GREIF INC
Form 10-Q
March 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2007

OR

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

For the transition period from ______ to ______

Commission File Number 001-00566

GREIF, INC.

(Exact name of registrant as specified in its charter)

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

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

Not Applicable

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

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

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

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

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

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

Class A Common Stock	11,825,550 shares
Class B Common Stock	11,515,533 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 January 31,	
	2007	**2006**
Net sales	$ 750,759	$ 582,316
Cost of products sold	620,673	492,644
Gross profit	130,086	89,672
Selling, general and administrative expenses	74,609	59,454
Restructuring charges	2,037	5,468
Gain on sale of timberland	62	31,569
Gain on disposal of properties, plants and equipment, net	5,139	1,642
Operating profit	58,641	57,961
Interest expense, net	12,034	9,173
Other income (loss), net	(736)	(393)
Income before income tax expense and equity in earnings of affiliates and minority interests	45,871	48,395
Income tax expense	11,559	14,954
Equity in earnings of affiliates and minority interests	(333)	(89)
Net income	$ 33,979	$ 33,352
Basic earnings per share:		
Class A Common Stock	$ 1.18	$ 1.16
Class B Common Stock	$ 1.75	$ 1.73
Diluted earnings per share:		
Class A Common Stock	$ 1.15	$ 1.13
Class B Common Stock	$ 1.75	$ 1.73

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS

	January 31, 2007 (Unaudited)	October 31, 2006
Current assets		
Cash and cash equivalents	$ 78,470	$ 187,101
Trade accounts receivable, less allowance of $10,102 in 2007 and $8,575 in 2006	360,394	315,661
Inventories	259,542	205,004
Net assets held for sale	14,479	15,814
Deferred tax assets	3,381	3,374
Prepaid expenses and other current assets	81,821	66,083
	798,087	793,037
Long-term assets		
Long-term notes receivable	37,907	626
Goodwill, net of amortization	355,342	286,552
Other intangible assets, net of amortization	148,367	63,587
Assets held by special purpose entities (Note 8)	50,891	50,891
Other long-term assets	86,852	52,359
	679,359	454,015
Properties, plants and equipment		
Timber properties, net of depletion	195,245	195,115
Land	126,764	81,768
Buildings	341,046	317,110
Machinery and equipment	992,626	930,924
Capital projects in progress	77,725	53,099
	1,733,406	1,578,016
Accumulated depreciation	(686,480)	(637,067)
	1,046,926	940,949
	$ 2,524,372	$ 2,188,001

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS EQUITY

	January 31, 2007 (Unaudited)	October 31, 2006
Current liabilities		
Accounts payable	$ 309,226	$ 301,753
Accrued payrolls and employee benefits	42,613	65,513
Restructuring reserves	6,377	8,391
Short-term borrowings	50,346	29,321
Other current liabilities	109,910	86,321
	518,472	491,299
Long-term liabilities		
Long-term debt	722,300	481,408
Deferred tax liability	210,421	179,329
Pension liability	17,507	18,639
Postretirement benefit liability	46,549	47,702
Liabilities held by special purpose entities (Note 8)	43,250	43,250
Other long-term liabilities	93,504	77,488
	1,133,531	847,816
Minority interest	4,828	4,875
Shareholders equity		
Common stock, without par value	67,159	56,765
Treasury stock, at cost	(80,991)	(81,643)
Retained earnings	924,930	901,267
Accumulated other comprehensive income (loss):		
- foreign currency translation	(10,428)	1,525
- interest rate derivatives	(1,426)	(1,861)
- energy derivatives	(606)	(945)
- minimum pension liability	(31,097)	(31,097)
	867,541	844,011
	$ 2,524,372	$ 2,188,001

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars in thousands)

