SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the Quarter Ended July 31, 2001            Commission File Number 1-566

GREIF BROS. CORPORATION

(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.

Indicated 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report:

| Class A Common Stock | 10,526,196 shares |
|---|---|
| Class B Common Stock | 11,842,859 shares |

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

GREIF BROS. CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)
(U.S. Dollars in thousands, except per share amounts)

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net sales | $435,765 | $243,856 | $1,011,247 | $716,306 |
| Gain on sale of timberlands | 415 | 141 | 78,674 | 6,430 |
| Other income, net | 2,275 | 2,424 | 4,288 | 5,734 |
| | 438,455 | 246,421 | 1,094,209 | 728,470 |
| Cost of products sold | 344,524 | 186,726 | 802,663 | 551,165 |
| Selling, general and administrative expenses | 60,196 | 31,708 | 141,695 | 92,436 |
| Restructuring charge | -- | -- | 11,534 | -- |
| Interest expense, net | 17,048 | 3,524 | 29,265 | 10,493 |
| | 421,768 | 221,958 | 985,157 | 654,094 |
| Income before income taxes, minority interest and equity in earnings of affiliates | 16,687 | 24,463 | 109,052 | 74,376 |
| Income taxes | 6,303 | 9,254 | 41,331 | 28,635 |
| Income before minority interest and equity in earnings of affiliates | 10,384 | 15,209 | 67,721 | 45,741 |
| Minority interest | 224 | -- | 358 | -- |
| Equity in earnings of affiliates | 2,753 | 3,620 | 7,083 | 10,066 |
| Net income | $12,913 | $18,829 | $ 74,446 | $ 55,807 |
| **Basic earnings per share:** | | | | |
| Class A Common Stock | $ 0.46 | $ 0.67 | $ 2.64 | $ 1.97 |
| Class B Common Stock | $ 0.68 | $ 1.00 | $ 3.94 | $ 2.95 |
| **Diluted earnings per share:** | | | | |
| Class A Common Stock | $ 0.46 | $ 0.66 | $ 2.63 | $ 1.97 |
| Class B Common Stock | $ 0.68 | $ 1.00 | $ 3.94 | $ 2.95 |

See accompanying Notes to Consolidated Financial Statements

GREIF BROS. CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(U.S. Dollars in thousands)

ASSETS

| | July 31, 2001 (Unaudited) | October 31, 2000 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 56,301 | $ 13,388 |
| Trade accounts receivable - less allowance of $11,353 for doubtful items ($2,293 in 2000) | 282,716 | 119,645 |
| Income tax receivable | -- | 14,343 |
| Inventories | 130,732 | 42,741 |
| Net assets held for sale | 8,839 | 8,495 |
| Deferred tax assets | 9,464 | 2,216 |
| Prepaid expenses and other | 45,454 | 12,315 |
| | 533,506 | 213,143 |
| LONG-TERM ASSETS | | |
| Goodwill - less amortization | 168,261 | 136,284 |
| Other intangible assets | 37,590 | 1,816 |
| Investment in affiliates | 145,238 | 136,374 |
| Other long-term assets | 44,946 | 16,052 |
| | 396,035 | 290,526 |
| PROPERTIES, PLANTS AND EQUIPMENT - at cost | | |
| Timber properties - less depletion | 74,034 | 21,518 |
| Land | 87,685 | 12,330 |
| Buildings | 242,311 | 133,591 |
| Machinery and equipment | 712,798 | 521,685 |
| Capital projects in progress | 47,546 | 23,354 |
| | 1,164,374 | 712,478 |
| Accumulated depreciation | (316,477) | (276,816) |
| | 847,897 | 435,662 |
| | $1,777,438 | $ 939,331 |

See accompanying Notes to Consolidated Financial Statements

GREIF BROS. CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(U.S. Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | July 31, 2001 (Unaudited) | October 31, 2000 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 112,510 | $ 45,075 |
| Bank overdrafts | 8,129 | -- |
| Accrued payrolls and employee benefits | 17,331 | 11,216 |
| Restructuring reserve | 20,278 | -- |
| Short-term borrowings | 16,641 | -- |
| Current portion of long-term debt | 40,600 | -- |
| Other current liabilities | 84,461 | 8,656 |
| | 299,950 | 64,947 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | 681,290 | 235,000 |
| Deferred tax liability | 115,007 | 58,895 |
| Postretirement benefit liability | 46,961 | 20,095 |
| Other long-term liabilities | 33,928 | 17,880 |
| | 877,186 | 331,870 |
| MINORITY INTEREST | 358 | -- |
| SHAREHOLDERS' EQUITY (Note 11) | | |
| Common stock, without par value | 10,446 | 10,383 |
| Treasury stock, at cost | (58,005) | (57,894) |
| Retained earnings | 661,550 | 598,301 |
| Accumulated other comprehensive income | | |
| - foreign currency translation | (8,785) | (8,276) |
| - interest rate swaps | (5,262) | -- |
| | 599,944 | 542,514 |
| | $1,777,438 | $ 939,331 |

