divestitures of $5.3 million, the impact of foreign currency translation of $10.6 million, and the impact of our SG&A reduction efforts implemented throughout the first half of 2015. SG&A expenses were 11.9 percent of net sales for the second quarter of 2015 compared with 12.5 percent of net sales for the second quarter of 2014.

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Restructuring Charges

Restructuring charges were $7.3 million for the second quarter of 2015 compared with $3.9 million for the second quarter of 2014. Charges in the second quarter of 2015 were primarily related to employee separation costs and professional fees incurred for services specifically associated with employee separation.

Gains on Sales of Timberland

The gain on timberland sales was immaterial and $8.7 million for the second quarter of 2015 and 2014, respectively, due to the sale of approximately 15,700 acres during the second quarter of 2014.

Gain on Disposal of Properties, Plants and Equipment, net

The gain on disposal of properties, plants, and equipment, net was $0.7 million and $1.5 million for the second quarter 2015 and 2014, respectively. See Note 5 to the condensed consolidated financial statements for additional information on the gain reported for the second quarter of 2015.

Gain (loss) on Disposal of Businesses

The gain (loss) on disposal of businesses was ($10.4) million and $1.2 million for the second quarter 2015 and 2014, respectively. We completed four divestitures during the second quarter of 2014. The change was primarily due to a loss recorded as a result of a strategic divestment of a non-core business in North America during the first half of 2015.

Operating Profit

Operating profit was $51.1 million for the second quarter of 2015 compared with $79.1 million for the second quarter of 2014. The $28.0 million decrease consisted of a $5.0 million increase in the Flexible Products & Services segment and a $0.6 million increase in the Paper Packaging segment, offset by a $25.4 million decrease in the Rigid Industrial Packaging & Services segment and an $8.2 million decrease in the Land Management segment. Factors that contributed to the $28.0 million decrease, when compared to the second quarter of 2014, were lower gross profit of $23.2 million, primarily due to foreign exchange translation and pricing pressures, higher restructuring charges of $3.4 million, lower gains on disposal of businesses of $11.6 million, and lower gains on timberland sales of $8.7 million, which were partially offset by lower SG&A expenses of $24.2 million.

EBITDA

EBITDA was $83.3 million for the second quarter of 2015 compared with $116.3 million for the second quarter of 2014. The $33.0 million decrease was primarily due to the same factors that impacted operating profit, as described above. Depreciation, depletion and amortization expense was $34.7 million for the second quarter of 2015 compared with $39.4 million for the second quarter of 2014. The decrease in depreciation, depletion and amortization expense was primarily due to foreign currency translation and the impact of divestitures.

Segment Review

Rigid Industrial Packaging & Services

Our Rigid Industrial Packaging & Services segment offers a comprehensive line of rigid industrial packaging products, such as steel, fibre and plastic drums, rigid intermediate bulk containers, closure systems for industrial packaging products, water bottles and remanufactured and reconditioned industrial containers, and services, such as container life cycle management, blending, filling, logistics, warehousing and other packaging services. Key factors influencing profitability in the Rigid Industrial Packaging & Services segment are:

- Selling prices, customer demand and sales volumes;
- Raw material costs, primarily steel, resin and containerboard and used industrial packaging for reconditioning;
- Energy and transportation costs;
- Benefits from executing the Greif Business System;

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Restructuring charges;

Divestiture of businesses and facilities; and

Impact of foreign currency translation.

Net sales decreased 15.0 percent to $666.6 million for the second quarter of 2015 compared with $784.3 million for the second quarter of 2014. The decrease in net sales was primarily due to the negative impact of foreign currency translation of 10.4 percent. Overall volumes in the Rigid Industrial Packaging & Services segment were flat with increases of 4.8 percent in Europe and decreases of 7.5 percent in Latin America and 2.2 percent in North America.

Gross profit was $125.8 million for the second quarter of 2015 compared with $144.1 million for the second quarter of 2014. The $18.3 million decrease in gross profit was primarily due to the negative impact of foreign currency translation of $16.3 million, divestitures and facility closings, decrease in steel and plastic prices in North America and pricing pressure due to significant competition in Europe and Asia. Gross profit margins decreased 5.4 percent from 18.4 percent to 17.4 percent in North America and increased 41 percent from 11.7 percent to 16.5 percent in Latin America for the three months ended April 30, 2014 and 2015, respectively, and were basically flat in Asia and Europe.