For the three months ended January 31,	**2007**	**2006**
Cash flows from operating activities:		
Net income	$ 33,979	$ 33,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	26,172	24,673
Asset impairments	851	1,173
Deferred income taxes	27,084	13,731
Gain on disposals of properties, plants and equipment, net	(5,907)	(1,643)
Gain on the sale of timberland (Note 8)	(62)	(31,569)
Equity in earnings of affiliates and minority interests	333	89
Increase (decrease) in cash from changes in certain assets and liabilities:		
Trade accounts receivable	14,316	(6,693)
Inventories	(17,251)	(5,328)
Prepaid expenses and other current assets	(14,203)	(10,424)
Other long-term assets	(30,200)	2,134
Long-term notes receivable	(8,159)	626
Accounts payable	(32,909)	(24,070)
Accrued payroll and employee benefits	(24,791)	(10,979)
Restructuring reserves	(1,990)	(336)
Other current liabilities	12,044	(2,700)
Pension and postretirement benefit liability	(2,247)	267
Other long-term liabilities	25,308	(458)
Net cash provided by (used in) operating activities	2,368	(18,155)
Cash flows from investing activities:		
Acquisitions of companies, net of cash acquired	(310,798)	
Purchases of properties, plants and equipment	(34,303)	(12,559)
Purchases of timber properties	(400)	(35,459)
Increase in notes receivable	(29,748)	
Proceeds from the sale of properties, plants and equipment	5,694	36,490
Net cash used in investing activities	(369,555)	(11,528)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	609,000	287,727
Payments on long-term debt	(389,685)	(264,112)
Proceeds from short-term borrowings	41,907	9,684
Dividends paid	(10,315)	(6,811)
Acquisitions of treasury stock		(3,202)
Exercise of stock options	8,920	1,483
Net cash provided by financing activities	259,827	24,769
Effects of exchange rates on cash	(1,271)	(2,076)
Net decrease in cash and cash equivalents	(108,631)	(6,990)
Cash and cash equivalents at beginning of period	187,101	122,411

Cash and cash equivalents at end of period	$ 78,470	$ 115,421

See accompanying Notes to Consolidated Financial Statements

GREIF, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007

NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

Industrial Packaging Acquisitions

During the first quarter of 2007, the Company completed four acquisitions of industrial packaging companies for an aggregate purchase price of $310.7 million. These four acquisitions were Blagden Packaging Group and two tuck-in North American companies in November 2006 as well as one tuck-in North African company in January 2007. These industrial packaging acquisitions are expected to complement the Company s existing product lines that together will provide growth opportunities and scale. These acquisitions, included in operating results from the acquisition dates, were accounted for using the purchase method of accounting and, accordingly, the purchase prices were allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the dates of acquisition. The estimated fair values of the assets acquired were $204.2 million (including $39.2 million of inventory and $61.2 million of accounts receivable) and liabilities assumed were $52.2 million. Identifiable intangible assets, with a combined fair value of $88.0 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 $70.7 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 in accordance with SFAS No. 141, Business Combinations.

In the fourth quarter of 2006, the Company completed two acquisitions for an aggregate purchase price of $102.1 million. These two acquisitions were Delta Petroleum Company, Inc. and its subsidiaries (Delta), a blender and packager of lubricants, chemicals and glycol-based products in North America, and an industrial packaging company located in Russia. These acquisitions, included in operating results from the acquisition dates, were accounted for using the purchase method of accounting and, accordingly, the purchase prices were allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the dates of acquisition. The estimated fair values of the assets acquired were $97.2 million (including $25.7 million of inventory and $28.0 million of accounts receivable) and liabilities assumed were $46.9 million. Identifiable intangible assets, with a combined fair value of $29.4 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 $22.4 million was recorded as goodwill. The final allocation of the purchase prices may differ due to additional refinements in the fair values of the net assets acquired in accordance with SFAS No. 141, Business Combinations.

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

Stock-Based Compensation Expense

On November 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards made to employees and directors, including stock options, restricted stock, restricted stock units and participation in the Company s employee stock purchase plan. In adopting SFAS No. 123(R), the Company used the modified prospective application transition method, as of November 1, 2005, the first day of the Company s fiscal year 2006. Share-based compensation expense recognized under SFAS No. 123(R) for the first quarter of 2007 and 2006 was $0.1 million and $0.2 million, respectively.

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

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

NOTE 2 RECENT ACCOUNTING STANDARDS

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

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

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

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

NOTE 3 SALE OF EUROPEAN ACCOUNTS RECEIVABLE

Pursuant to the terms of a Receivable Purchase Agreement (the RPA) dated October 28, 2004 between Greif Coordination Center BVBA (the Seller), an indirect wholly-owned subsidiary of Greif, Inc., and a major international bank (the Buyer), the Seller agreed to sell trade receivables meeting certain eligibility requirements that Seller had purchased from other indirect wholly-owned subsidiaries of Greif, Inc., including Greif Belgium BVBA, Greif Germany GmbH, Greif Nederland BV, Greif Spain SA and Greif UK Ltd, under discounted receivables purchase agreements and from Greif France SAS under a factoring agreement. The RPA was amended on October 28, 2005 to include receivables originated by Greif Portugal Lda, also an indirect wholly-owned subsidiary of Greif, Inc. In addition, on October 28, 2005, Greif Italia S.P.A., also an indirect wholly-owned subsidiary of Greif, Inc., entered into the Italian Receivables Purchase Agreement with the Italian branch of the major international bank (the Italian RPA) with Greif Italia S.P.A., agreeing to sell trade receivables that meet certain eligibility criteria to the Italian branch of the major international bank. The Italian RPA is similar in structure and terms as the RPA. The maximum amount of receivables that may be sold under the RPA and the Italian RPA is 90 million ($116.4 million) at January 31, 2007.