See accompanying Notes to Consolidated Financial Statements

GREIF BROS. CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(U.S. Dollars in thousands)

| For the nine months ended July 31, | 2001 | 2000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 74,446 | $ 55,807 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 57,462 | 35,498 |
| Equity in earnings of affiliates in excess of amounts distributed | (4,214) | (7,675) |
| Minority interest | 358 | -- |
| Deferred income taxes | 23,671 | 1,616 |
| Gain on disposals of properties, plants and equipment | (80,906) | -- |
| Other, net | (33,484) | 987 |
| Changes in current assets and liabilities | 50,059 | 723 |
| Net cash provided by operating activities | 87,392 | 86,956 |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash | (314,763) | -- |
| Disposals of investments in Canadian government securities | -- | 5,314 |
| Purchases of properties, plants and equipment | (124,435) | (58,614) |
| Proceeds on disposals of properties, plants and equipment | 85,684 | -- |
| Net cash used in investing activities | (353,514) | (53,300) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 760,000 | -- |
| Payments on long-term debt | (433,196) | (9,000) |
| Payments on short-term borrowings | (4,902) | -- |
| Dividends paid | (11,197) | (10,658) |
| Acquisitions of treasury stock | (117) | (4,968) |
| Other, net | 69 | 190 |
| Net cash provided by (used in) financing activities | 310,657 | (24,436) |
| Foreign currency translation adjustment | (1,622) | (482) |
| Net increase in cash and cash equivalents | 42,913 | 8,738 |
| Cash and cash equivalents at beginning of period | 13,388 | 8,935 |
| Cash and cash equivalents at end of period | $ 56,301 | $ 17,673 |

See accompanying Notes to Consolidated Financial Statements

GREIF BROS. CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2001

## NOTE 1 -- BASIS OF PRESENTATION

The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the consolidated balance sheets as of July 31, 2001 and October 31, 2000 and the consolidated statements of income and cash flows for the three-month and nine-month periods ended July 31, 2001 and 2000. The preparation of 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 financial statements and accompanying notes. Actual amounts could differ from those estimates.

These financial statements should be read in conjunction with the financial statements and notes thereto included in the most recent Annual Report on Form 10-K of Greif Bros. Corporation and its subsidiaries (collectively, the "Company").

Certain prior year amounts, including shipping and handling costs (see Note 2), have been reclassified to conform to the 2001 presentation.

## NOTE 2 - SHIPPING AND HANDLING FEES AND COSTS

The Emerging Issues Task Force ("EITF") reached a consensus in September 2000 that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and should be classified as revenue. The EITF also concluded that the classification of shipping and handling costs is an accounting policy decision. In accordance with EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs," the Company now includes shipping and handling costs in cost of products sold. Prior to the issuance of EITF No. 00-10, the Company's shipping and handling costs were netted in net sales. All prior period amounts have been reclassified to conform to EITF No. 00-10.

## NOTE 3 -- VAN LEER INDUSTRIAL PACKAGING ACQUISITION

As previously reported, on March 2, 2001, pursuant to the terms of a Share Purchase Agreement dated October 27, 2000, as amended on January 5, 2001 and February 28, 2001, between the Company and Huhtamaki Van Leer Oyj, a Finnish corporation ("Huhtamaki"), the Company acquired all of the issued share capital of Royal Packaging Industries Van Leer N.V., a Dutch limited liability company, Huhtamaki Holdings do Brasil Ltda., a Brazilian limited liability company, Van Leer France Holding S.A.S., a French limited liability company, Van Leer Containers, Inc., a U.S. corporation, and American Flange & Manufacturing Co., Inc., a U.S. corporation (collectively, "Van Leer Industrial Packaging"). Van Leer Industrial Packaging is a worldwide provider of industrial packaging and components, including steel, fibre and plastic drums, polycarbonate water bottles, intermediate bulk containers and closure systems, with operations in over 40 countries.

As consideration for the shares of Van Leer Industrial Packaging, the Company paid $555.0 million less the amount of Van Leer Industrial Packaging's debt and certain other obligations ($206.4 million) as of the closing date. In addition, the Company paid $13.3 million in legal and professional fees related to the acquisition. The acquisition was funded by new long-term debt borrowed against a $900 million Senior Secured Credit Agreement (see Note 9).

The acquisition of Van Leer Industrial Packaging, included in operating results from the acquisition date, was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets purchased and liabilities assumed based upon their fair values at the date of acquisition. The fair values of the assets acquired and the liabilities assumed were $626.5 million and $336.6 million, respectively. The allocation of the purchase price is based upon preliminary estimates of fair value. The actual allocation of the purchase price may differ from the preliminary allocation due to adjustments to the purchase price and refinements of the fair values of the net assets acquired. Intangible assets, with a combined fair value of $34.1 million, including the Van Leer trademark, Tri-Sure Closures trademarks, patents and other proprietary information, and certain noncompete agreements, have been recorded. The excess of the purchase price over the fair values of the net tangible and intangible assets acquired of $37.9 million was recorded as goodwill.

The intangible assets are being amortized on a straight-line basis over their estimated economic lives of 2 to 25 years. The goodwill is being amortized on a straight-line basis over 25 years based on consideration regarding the age of the acquired companies, their customers and the risk of obsolescence of their products.

## Pro Forma Information

The following pro forma (unaudited) information assumes the Van Leer Industrial Packaging acquisition had occurred on November 1, 1999 (U.S. Dollars in thousands, except per share amounts):

| | Nine months ended July 31, 2001 | Nine months ended July 31, 2000 |
|---|---|---|
| Net sales | $1,301,147 | $1,446,206 |
| Net income | $ 61,546 | $ 56,307 |
| **Basic and diluted earnings per share:** | | |
| Class A Common Stock | $ 2.18 | $ 1.99 |
| Class B Common Stock | $ 3.26 | $ 2.98 |

The above amounts reflect adjustments for interest expense related to the debt issued for the acquisition, amortization of goodwill and intangible assets, and depreciation expense on the revalued properties, plants and equipment resulting from the acquisition. The pro forma amounts do not include anticipated synergies from the acquisition, nor do they include the anticipated savings associated with the consolidation activities of Van Leer Industrial Packaging and the Company's locations existing prior to the acquisition date.