Operating profit was $25.8 million for the second quarter of 2015 compared with $51.2 million for the second quarter of 2014. The $25.4 million decrease was primarily attributable to the approximately $8.0 million negative impact of foreign currency translation, higher restructuring and non-cash asset impairment charges of $10.4 million, and an increase in the loss on the sale of businesses, net of approximately $9 million. On a geographic basis, for the second quarter of 2015, operating profit decreased $31.7 million in North America and $5.2 million in Europe and increased $2.8 million in Latin America and $9.0 million in Asia. The decrease in North America included an increase in loss on sales of property, plant and equipment and businesses, net of $19.6 million, an increase in non-cash asset impairment charges of $4.7 million and an increase in restructuring charges of $2.8 million. Excluding the impact of the increases in the above-noted items, operating profit in North America decreased $4.6 million for the second quarter of 2015 compared to the second quarter of 2014. The decrease in Europe was primarily due to the impact of foreign currency translation. The improvement in Latin America was primarily due to improvements in gross profit margin discussed above, partially offset by an increase in restructuring expense of $1.1 million and an increase in loss on sales of $0.8 million from the first half of 2014 to the first half of 2015 and the negative impact of foreign currency translation. The improvement in Asia was primarily the result of gains on disposal of businesses.

EBITDA was $48.0 million for the second quarter of 2015 compared with $77.6 million for the second quarter of 2014. The $29.6 million decrease was due to the same factors that impacted the segment s operating profit, as described above. Depreciation, depletion and amortization expense was $24.2 million for the second quarter of 2015 compared with $26.8 million for the second quarter of 2014, due to the impact of divestitures and previous non-cash impairment charges.

Paper Packaging

Our Paper Packaging segment produces and sells containerboard, corrugated sheets, corrugated containers and other corrugated products in North America. Key factors influencing profitability in the Paper Packaging segment are:

Selling prices, customer demand and sales volumes;

Raw material costs, primarily old corrugated containers;

Energy and transportation costs; and

Benefits from executing the Greif Business System.

Net sales decreased 5.5 percent to $160.4 million for the second quarter of 2015 compared with $169.8 million for the second quarter of 2014. This decrease was attributable to lower prices for containerboard produced by our mills and slightly lower volumes in our corrugated sheet business.

Gross profit was $41.2 million for the second quarter of 2015 compared with $43.1 million for the second quarter of 2014. This decrease was due to the same factors that impacted the segment s sales, as described above. Gross profit margin was 25.7 percent and 25.4 percent for the second quarter of 2015 and 2014, respectively.

Operating profit was $27.1 million for the second quarter of 2015 compared with $26.5 million for the second quarter of 2014. The increase was primarily due to lower freight, maintenance and utility costs, partially offset by the same factors impacting net sales, as described above.

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EBITDA was $34.4 million for the second quarter of 2015 compared with $33.8 million for the second quarter of 2014. This increase was due to the same factors that impacted the segment s operating profit, as described above. Depreciation, depletion and amortization expense was $7.3 million and $8.1 million for the second quarters of 2015 and 2014, respectively.

Flexible Products & Services

Our Flexible Products & Services segment offers a comprehensive line of flexible products, such as flexible intermediate bulk containers. Key factors influencing profitability in the Flexible Products & Services segment are:

- Selling prices, customer demand and sales volumes;
- Raw material costs, primarily resin;
- Energy and transportation costs;
- Benefits from executing the Greif Business System;
- Restructuring charges;
- Divestiture of businesses and facilities; and
- Impact of foreign currency translation.

Net sales decreased 22.1 percent to $82.0 million for the second quarter of 2015 compared with $105.3 million for the second quarter of 2014. This decrease was attributable to volume decreases of 12.9 percent primarily due to reduced sales of $10 million as a result of the sale of our multiwall packaging business in 2014, and the negative impact of foreign currency translation of 15.2 percent for the second quarter of 2015 compared with the second quarter of 2014, partially offset by an increase in selling prices.

Gross profit was $10.8 million for the second quarter of 2015 compared with $14.8 million for the second quarter of 2014, a decrease of 27 percent. This decrease was due to the same factors impacting net sales, as described above, as well as costs incurred to hire an in-house labor force at our Hadimkoy facility. Gross profit margin decreased to 13.2 percent for the second quarter of 2015 from 14.1 percent for the second quarter of 2014.

Operating loss was $5.3 million for the second quarter of 2015 compared with an operating loss of $10.3 million for the second quarter of 2014. This decrease in operating loss was due to a decrease in restructuring charges of $2.7 million for the second quarter of 2015 compared with the second quarter of 2014 and lower personnel, security and alternative supply costs compared to the prior period, as the prior period included these costs associated with the occupation of our Hadimkoy facility during the second quarter of 2014.

EBITDA was negative $3.7 million for the second quarter of 2015 compared with negative $7.6 million for the second quarter of 2014. This improvement was due to the same factors that impacted the segment s operating loss, as described above. Depreciation, depletion and amortization expense was $2.1 million for the second quarter of 2015 compared with $3.7 million for the second quarter of 2014.

Land Management

As of April 30, 2015, our Land Management segment consisted of approximately 237,650 acres of timber properties in the southeastern United States, which are actively managed, and approximately 5,203 acres in Canada. Key factors influencing profitability in the Land Management segment are:

- Planned level of timber sales;
- Selling prices and customer demand;
- Gains on timberland sales; and
- Gains on the disposal of development, surplus and HBU properties (special use property).