The structure of the transaction provides for a legal true sale, on a revolving basis, of the receivables transferred from the various Greif, Inc. subsidiaries to Seller and from Seller to Buyer. The Buyer funds an initial purchase price of a certain percentage of eligible receivables based on a formula with the initial purchase price approximating 70 percent to 80 percent of eligible receivables, as defined. The remaining deferred purchase price is settled upon collection of the receivables. At the balance sheet reporting dates, the Company removes from accounts receivable the amount of proceeds received from the initial purchase price since they meet the applicable criteria of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and continues to recognize the deferred purchase price in its accounts receivable. The receivables are sold on a non-recourse basis with the total funds in the servicing collection accounts pledged to Buyer between the semi-monthly settlement dates. At January 31, 2007, 73.9 million ($95.6 million) of accounts receivable were sold under the RPA and Italian RPA.

At the time the receivables are initially sold, the difference between the carrying amount and the fair value of the assets sold are included as a loss on sale in the consolidated statements of income. Expenses, primarily related to the loss on sale of receivables, associated with the RPA and Italian RPA totaled 0.5 million ($0.6 million) and 0.3 million ($0.3 million) for the three months ended January 31, 2007 and 2006, respectively. Expenses associated with the RPA and Italian RPA totaled 0.7 million ($0.9 million) and 0.4 million ($0.5 million) for the three months ended January 31, 2007 and 2006, respectively. Additionally, the Company performs collections and administrative functions on the receivables sold similar to the procedures it uses for collecting all of its receivables, including receivables that are not sold under the RPA and Italian RPA. The servicing liability for these receivables is not material to the consolidated financial statements.

NOTE 4 INVENTORIES

Inventories are summarized as follows (Dollars in thousands):

	January 31, 2007	October 31, 2006
Finished goods	$ 77,349	$ 53,621
Raw materials and work-in-process	216,299	186,065
	293,648	239,686
Reduction to state inventories on last-in, first-out basis	(34,106)	(34,682)
	$ 259,542	$ 205,004

NOTE 5 NET ASSETS HELD FOR SALE

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

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

	Industrial Packaging & Services	Paper, Packaging & Services	Total
Balance at October 31, 2006	$ 253,724	$ 32,828	$ 286,552
Goodwill acquired	70,705		70,705
Currency translation	(1,915)		(1,915)
Balance at January 31, 2007	$ 322,514	$ 32,828	$ 355,342

The 2007 goodwill acquired of $70.7 million is preliminary and primarily relates to acquisition of industrial packaging companies in Europe, Asia and North America.

All other intangible assets for the periods presented, except for $8.6 million, related to the Tri-Sure Trademark, Blagden Express Tradename and Closed-loop Tradename, are subject to amortization and are being amortized using the straight-line method over periods that range from two to 20 years. The detail of other intangible assets by class as of January 31, 2007 and October 31, 2006 are as follows (Dollars in thousands):

	Gross Intangible	Accumulated Amortization	Net Intangible

	Assets		Assets
January 31, 2007:			
Trademarks and patents	$ 37,611	$ 8,963	$ 28,648
Non-compete agreements	27,339	4,498	22,840
Customer relationships	95,714	3,460	92,254
Other	8,163	3,539	4,625
Total	$ 168,827	$ 20,460	$ 148,367
October 31, 2006:			
Trademarks and patents	$ 17,290	$ 7,992	$ 9,298
Non-compete agreements	5,033	3,709	1,324
Customer relationships	43,115	2,343	40,772
Other	15,575	3,382	12,193
Total	$ 81,013	$ 17,426	$ 63,587

During the first three months of 2007, other intangible assets increased by $88.0 million. The increase in other intangible assets is based on preliminary purchase price allocations related to the acquisition of industrial packaging companies in Europe, Asia and North America. Amortization expense for the three months ended January 31, 2007 was $3.1 million. Amortization expense for the next five years is expected to be $18.2 million in 2007, $18.1 million in 2008, $14.6 million in 2009, $14.2 million in 2010 and $13.3 million in 2011.

NOTE 7 RESTRUCTURING CHARGES

The focus for restructuring activities in 2007 will be on integration of acquisitions in the Industrial Packaging & Services segment and on alignment to market focused strategy in the Paper, Packaging & Services segment. During the first quarter of 2007, the Company recorded restructuring charges of $2.0 million, consisting of $0.7 million in employee separation costs, $0.4 million in asset impairments, and $0.9 million in other costs. The remaining restructuring charges for the above activities are anticipated to be $7.6 million for the remainder of 2007.