The pro forma information, as presented above, is not indicative of the results which would have been obtained had the transactions occurred on November 1, 1999, nor is it indicative of the Company's future results.

NOTE 4 -- RESTRUCTURING RESERVES

During the second quarter of 2001, the Company approved a plan to consolidate some of its locations in order to eliminate duplicate facilities caused by the Van Leer Industrial Packaging acquisition and improve operating efficiencies and capabilities. The plan was the result of an in-depth study to determine whether certain locations, either existing or newly acquired, should be closed and the sales and manufacturing volume associated with such plants relocated to a different facility. Six existing Company-owned plastic drum and steel drum plants are being closed. The plants are located in North America. In addition, certain redundant administrative functions are being eliminated. As a result of this plan, during the second quarter of 2001, the Company recognized a pretax restructuring charge of $11.5 million, consisting of $8.0 million in employee separation costs (approximately 400 employees) and a $3.5 million loss on disposal of equipment and facilities. The Company is planning to sell its six owned facilities. The Company expects to complete these restructuring activities over the next three quarters. Subsequent to the recognition of the restructuring charge, the Company will incur additional costs to relocate machinery and equipment and employees upon the closure of these plants. The amounts charged against this restructuring reserve during the period ended July 31, 2001 are as follows (U.S. Dollars in thousands):

| | Balance at 04/30/01 | Activity | Balance at 07/31/01 |
|---|---|---|---|
| Cash charges: | | | |
| Employee separation costs | $ 8,000 | $ 3,322 | $ 4,678 |
| Cash and non-cash charges: | | | |
| Other exit costs | 3,534 | 10 | 3,524 |
| | $11,534 | $ 3,332 | $ 8,202 |

As of July 31, 2001, there were a total of 55 employees that had been terminated and provided severance benefits under this restructuring plan.

In addition, in connection with the 2001 acquisition of Van Leer Industrial Packaging from Huhtamaki and the consolidation plan, five facilities purchased as part of the acquisition will be closed. Four of these facilities are Company-owned and one is leased. The facilities are located in North America, South America and Japan. In addition, certain redundant administrative functions will be eliminated. Accordingly, the Company recognized a $14.8 million restructuring liability in its purchase price allocation related to these locations during the second quarter of 2001. This liability was accounted for under EITF No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The liability consisted of $11.6 million in employee separation costs (approximately 300 employees), $0.9 million in lease

termination costs and $2.3 million in other exit costs. The Company is planning to sell the four Company-owned facilities. The lease will be terminated on the remaining facility. The amounts charged against this restructuring reserve during the period ended July 31, 2001 are as follows (U.S. Dollars in thousands):

| | Balance at 02/28/01 | Activity | Balance at 07/31/01 |
|---|---|---|---|
| Cash charges: | | | |
| Employee separation costs | $11,640 | $ 2,494 | $ 9,146 |
| Cash and non-cash charges: | | | |
| Other exit costs | 3,203 | 273 | 2,930 |
| | $14,843 | $ 2,767 | $12,076 |

As of July 31, 2001, there were a total of 166 employees that had been terminated and provided severance benefits under this restructuring plan.

## NOTE 5 -- TIMBERLAND TRANSACTIONS

Sale of Timber Properties:

In December 2000, the Company sold certain hardwood timberlands situated in Arkansas, Mississippi and Louisiana for $44.4 million. As such, the Company recognized a gain of $43.0 million during the first quarter of 2001 related to this transaction. In a related agreement, the Company sold other hardwood timberlands for $30.0 million in March 2001, and recognized an additional gain of $27.7 million during the second quarter of 2001.

A total of approximately 65,000 acres of timber properties were sold as a result of these transactions.

Purchase of Timber Properties:

In December 2000, the Company purchased certain softwood timberlands situated in Louisiana for $42.8 million. In a related agreement, the Company purchased other softwood timberlands for $43.1 million in March 2001.

A total of approximately 63,000 acres of timber properties were purchased as a result of these transactions.

NOTE 6 -- INVENTORIES

Inventories are comprised principally of raw materials and are stated at the lower of cost or market, principally on the last-in, first-out basis in the United States and on the first-in, first-out basis in other parts of the world.

NOTE 7 -- NET ASSETS HELD FOR SALE

Net assets held for sale represent land, buildings and land improvements less accumulated depreciation for locations that have been closed. As of July 31, 2001, there were nine 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 8 -- INVESTMENT IN AFFILIATES

The Company has investments in CorrChoice (63.24%), Abzac-Greif (49%), South Coast-Van Leer Texas, LLC (20%), Socer Embalagens, Lda. (25%) and Balmer Lawrie-Van Leer (40.06%) which are accounted for on the equity method. The Company's share of earnings of these affiliates is included in income as earned. In the first nine months of 2001, the Company received dividends from affiliates of $2.9 million.

The difference between the cost basis of the Company's investment in the underlying equity of affiliates of $4.9 million at July 31, 2001 is being amortized over a fifteen-year period.