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In order to maximize the value of our timber property, we continue to review our current portfolio and explore the development of certain of these properties in Canada and the United States. This process has led us to characterize our property as follows:

- Surplus property, meaning land that cannot be efficiently or effectively managed by us, whether due to parcel size, lack of productivity, location, access limitations or for other reasons.

- HBU property, meaning land that in its current state has a higher market value for uses other than growing and selling timber.

- Development property, meaning HBU land that, with additional investment, may have a significantly higher market value than its HBU market value.

- Core Timberland, meaning land that is best suited for growing and selling timber.

We report the disposal of surplus and HBU property in our condensed consolidated statements of income under gain on disposals of properties, plants, equipment and businesses, net and report the sale of development property under net sales and cost of products sold. All HBU, development and surplus property is used by us to productively grow and sell timber until sold. Timberland gains are recorded as gains on disposals of properties, plant, and equipment, net.

Whether timberland has a higher value for uses other than growing and selling timber is a determination based upon several variables, such as proximity to population centers, anticipated population growth in the area, the topography of the land, aesthetic considerations, including access to water, the condition of the surrounding land, availability of utilities, markets for timber and economic considerations both nationally and locally. Given these considerations, the characterization of land is not a static process, but requires an ongoing review and re-characterization as circumstances change.

As of April 30, 2015, we had approximately 25,653 acres of special use property in Canada and the United States that we expect will be available for sale in the next five to seven years.

Net sales increased 13.1 percent to $6.9 million for the second quarter of 2015 compared with $6.1 million for the second quarter of 2014. This increase was due to higher timber sales as planned for the second quarter of 2015.

Operating profit decreased to $3.5 million for the second quarter of 2015 from $11.7 million for the second quarter of 2014. This decrease was primarily due to immaterial timberland gains in the second quarter of 2015 compared to $8.7 million of timberland gains in the second quarter of 2014. The second quarter of 2014 timberland gains resulted from the sale of timberland in the third phase of an approximately $90 million multi-phase sales contract. The last phase of sales under this contract closed in the first quarter of 2015. Operating profit included $0.9 million of special use property disposals in the second quarter of 2015 compared with $1.3 million in the second quarter of 2014.

EBITDA was $4.6 million and $12.5 million for the second quarters of 2015 and 2014, respectively. This decrease was due to the same factors that impacted the segment s operating profit, as described above. Depreciation, depletion and amortization expense was $1.1 million for the second quarter of 2015 compared with $0.8 million for the second quarter of 2014.

Other Income Statement Changes

Interest expense, net

Interest expense, net, was $18.2 million for the second quarter of 2015 compared with $20.4 million for the second quarter of 2014. This decrease was a result of lower average debt outstanding during the second quarter of 2015.

U.S. and Non-U.S. Income before Income Tax Expense

Income before income tax expense derived from non-U.S. operations as a percentage of consolidated income before income tax expense increased 69.4 percent from 34.5 percent to 103.9 percent for the three months April 30, 2014 and 2015, respectively. After eliminating the impact of timberland gains, restructuring charges, non-cash asset impairment charges and gains and losses on the sales

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of businesses, income before income tax expense derived from non-U.S. operations as a percentage of consolidated income before income tax expense increased 5.6 percent from 44.0 percent to 49.6 percent for the three months ended April 30, 2014 and 2015, respectively. Refer to the following tables for details of the U.S and non-U.S income before income taxes results for the periods presented.

Summary

	Three months ended April 30,	
	2015	**2014**
Non-U.S. % of Consolidated Net Sales	53.2%	55.6%
U.S. % of Consolidated Net Sales	46.8%	44.4%
	100.0%	100.0%
Non-U.S. % of Consolidated I.B.I.T.	103.9%	34.5%
U.S. % of Consolidated I.B.I.T.	-3.9%	65.5%
	100.0%	100.0%
Non-U.S. % of Consolidated I.B.I.T. before Special Items	49.6%	44.0%
U.S. % of Consolidated I.B.I.T. before Special Items	50.4%	56.0%
	100.0%	100.0%

Non-U.S. I.B.I.T. Reconciliation

	Three months ended April 30,	
	2015	**2014**
Non-U.S. I.B.I.T.	31.6	19.5
Non-cash asset impairment charges	(0.7)	
Restructuring charges	3.3	3.9
Gain on sale of businesses	(8.1)	(1.2)
Total Non-U.S. Special Items	(5.5)	2.7
Non-U.S. I.B.I.T. before Special Items	26.1	22.2

U.S. I.B.I.T. Reconciliation

	Three months ended April 30,	
	2015	2014
U.S. I.B.I.T.	(1.2)	37.0
Non-cash asset impairment charges	5.2	
Timberland gains		(8.7)
Restructuring charges	4.0	
Loss on sale of businesses	18.5	
Total U.S. Special Items	27.7	(8.7)
U.S. I.B.I.T. before Special Items	26.5	28.3

* Income Before Income Tax Expense = I.B.I.T.

Income tax expense

Our effective tax rate is impacted by both the total income before income tax expense and the respective mix of income before income tax expense between the U.S