In 2006, the focus was on the final waves of global implementation of the Greif Business System. During the first quarter of 2006, the Company recorded restructuring charges of $5.5 million, consisting of $2.9 million in employee separation costs, $1.2 million in asset impairments, $0.1 million of professional fees, and $1.2 million in other costs. One company-owned plant in the Paper, Packaging & Services segment was closed. The Industrial Packaging & Services segment reduced the number of plants in the United Kingdom from five to three. In addition, severance costs were incurred due to the elimination of certain administrative positions.

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

	Amounts Incurred Fiscal Year-to-Date	Total Amounts Expected to be Incurred
Industrial Packaging & Services:		
Employee separation costs	$ 333	$ 3,850
Asset impairments	430	2,030
Professional fees	1	275
Other restructuring costs	409	2,500
	1,173	8,655
Paper, Packaging & Services:		
Employee separation costs	414	450
Asset impairments		
Professional fees		15
Other restructuring costs	450	480
	864	945
Total	$ 2,037	$ 9,600

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

	Cash Charges		Non-cash Charges	
	Employee Separation Costs	Other Costs	Asset Impairments	Total
Balance at October 31, 2006	$ 8,391	$	$	$ 8,391
Costs incurred and charged to expense	747	860	430	2,037
Costs paid or otherwise settled	(3,843)	222	(430)	(4,051)
Balance at January 31, 2007	$ 5,295	$ 1,082	$	$ 6,377

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

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

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

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

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

Assets of the Buyer SPE at January 31, 2007 and October 31, 2006 consist of restricted bank financial instruments of $50.9 million. STA Timber had long-term debt of $43.3 million as of January 31, 2007 and October 31, 2006. STA Timber is exposed to credit-related losses in the event of nonperformance by the issuer of the Deed of Guarantee, but the Company does not expect that issuer to fail to meet its obligations. The accompanying consolidated income statements for the three month periods ended January 31, 2007 and 2006 includes interest expense on STA Timber debt of $0.6 million and interest income on Buyer SPE investments of $0.6 million.

NOTE 9 DEBT

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

	January 31, 2007	October 31, 2006
Credit Agreement	$ 356,530	$ 115,198
Senior Subordinated Notes	242,783	242,560
Trade accounts receivable credit facility	91,757	120,000
Other long-term debt	31,230	3,650
	$ 722,300	$ 481,408

Credit Agreement

The Company and certain of its international subsidiaries, as borrowers, have entered into a Credit Agreement (the Credit Agreement) with a syndicate of financial institutions that provides for a $450.0 million revolving multicurrency credit facility. 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 January 31, 2007, $356.5 million was outstanding under the

Credit Agreement. The weighted average interest rate on the Credit Agreement was 5.04 percent for the three months ended January 31, 2007, and the interest rate was 5.12 percent at January 31, 2007 and 5.85 percent at October 31, 2006.

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

Senior Subordinated Notes

The Company has issued Senior Subordinated Notes in the aggregate principal amount of $250.0 million, receiving net proceeds of approximately $248.0 million before expenses. During 2005, the Company purchased $2.0 million of the Senior Subordinated Notes. At January 31, 2007, the outstanding balance, which included losses on fair value hedges the Company had in place to hedge interest rate risk, was $242.8 million under the Senior Subordinated Notes. Interest on the Senior Subordinated Notes is payable semi-annually at the annual rate of 8.875 percent.

On February 9, 2007, the Company completed a tender offer for its 8.875 percent Senior Subordinated Notes. In the tender offer, the Company purchased $245.6 million aggregate principal amount of Senior Subordinated Notes, which represented 99 percent of the outstanding notes. As a result of this transaction, a debt extinguishment charge of approximately $23.5 million ($14.5 million in cash and $9.0 million in non-cash items, such as write-off of unamortized capitalized debt issuance costs) will be recorded in our second quarter of 2007.

The fair value of the Senior Subordinated Notes was approximately $257.7 million and $256.0 million at January 31, 2007 and October 31, 2006, respectively, based on quoted market prices. The Indenture pursuant to which the Senior Subordinated Notes were issued contains certain covenants. At January 31, 2007, the Company was in compliance with these covenants.

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

Senior Notes

On February 9, 2007, the Company issued $300.0 million of 6.75 percent Senior Notes due February 1, 2017. Proceeds from the issuance of Senior Notes were principally used to fund the purchase of the Senior Subordinated Notes in the tender offer and general corporate purposes.