The summarized unaudited financial information below represents the combined results of the Company's unconsolidated affiliates (U.S. Dollars in thousands):

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net sales | $ 73,229 | $ 75,635 | $214,196 | $221,273 |
| Gross profit | 12,666 | 11,169 | 33,049 | 36,192 |
| Operating income | 8,085 | 8,546 | 20,861 | 26,838 |
| Net income | 4,954 | 6,024 | 13,238 | 17,870 |

NOTE 9 -- LONG-TERM DEBT

On March 2, 2001, the Company and Greif Spain Holdings, S.L. entered into a $900 million Senior Secured Credit Agreement with a syndicate of lenders. A portion of the proceeds from the Senior Secured Credit Agreement was used to fund the Van Leer Industrial Packaging acquisition and to refinance amounts outstanding under the Company's then existing revolving credit facility. The Senior Secured Credit Agreement provides for three term loans, a $150 million U.S. Dollar Term Loan A, a $200 million Euro Term Loan A and a $400 million Term Loan B, and a $150 million revolving multicurrency credit facility. At July 31, 2001, there was $119.6 million available under the $150 million revolving multicurrency credit facility. The revolving multicurrency credit facility is available for working capital and general corporate purposes.

The Term Loan A (both U.S. Dollar and Euro) and Term Loan B periodically reduce through the maturity date of February 28, 2006 and February 29, 2008, respectively. The revolving multicurrency credit facility matures on February 28, 2006. The Company is required to pay a facility fee each quarter equal to .094% to .125% of the total commitment amount based upon the Company's leverage ratio. Interest is based on either a LIBOR rate or an alternative base rate plus a calculated margin amount and resets on a quarterly basis.

As part of the Senior Secured Credit Agreement, the Company incurred financing fees of $16.3 million. This amount has been deferred and is being amortized over a period of six years. The charge is made to interest expense.

The Senior Secured Credit Agreement contains certain covenants, including financial covenants that require the Company to maintain a certain leverage ratio, sufficient coverage of interest expense and fixed charges, and a minimum net worth. In addition, the Company is limited with respect to the incurrence of additional debt. The repayment of this facility is secured by a first lien on substantially all of the personal property and certain of the real property of the Company. Standard & Poor's and Moody's Investors Service have assigned a "BB" rating and a "Ba3" rating, respectively, to the loan obligations of the Company under the Senior Secured Credit Agreement.

## NOTE 10 -- INTEREST RATE CONTRACTS

On November 1, 2000, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements require that all derivatives are recorded in the balance sheet as either assets or liabilities and measured at fair value. The accounting for changes in fair value of the derivative depends on the intended use of the derivative and the resulting designation. The Company enters into interest rate swap agreements for the purpose of hedging its exposure to fluctuations in interest rates. Under SFAS No. 133, the Company's interest rate swap contracts are considered cash flow hedges.

The Company has entered into interest rate swap agreements with a total notional amount of $395.0 million with maturities ranging from one to eight years. The interest rate swap contracts were entered into to assist the Company in its management of exposure to variable rate debt. Under the agreements, the Company receives interest quarterly from the counterparty equal to the LIBOR rate and pays interest at a weighted average rate of 5.41%. The differentials paid or received under these agreements are recorded as an adjustment to interest expense and are included in interest receivable or payable.

At July 31, 2001, a liability for the interest rate swap contracts, which represented their fair values at that time, in the amount of $8.5 million ($5.3 million net of tax) was recorded with an offsetting amount in accumulated other comprehensive income. When SFAS Nos. 133, 137 and 138 were adopted on November 1, 2000, the Company recorded an asset for the interest rate swap contracts in the amount of $2.6 million ($1.6 million net of tax). A credit in the same amount was recorded as accumulated other comprehensive income at that date. Accordingly, the loss recognized in other comprehensive income for the three-month and nine-month periods ended July 31, 2001 was $4.5 million and $11.1 million, respectively, or $2.8 million and $6.9 million, respectively, on a net of tax basis. The fair values of the interest rate swap contracts were determined by the counterparties.

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 1/2 cent per share per year. Further distribution in any year must be made in proportion of 1 cent a share for Class A Common Stock to 1 1/2 cents a share for Class B Common Stock. The Class A Common Stock shall have no voting power nor shall it be entitled to notice of meetings of the stockholders, all rights to vote and all voting power being vested exclusively in the Class B Common Stock unless four quarterly cumulative dividends upon the Class A Common Stock are in arrears. There is no cumulative voting.

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

| | Authorized Shares | Issued Shares | Outstanding Shares | Treasury Shares |
|---|---|---|---|---|
| July 31, 2001: | | | | |
| Class A Common Stock | 32,000,000 | 21,140,960 | 10,526,196 | 10,614,764 |
| Class B Common Stock | 17,280,000 | 17,280,000 | 11,842,859 | 5,437,141 |
| October 31, 2000: | | | | |
| Class A Common Stock | 32,000,000 | 21,140,960 | 10,523,196 | 10,617,764 |
| Class B Common Stock | 17,280,000 | 17,280,000 | 11,847,359 | 5,432,641 |

NOTE 12 -- DIVIDENDS PER SHARE

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

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Class A Common Stock | $0.14 | $0.14 | $0.40 | $0.38 |
| Class B Common Stock | $0.21 | $0.21 | $0.59 | $0.56 |

## NOTE 13 -- 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 shares used to calculate basic and diluted earnings per share:

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Class A Common Stock: | | | | |
| Basic shares | 10,523,788 | 10,523,196 | 10,523,393 | 10,569,515 |
| Assumed conversion of stock options | 39,293 | 35,494 | 29,472 | 36,994 |
| Diluted shares | 10,563,081 | 10,558,690 | 10,552,865 | 10,606,509 |
| Class B Common Stock: | | | | |
| Basic and diluted shares | 11,842,859 | 11,847,359 | 11,844,165 | 11,854,350 |

There were 370,090 and 797,634 stock options that were antidilutive for the three-month and nine-month periods, respectively, ended July 31, 2001 (507,289 and 371,875 for the three-month and nine-month periods, respectively, ended July 31, 2000).