Trade Accounts Receivable Credit Facility

On October 31, 2003, the Company entered into a five-year, up to $120.0 million, credit facility with an affiliate of a bank in connection with the securitization of certain of the Company s trade accounts receivable in the United States. The credit facility is secured by certain of the Company s trade accounts receivable in the United States and bears interest at a variable rate based on the London InterBank Offered Rate (LIBOR) plus a margin or other agreed upon rate (5.87 percent interest rate at both January 31, 2007 and October 31, 2006). The Company can terminate this facility at any time upon 60 days prior written notice. In connection with this transaction, the Company established Greif Receivable Funding LLC (GRF), which is included in the Company s consolidated financial statements. However, because GRF is a separate and distinct legal entity from the Company, the assets of GRF are not available to satisfy the liabilities and obligations of the Company and the liabilities of GRF are not the liabilities or obligations of the Company. This entity purchases and services the Company s trade accounts receivable that are subject to this credit facility. There was a total of $91.8 million and $120.0 million outstanding under the trade accounts receivable credit facility at January 31, 2007 and October 31, 2006, respectively.

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

Other

In addition to the amounts borrowed against the Credit Agreement and proceeds from the Senior Subordinated Notes and the trade accounts receivable credit facility, the Company had outstanding debt of $81.5 million and $33.0 million, comprised of $31.2 million and $3.7 million in long-term debt and $50.3 million and $29.3 million in short-term borrowings, at January 31, 2007 and October 31, 2006, respectively.

NOTE 10 FINANCIAL INSTRUMENTS

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

The estimated fair values of the Company s long-term debt was $741.2 million and $499.2 million as compared to the carrying amounts of $722.3 million and $481.4 million at January 31, 2007 and October 31, 2006, respectively. The fair values of the Company s long-term obligations are estimated based on either the quoted market prices for the same or similar issues or the current interest rates offered for debt of the same remaining maturities.

The Company uses derivatives from time to time to partially mitigate the effect of exposure to interest rate movements, exposure to foreign currency fluctuations, and energy 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 $130.0 million at both January 31, 2007 and October 31, 2006 with various maturities through 2012. 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 quarterly from the counterparties equal to LIBOR and pays interest at a fixed rate of 5.56 percent over the life of the contracts. The Company was also party to agreements in which it received interest semi-annually from the counterparties equal to a fixed rate of 8.875 percent and pays interest based on LIBOR plus a margin. These agreements were terminated during the first quarter of 2006. In conjunction with this termination, the Company paid $4.8 million to the counterparties, which will be amortized over the remaining term of the Senior Subordinated Notes. A liability for the loss on interest rate swap contracts, which represented their fair values, in the amount of $0.4 million and $1.0 million was recorded at January 31, 2007 and October 31, 2006, respectively.

At January 31, 2007, the Company had cross-currency interest rate swaps to hedge its net investment in its European subsidiaries. Under these agreements, the Company receives interest semi-annually from the counterparties equal to a fixed rate of 8.875 percent on $248.0 million and pays interest at a fixed rate of 6.80 percent on 206.7 million. Upon maturity of these swaps on August 1, 2007, the Company will be required to pay 206.7 million to the counterparties and receive $248.0 million from the counterparties. A liability for the loss on these agreements of $19.7 million representing their fair values was recorded at January 31, 2007, and accumulated other comprehensive income (loss) of ($19.7) million was recorded at January 31, 2007.

At January 31, 2007, the Company had outstanding foreign currency forward contracts in the notional amount of $39.3 million ($45.2 million at October 31, 2006). The purpose of these contracts is to hedge the Company s exposure to foreign currency transactions and short-term intercompany loan balances in its international businesses. The fair value of these contracts at January 31, 2007 resulted in a loss of $0.1 million recorded in the consolidated statement of income and a gain of $1.9 million recorded on the consolidated balance sheet. The fair value of similar contracts at October 31, 2006 resulted in a loss of $0.1 million recorded in the consolidated statement of income and a gain of $2.1 million recorded on the consolidated balance sheet.

The Company has entered into certain cash flow hedges to mitigate its exposure to cost fluctuations in natural gas prices through October 31, 2007. The fair value of the energy hedges was an unfavorable position of $0.9 million ($0.6 million net of tax) at January 31, 2007, compared to an unfavorable position of $1.5 million ($0.9 million net of tax) at October 31, 2006. As a result of the high correlation between the hedged instruments and the underlying transactions, ineffectiveness has not had a material impact on the Company s consolidated statements of income for the quarter ended January 31, 2007.

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

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

During the next nine months, the Company expects to reclassify into earnings a net gain from accumulated other comprehensive income (loss) of approximately $0.8 million after tax at the time the underlying hedge transactions are realized.

NOTE 11 CAPITAL STOCK

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

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
January 31, 2007:				
Class A Common Stock	32,000,000	21,140,960	11,825,550	9,315,410
Class B Common Stock	17,280,000	17,280,000	11,515,533	5,764,467
October 31, 2006:				
Class A Common Stock	32,000,000	21,140,960	11,634,153	9,506,807
Class B Common Stock	17,280,000	17,280,000	11,515,533	5,764,467

On February 26, 2007, shareholders approved an increase in the number of the Company s authorized shares to 128,000,000 shares of Class A Common Stock and 69,120,000 shares of Class B Common Stock. Subsequent to the aforementioned approval, the Company s Board of Directors authorized a 2-for-1 stock split of the Company s Class A Common Stock and Class B Common Stock. The split will be effective on April 11, 2007 to shareholders of record on March 19, 2007. The stock split will require retroactive restatement of all historical shares and per share data in the Company s financial statements for the second quarter ending April 30, 2007.

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

The Company s historical earnings per share on a pro forma basis, assuming the stock split had occurred on November 1, 2005, would be as follows:

	Three Months ended January 31, 2007	2006
Basic earnings per share:		
Class A Common Stock	$ 0.59	$ 0.58
Class B Common Stock	$ 0.87	$ 0.86
Diluted earnings per share:		
Class A Common Stock	$ 0.58	$ 0.57
Class B Common Stock	$ 0.87	$ 0.86

NOTE 12 STOCK OPTIONS

In 2001, the Company adopted the 2001 Management Equity Incentive and Compensation Plan (the 2001 Plan). The provisions of the 2001 Plan allow the awarding of incentive and nonqualified stock options and restricted and performance shares of Class A Common Stock to key employees. The maximum number of shares that may be issued each year is determined by a formula that takes into consideration the total number of shares outstanding and is also subject to certain limits. In addition, the maximum number of incentive stock options that will be issued under the 2001 Plan during its term is 2,500,000 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 200,000 shares and 1,000,000 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 100,000 shares under each of these plans. Under the terms of both plans, options are granted at exercise prices equal to the market value of the common stock on the date options are granted and become exercisable immediately. Options expire 10 years after date of grant.

No stock options were granted during 2007 and 2006.

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

	Three months ended January 31, 2007		Year ended October 31, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning balance	817	$ 31.24	979	$ 30.68
Granted				
Forfeited				
Exercised	173	$ 31.43	162	$ 27.88
Ending balance	644	$ 34.00	817	$ 31.24

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

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life
$18-$28	305,937	5 years
$28-$38	238,159	4 years
$48-$58	87,923	8 years
$58-$68	12,000	8 years

There are 644,019 options that were exercisable at January 31, 2007 and 707,822 options that were exercisable at October 31, 2006.

NOTE 13 DIVIDENDS PER SHARE

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

	Three months ended January 31, 2007	Three months ended January 31, 2006
Class A Common Stock	$ 0.36	$ 0.24
Class B Common Stock	$ 0.53	$ 0.35

NOTE 14 CALCULATION OF EARNINGS PER SHARE

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

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

	Three months ended January 31, 2007	Three months ended January 31, 2006
Class A Common Stock:		
Basic shares	11,713,056	11,542,159
Assumed conversion of stock options	341,522	326,172
Diluted shares	12,054,578	11,868,331
Class B Common Stock:		
Basic and diluted shares	11,515,533	11,538,645

There were no stock options that were antidilutive as of January 31, 2007 and 14,000 stock options that were antidilutive as of January 31, 2006.

NOTE 15 COMPREHENSIVE INCOME

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

	Three months ended January 31, 2007	Three months ended January 31, 2006
Net income	$ 33,979	$ 33,352
Other comprehensive income (loss):		
Foreign currency translation adjustment	(11,953)	2,944
Change in fair value of interest rate derivatives, net of tax	435	425
Change in fair value of energy derivatives, net of tax	339	(582)
Minimum pension liability adjustment, net of tax		(2)
Comprehensive income	$ 22,800	$ 36,137

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

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

	Three months ended January 31, 2007	2006
Service cost	$ 3,419	$ 3,629
Interest cost	6,827	6,208
Expected return on plan assets	(7,767)	(7,361)
Amortization of prior service cost, initial net asset and net actuarial gain	1,309	1,533
	$ 3,788	$ 4,009

The Company made no pension contributions in the first quarter of 2007. Based on minimum funding requirements, $16.3 million of pension contributions are estimated for the entire 2007 fiscal year.