NOTE 14 -- 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 owners. The components of comprehensive income, net of tax, are as follows:

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net income | $ 12,913 | $ 18,829 | $ 74,446 | $ 55,807 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 1,359 | (949) | (509) | (572) |
| Change in market value of interest rate swaps | (2,760) | -- | (6,878) | -- |
| Comprehensive income | $ 11,512 | $ 17,880 | $ 67,059 | $ 55,235 |

As described in Note 10, the Company adopted SFAS Nos. 133, 137 and 138 on November 1, 2000 and, accordingly, the change in the market value of interest rate swaps is not recognized as a component of comprehensive income prior to adoption.

NOTE 15 -- BUSINESS SEGMENT INFORMATION

The Company operates in three business segments: Industrial Shipping Containers; Containerboard & Corrugated Products; and Timber.

Operations in the Industrial Shipping Containers segment involve the production and sale of shipping containers. These products are manufactured and sold in over 40 countries throughout the world.

Operations in the Containerboard & Corrugated Products segment involve the production and sale of containerboard, both virgin and recycled, and related corrugated sheets, corrugated containers and multiwall bags. The products are manufactured and sold in North America.

Operations in the Timber segment involve the management and sale of timber on approximately 275,000 acres of timberlands in the states of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi and Virginia.

The Company's reportable segments are strategic business units that offer different products. The Company evaluates performance and allocates resources based on earnings before interest, income taxes, depreciation, depletion and amortization ("EBITDA"). The accounting policies of the

reportable segments are the same as those described in the "Description of Business and Summary of Significant Accounting Policies" note in the 2000 Annual Report except that the Company accounts for inventories on a first-in, first-out basis at the segment level compared to a last-in, first-out basis at the consolidated level in the United States.

Corporate and other includes the costs associated with the Company's corporate headquarters, the Company's long-term obligations and other non-segment items.

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

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net sales: | | | | |
| Industrial shipping containers | $333,700 | $122,994 | $ 697,643 | $363,199 |
| Containerboard & corrugated products | 91,790 | 105,391 | 285,090 | 317,661 |
| Timber | 10,275 | 15,471 | 28,514 | 35,446 |
| Total | $435,765 | $243,856 | $1,011,247 | $716,306 |
| EBITDA: | | | | |
| Industrial shipping containers | $34,750 | $14,022 | $ 65,298 | $44,353 |
| Containerboard & corrugated products | 22,205 | 19,123 | 65,654 | 61,600 |
| Timber | 9,371 | 13,874 | 103,150 | 37,072 |
| Total segment | 66,326 | 47,019 | 234,102 | 143,025 |
| Restructuring charge | -- | -- | (11,534) | -- |
| Corporate and other | (9,589) | (7,823) | (27,380) | (22,658) |
| Total EBITDA | 56,737 | 39,196 | 195,188 | 120,367 |
| Depreciation, depletion and amortization | (23,450) | (11,209) | (57,462) | (35,498) |
| Interest expense, net | (17,048) | (3,524) | (29,265) | (10,493) |
| Foreign currency translation | 448 | | 591 | -- |
| Income before income taxes, minority interest and equity in earnings of affiliates | $16,687 | $24,463 | $109,052 | $ 74,376 |

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Depreciation, depletion and amortization: | | | | |
| Industrial shipping containers | $16,180 | $4,767 | $32,581 | $16,356 |
| Containerboard & corrugated products | 5,476 | 5,594 | 16,701 | 16,743 |
| Timber | 446 | 77 | 4,382 | 229 |
| Total segment | 22,102 | 10,438 | 53,664 | 33,328 |
| Corporate and other | 1,348 | 771 | 3,798 | 2,170 |
| Total | $23,450 | $11,209 | $57,462 | $35,498 |

| | July 31, 2001 | October 31, 2000 |
|---|---|---|
| Total assets: | | |
| Industrial shipping containers | $1,052,835 | $397,741 |
| Containerboard & corrugated products | 348,558 | 350,791 |
| Timber | 103,405 | 29,472 |
| Total segment | 1,504,798 | 778,004 |
| Corporate and other | 272,640 | 161,327 |
| Total | $1,777,438 | $939,331 |

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

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| North America | $260,363 | $243,856 | $ 720,642 | $716,306 |
| Europe | 111,385 | -- | 183,763 | -- |
| Other | 64,017 | -- | 106,842 | -- |
| Total | $435,765 | $243,856 | $1,011,247 | $716,306 |

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

| | July 31, 2001 | October 31, 2000 |
|---|---|---|
| North America | $1,225,303 | $939,331 |
| Europe | 336,711 | -- |
| Other | 215,424 | -- |
| Total | $1,777,438 | $939,331 |