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

	Three months ended January 31, 2007	2006
Service cost	$ 11	$ 8
Interest cost	527	586
Amortization of net prior service cost and recognized actuarial gain	(269)	(163)
	$ 269	$ 431

NOTE 17 BUSINESS SEGMENT INFORMATION

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

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

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

In the Timber segment, the Company is focused on the active harvesting and regeneration of its United States timber properties (approximately 265,800 acres of timberland were owned at January 31, 2007) to achieve sustainable long-term yields. The Company also owns approximately 36,700 acres of timberland in Canada, which are not actively managed at this time. We also sell, from time to time, timberland and special use land.

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

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

	Three months ended January 31, 2007	2006
Net sales:		
Industrial Packaging & Services	$ 581,704	$ 429,720
Paper, Packaging & Services	164,826	147,039
Timber	4,229	5,557
Total net sales	$ 750,759	$ 582,316
Operating profit:		
Operating profit before restructuring charges and timberland gains:		
Industrial Packaging & Services	$ 36,085	$ 24,240
Paper, Packaging & Services	18,039	4,257
Timber	6,492	3,363
Operating profit before restructuring charges and timberland gains	60,616	31,860
Restructuring charges:		
Industrial Packaging & Services	1,173	4,221
Paper, Packaging & Services	864	1,236
Timber		11
Total restructuring charges	2,037	5,468
Timberland gains:		
Timber	62	31,569
Total	$ 58,641	$ 57,961
Depreciation, depletion and amortization expense:		
Industrial Packaging & Services	$ 17,652	$ 15,082
Paper, Packaging & Services	7,228	8,008
Timber	1,292	1,583
Total depreciation, depletion and amortization expense	$ 26,172	$ 24,673

	January 31, 2007	October 31, 2006
Assets:		
Industrial Packaging & Services	$ 1,775,520	$ 1,340,553
Paper, Packaging & Services	402,521	401,425
Timber	248,895	250,310
Total segments	2,426,936	1,992,288
Corporate and other	97,436	195,713
Total assets	$ 2,524,372	$ 2,188,001

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

	Three months ended January 31, 2007	2006
Net sales:		
North America	$ 429,888	$ 339,141
Europe	212,032	156,029
Other	108,839	87,146
Total net sales	$ 750,759	$ 582,316

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

	January 31, 2007	October 31, 2006
Assets:		
North America	$ 1,261,707	$ 1,264,886
Europe	593,019	367,288
Other	669,646	555,827
Total assets	$ 2,524,372	$ 2,188,001

NOTE 18 SUMMARIZED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

Condensed Consolidating Statements of Operations

For the three months ended January 31, 2007

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 610	$ 430,086	$ 375,485	$ (55,422)	$ 750,759
Cost of products sold	239	364,845	311,011	(55,422)	620,673
Gross profit	371	65,241	64,474		130,086
Selling, general and administrative expenses	348	36,062	38,199		74,609
Restructuring charges		865	1,172		2,037
Gain on sale of assets		4,443	758		5,201
Operating profit	23	32,757	25,861		58,641
Interest expense, net	8,390	1,927	1,717		12,034
Other income (loss), net	754	(6,504)	4,681		(1,069)
Income before income taxes and equity in earnings of affiliates	(7,613)	24,326	28,825		45,538
Income taxes	(2,003)	6,130	7,432		11,559
Equity in earnings of affiliates	39,589			(39,589)	
Net income (loss)	$ 33,979	$ 18,196	$ 21,393	$ (39,589)	$ 33,979

Condensed Consolidating Statement of Operations

Three months ended January 31, 2006

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 1,154	$ 350,535	$ 296,171	$ (65,544)	$ 582,316
Cost of products sold	836	308,965	248,387	(65,544)	492,644
Gross profit	318	41,570	47,784		89,672
Selling, general and administrative expenses	199	30,097	29,158		59,454
Restructuring charges		2,244	3,224		5,468
Gain on sale of assets		32,394	817		33,211
Operating profit	119	41,623	16,219		57,961
Interest expense, net		8,168	1,533		9,701
Other income (loss), net	4	(3,050)	3,092		46
Income before income taxes and equity in earnings of affiliates	123	30,405	17,778		48,306
Income taxes	38	9,395	5,521		14,954
Equity in earnings of affiliates	33,267			(33,267)	
Net income (loss)	$ 33,352	$ 21,010	$ 12,257	$ (33,267)	$ 33,352

Condensed Consolidating Balance Sheets

As of January 31, 2007

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$	$ 2,939	$ 75,531	$	$ 78,470
Trade accounts receivable	66,212	42,139	252,043		360,394
Inventories	285	103,689	155,568		259,542
Other current assets	406,558	43,118	427,563	(777,558)	99,681
	473,055	191,885	910,705	(777,558)	798,087
Long-term assets					
Goodwill and other intangible assets		275,452	228,257		503,709
Assets held by special purpose entities (Note 8)		50,891			50,891
Other long-term assets	1,212,802	920,386	145,352	(2,153,781)	124,759
	1,212,802	1,246,729	373,609	(2,153,781)	679,359
Properties, plants and equipment, net	(534)	715,019	332,441		1,046,926
	1,685,323	2,153,633	1,616,755	(2,931,339)	2,524,372
LIABILITIES & SHAREHOLDERS EQUITY					
Current liabilities					
Accounts payable	$ 93,219	$ 95,700	$ 1,185,333	$ (1,065,026)	$ 309,226
Short-term borrowings			50,346		50,346
Other current liabilities		516,323	2,217	(359,640)	158,900
	93,219	612,023	1,237,896	(1,424,666)	518,472
Long-term liabilities					
Long-term debt	722,300				722,300
Liabilities held by special purpose entities (Note 8)		43,250			43,250
Other long-term liabilities	2,263	157,302	193,937	14,479	367,981
	724,563	200,552	193,937	14,479	1,133,531
Minority interest		265	4,563		4,828
Shareholders equity	867,541	1,340,793	180,359	(1,521,152)	867,541
	1,685,323	2,153,633	1,616,755	(2,931,339)	2,524,372

Condensed Consolidating Balance Sheets

As of October 31, 2006

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$	$ 1,507	$ 185,594	$	$ 187,101
Trade accounts receivable	55,729	59,916	200,016		315,661
Inventories	301	81,388	123,315		205,004
Other current assets	279,062	28,978	62,282	(285,051)	85,271
	335,092	171,789	571,207	(285,051)	793,037
Long-term assets					
Goodwill and other intangible assets		253,576	96,563		350,139
Assets held by special purpose entities (Note 8)		50,891			50,891
Other long-term assets	1,043,898	824,398	265,462	(2,080,773)	52,985
	1,043,898	1,128,865	362,025	(2,080,773)	454,015
Properties, plants and equipment, net	(616)	709,747	231,818		940,949
	$ 1,378,374	$ 2,010,401	$ 1,165,050	$ (2,368,824)	$ 2,188,001
LIABILITIES & SHAREHOLDERS EQUITY					
Current liabilities					
Accounts payable	$ 51,692	$ 66,438	$ 502,677	$ (319,054)	$ 301,753
Short-term borrowings		8,957	23,618	(3,254)	29,321
Other current liabilities		401,968	34,410	(276,153)	160,225
	51,692	477,363	560,705	(598,461)	491,299
Long-term liabilities					
Long-term debt	481,408				481,408
Liabilities held by special purpose entities (Note 8)		43,250			43,250
Other long-term liabilities	1,263	166,926	440,997	(286,028)	323,158
	482,671	210,176	440,997	(286,028)	847,816
Minority interest		265	4,610		4,875
Shareholders equity	844,011	1,322,597	158,738	(1,481,335)	844,011
	$ 1,378,374	$ 2,010,401	$ 1,165,050	$ (2,365,824)	$ 2,188,001

Condensed Consolidating Statements of Cash Flows

For the three months ended January 31, 2007

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ (217,920)	$ 66,431	$ 160,961	$	$ 9,472
Cash flows from investing activities:					
Acquisitions of other companies, net of cash acquired		(37,325)	(273,473)		(310,798)
Purchases of properties, plants and equipment		(31,892)	(9,515)		(41,407)
Purchases of timber properties		(400)			(400)
Proceeds from the sale of properties, plants and equipment		4,618	1,076		5,694
Increase in note receivable			(29,748)		(29,748)
Net cash used in investing activities		(64,999)	(311,660)		(376,659)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	609,000				609,000
Payments on long-term debt	(389,685)				(389,685)
Proceeds on short-term borrowings			41,907		41,907
Exercise of stock options	8,920				8,920
Dividends paid	(10,315)				(10,315)
Other, net					
Net cash provided by financing activities	217,920		41,907		259,827
Effects of exchange rates on cash			(1,271)		(1,271)
Net decrease in cash and cash equivalents		1,432	(110,063)		(108,631)
Cash and cash equivalents at beginning of period		1,507	185,594		187,101
Cash and cash equivalents at end of period	$	$ 2,939	$ 75,531	$	$ 78,470

Condensed Consolidating Statements of Cash Flows

For the three months ended January 31, 2006

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ (15,085)	$ 2,440	$ (5,510)	$	$ (18,155)
Cash flows from investing activities:					
Purchases of properties, plants and equipment		(39,177)	(8,841)		(48,018)
Proceeds from the sale of properties, plants and equipment		35,267	1,223		36,490
Net cash used in investing activities		(3,910)	(7,618)		(11,528)
Cash flows from financing activities:					