NOTE 16 -- RECENT ACCOUNTING STANDARDS

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which is effective for the fourth quarter of 2001 for the Company. SAB No. 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company does not believe that SAB No. 101 will have a material impact on its results of operations.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires use of the purchase method for business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill no longer be amortized, but instead be periodically reviewed for impairment. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001. However, earlier application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued previously. In all cases, the provisions of SFAS No. 142 shall be initially applied at the beginning of a fiscal year. The Company is reviewing these standards and has not yet determined their impact on its consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

The following comparative information is presented for the three-month and nine-month periods ended July 31, 2001 and 2000. Historically, revenues and earnings may or may not be representative of future operating results due to various economic factors. As previously reported, on March 2, 2001, the Company acquired Van Leer Industrial Packaging (see Note 3 to the Consolidated Financial Statements contained in Item I). As such, the consolidated financial statements include three months of results for the three-month period ended July 31, 2001 and five months of results for the nine-month period ended July 31, 2001 related to the Van Leer Industrial Packaging operations.

Third Quarter Results:

Net sales increased $191.9 million or 78.7% during the third quarter of 2001 as compared to the same period last year. The increase was due to the inclusion of Van Leer Industrial Packaging net sales of $227.2 million, which was partially offset by lower sales volume in the existing Industrial Shipping Containers and Containerboard & Corrugated Products segments, and lower Timber segment sales.

The Industrial Shipping Containers segment had an increase in net sales of $210.7 million or 171.3% primarily due to the acquisition of Van Leer Industrial Packaging, which contributed $227.2 million to net sales during the third quarter of 2001. A decrease in customer demand caused by continued weakness in the U.S. economy, particularly in the chemical industry, partially offset this increase in net sales.

The Containerboard & Corrugated Products segment had a decrease in net sales of $13.6 million or 12.9% as compared to the same period last year. This reduction in net sales was caused by lower customer demand for corrugated containers due to continued weakness in the U.S. economy. Net sales were also affected by more competitive pricing in the Company's markets, and lower average sales price for linerboard and medium during the third quarter of 2001 compared to 2000.

Net sales of the Timber segment decreased $5.2 million from $15.5 million during the third quarter of 2000 to $10.3 million during the third quarter of 2001. This decrease was due to the lower volume of scheduled timber sales in the third quarter of 2001. While timber sales are subject to quarterly fluctuations, the Company seeks to maintain a consistent cutting schedule, within the limits of market and weather conditions.

The sales of timber are recorded as net sales, while timberland sales are included in gain on sale of timberlands. The gains on sale of timberlands are slightly higher in the third quarter of 2001 than in the third quarter of 2000.

Other income decreased to $2.3 million during the third quarter of 2001 from $2.4 million during the same period last year. Other income is primarily comprised of gains on the sale of facilities.

The cost of products sold, as a percentage of net sales, increased from 76.6% last period to 79.1% this period. The increase was primarily due to the inclusion of Van Leer Industrial Packaging, which contributed to a higher cost of products sold, as a percentage of net sales, due to lower gross margins than the Company's other products. In addition, Timber segment sales, which have a lower cost associated with them, were below the prior period. Lower raw material costs, which more than offset the lower sales volume, in the Containerboard & Corrugated Products segment partially offset this increase.

Net interest expense during the third quarter of 2001 increased to $17.0 million from $3.5 million during the same period last year. The increase was primarily due to higher average debt outstanding this period as a result of the Van Leer Industrial Packaging acquisition compared to last period.

Equity in earnings of affiliates was $2.8 million for the third quarter of 2001 versus $3.6 million for the same period last year. This income represents the Company's equity interest in CorrChoice's net income and, to a lesser extent, the Company's share of Abzac-Greif, South Coast-Van Leer Texas, LLC, Socer-Embalagens, Lda. and Balmer Lawrie-Van Leer's net income (see Note 8 to the Consolidated Financial Statements contained in Item I).

Year-to-Date Results:

Net sales increased $294.9 million or 41.2% during the first nine months of 2001 compared to the same period last year. The increase was primarily due to the inclusion of Van Leer Industrial Packaging net sales of $374.9 million, which was partially offset by lower sales volume in the existing Industrial Shipping Containers and Containerboard & Corrugated Products segments. Timber segment sales were lower during the nine months ended July 31, 2001 compared to a year ago.

The Industrial Shipping Containers segment had an increase in net sales of $334.4 million or 92.1% primarily due to the acquisition of Van Leer Industrial Packaging, which contributed $374.9 million to net sales during the year-to-date period ended July 31, 2001. A decrease in customer demand caused by weakness in the U.S. economy, particularly in the chemical industry, partially offset this increase in net sales. In addition, net sales to the agricultural sector were lower in the first quarter of 2001 compared to 2000 due to the late harvest of certain crops during 1999, which extended into the first quarter of 2000.

The Containerboard & Corrugated Products segment had a decrease in net sales of $32.6 million or 10.3% as compared to the same period last year. This reduction in net sales was caused by lower customer demand for corrugated containers and containerboard due to continued weakness in the U.S. economy. Net sales were also affected by more competitive pricing in the Company's markets, and lower average sales price for linerboard and medium during 2001 as compared to 2000.

Net sales of the Timber segment decreased $6.9 million from $35.4 million during the first nine months of 2000 to $28.5 million during the first nine months of 2001. While timber sales are subject to fluctuations, the Company seeks to maintain a consistent cutting schedule, within the limits of market and weather conditions.

The sales of timber are recorded as net sales, while timberland sales are included in gain on sale of timberlands. The gains on sale of timberlands were $78.7 million for 2001 as compared to $6.4 million last year (see "Timberland Transactions" below).

Other income decreased to $4.3 million during the first nine months of 2001 from $5.7 million during the same period last year. Other income is primarily comprised of gains on the sale of facilities.

The cost of products sold, as a percentage of net sales, increased from 76.9% last period to 79.4% this period. The increase was primarily due to the inclusion of Van Leer Industrial Packaging, which has contributed to a higher cost of products sold, as a percentage of net sales, due to lower gross margins than the Company's other products. In addition, Timber segment sales, which have a lower cost associated with them, were below the prior period. This increase was partially offset by lower raw material costs, which more than offset the lower sales volume, in the Containerboard & Corrugated Products segment.

During the second quarter of 2001, the Company recognized a restructuring charge of $11.5 million resulting from a plan to consolidate six of the Company's existing Industrial Shipping Container operations and eliminate redundant administrative functions in North America (see Note 4 to the Consolidated Financial Statements contained in Item I). In connection with the acquisition and consolidation plan, an additional five facilities in North America, South America and Japan, which were purchased as part of the Van Leer Industrial Packaging acquisition, are being closed. Certain redundant administrative positions will also be eliminated as part of this plan. Accordingly, the Company recorded a $14.8 million restructuring liability related to these locations. The Company's management believes that, upon completion of the consolidation plan, positive contributions to earnings on an annualized basis from these actions will be approximately $27.5 million.

Net interest expense during the first nine months of 2001 increased to $29.3 million from $10.5 million during the same period last year. The increase was primarily due to higher average debt outstanding this period as a result of the Van Leer Industrial Packaging acquisition compared to last period.

Equity in earnings of affiliates was $7.1 million for the first nine months of 2001 versus $10.1 million for the same period last year. This income represents the Company's equity interest in CorrChoice's net income and, to a lesser extent, the Company's share of Abzac-Greif, South Coast-Van Leer Texas, LLC, Socer-Embalagens, Lda. and Balmer Lawrie-Van Leer's net income (see Note 8 to the Consolidated Financial Statements contained in Item I).

Timberland Transactions:

In December 2000, the Company sold certain hardwood timberlands situated in Arkansas, Mississippi and Louisiana for $44.4 million. As such, the Company recognized a gain of $43.0 million during the first quarter of 2001 related to this transaction. In a related agreement, the Company sold other hardwood timberlands for $30.0 million in March 2001, and recognized a gain of $27.7 million during the second quarter of 2001. A total of approximately 65,000 acres of timber properties were sold as a result of these transactions.

In a separate transaction during December 2000, the Company purchased certain softwood timberlands situated in Louisiana for $42.8 million. In a related agreement, the Company purchased other softwood timberlands for $43.1 million in March 2001. A total of approximately 63,000 acres of timber properties were purchased as a result of these transactions.

For tax purposes, these sale and purchase transactions will be treated as like-kind exchanges pursuant to Section 1031 of the Internal Revenue Code, and will result in a deferral of the tax gain on the sale transactions.

LIQUIDITY AND CAPITAL RESOURCES

As reflected by the Consolidated Balance Sheet at July 31, 2001 and discussed in greater detail in the 2000 Annual Report, the Company is dedicated to maintaining a strong financial position. It is management's belief that this dedication is extremely important during all economic times.

As discussed in the 2000 Annual Report, the Company is subject to the economic conditions of the market in which it operates. During this period, the Company has been able to utilize its financial strength to meet its continued business needs.

The current ratio of 1.8:1 as of July 31, 2001 is an indication of the Company's continued dedication to strong liquidity.

Investments in Business Expansion:

Capital expenditures were $35.8 million during the nine months ended July 31, 2001, excluding the purchase of timber properties ($88.6 million).

Van Leer Industrial Packaging Acquisition:

As previously reported, on March 2, 2001, pursuant to the terms of Share Purchase Agreement, dated October 27, 2000, as amended on January 5, 2001 and February 28, 2001, between the Company and Huhtamaki, the Company acquired all of the issued share capital of Van Leer Industrial Packaging for $555.0 million less the amount of Van Leer Industrial Packaging's debt and certain other obligations ($206.4 million) as of the closing date. Van Leer Industrial Packaging is a worldwide provider of industrial packaging and components, including steel, fibre and plastic drums, polycarbonate water bottles, intermediate bulk containers and closure systems, with operations in over 40 countries.

On March 2, 2001, the Company and Greif Spain Holdings, S.L. entered into a $900 million Senior Secured Credit Agreement with a syndicate of lenders. A portion of the proceeds from the Senior Secured Credit Agreement was used to fund the Van Leer Industrial Packaging acquisition and to refinance amounts outstanding under the Company's then existing revolving credit facility. The Senior Secured Credit Agreement provides for three term loans, a $150 million U.S. Dollar Term Loan A, a $200 million Euro Term Loan A and a $400 million Term Loan B, and a $150 million revolving multicurrency credit facility. At July 31, 2001, there was $119.6 million available under the $150 million revolving multicurrency credit facility. The revolving multicurrency credit facility is available for working capital and general corporate purposes.

The Term Loan A (both U.S. Dollar and Euro) and Term Loan B periodically reduce through the maturity date of February 28, 2006 and February 29, 2008, respectively. The revolving multicurrency credit facility matures on February 28, 2006. The Company is required to pay a facility fee each quarter equal to .094% to .125% of the total commitment amount based upon the Company's leverage ratio. Interest is based on either a LIBOR rate or an alternative base rate plus a calculated margin amount and resets on a quarterly basis.

The Senior Secured Credit Agreement contains certain covenants, including financial covenants that require the Company to maintain a certain leverage ratio, sufficient coverage of interest expense and fixed charges, and a minimum net worth. In addition, the Company is limited with respect to the incurrence of additional debt. The repayment of this facility is secured by a first lien on substantially all of the personal property and certain of the real property of the Company. Standard & Poor's and Moody's Investors Service have assigned a "BB" rating and a "Ba3" rating, respectively, to the loan obligations of the Company under the Senior Secured Credit Agreement.

Balance Sheet Changes:

The increases in assets and liabilities were primarily due to the acquisition of Van Leer Industrial Packaging on March 2, 2001.

The increases in timber properties and land were primarily due to the purchase of 63,000 acres of pine timber and land in Louisiana for $85.9 million. In addition, the Van Leer Industrial Packaging acquisition contributed to the increase in land.

The increase in long-term debt was the result of borrowings under the Company's Senior Secured Credit Agreement, which was used to fund the Van Leer Industrial Packaging acquisition and to refinance amounts outstanding under the Company's then existing credit facility. This increase was partially offset by payments on long-term debt.

The increase in deferred tax liability was primarily due to the sale of 65,000 acres of hardwood timber for $74.4 million, and the Van Leer Industrial Packaging acquisition. During the nine months ended July 31, 2001, a gain of $78.7 million, which included a $70.7 million gain from the sale of the 65,000 acres of hardwood timber, was recognized on the sale of timberlands. The tax gain is being deferred pursuant to Section 1031 of the Internal Revenue Code.

Other Liquidity Matters:

During 1997, the Company embarked on a program to implement a new management information system. The purpose of the new management information system is to focus on using information technology to link operations in order to become a low-cost producer and more effectively service the Company's customers. The ultimate cost of this project is dependent upon management's final determination of the locations, timing and extent of integration of the new management information system. As of July 31, 2001, the Company has spent approximately $32 million towards this project. While this program is not complete, with regard to the manufacturing and sales modules, the centralized finance module is in place. As such, amortization has begun on approximately $20 million of this amount. The capitalized costs of the project are being amortized on a straight-line basis over a seven-year period.

In addition to the new management information system, as described above, the Company has approved future purchases of approximately $19 million. These purchases are primarily to replace and improve equipment.

Borrowing and self-financing have been the primary sources for past capital expenditures and acquisitions. The Company anticipates financing future capital expenditures in a like manner and believes that it will have adequate funds available for planned expenditures.

Share Repurchase Program:

During the first nine months of 2001, the Company repurchased 4,500 shares of Class B Common Stock. As of July 31, 2001, the Company had repurchased 564,410 shares, including 405,476 Class A common shares and 158,934 Class B common shares.

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Some of the information in this Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate," "project" and similar expressions, among others, identify forward-looking statements. Forward-looking statements speak only as of the date the statement was made. Such forward-looking statements are subject to certain risks and uncertainties that could cause the Company's actual results to differ materially from those projected. Such risks and uncertainties that might cause a difference include, but are not limited to, changes in general business and economic conditions, the relative strength of the U.S. dollar compared with other foreign currencies, capacity levels in the containerboard market, competitive pricing pressures, in particular with respect to the price of paper, litigation or claims against the Company pertaining to environmental, product liability and safety and health matters, risks associated with the Company's acquisition strategy, in particular the Company's ability to locate and acquire other businesses, the Company's ability to integrate its newly acquired operations effectively with its existing businesses, the Company's ability to achieve improved operating efficiencies and capabilities sufficient to offset consolidation expenses and the frequency and volume of sales of the Company's timber and timberlands. These and other risks and uncertainties that could materially affect the financial results of the Company are further discussed in the Company's filings with the Securities and Exchange Commission, including the Company's Form 10-K for the year ended October 31, 2000.

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

There is no change in the quantitative and qualitative disclosures about the Company's market risk from the disclosures contained in the Company's Annual Report on Form 10-K for the year ended October 31, 2000, except as set forth below.

Interest Rate Risk:

The Company is subject to interest rate risk related to its financial instruments, which include borrowings under its $900 million Senior Secured Credit Agreement that was entered into on March 2, 2001, and interest rate swap agreements (see Notes 9 and 10 to the Consolidated Financial Statements contained in Item I).

Foreign Currency Risk:

On March 2, 2001, the Company acquired Van Leer Industrial Packaging, an industrial shipping containers manufacturer with operations in over 40 countries. Consequently, the Company's operating income is potentially affected to a significant degree by fluctuations in foreign currency exchange rates. However, given the geographic presence of the Company's operations, the Company mitigates this exposure to some degree. The Company's transaction exposure is somewhat limited due to the Company both producing and selling a majority of its products within each respective country. In certain circumstances, the Company will use short-term foreign currency hedges to cover operational costs that are denominated in non-functional currencies or to hedge short-term intercompany balances. Such contracts limit the Company's exposure to both favorable and unfavorable foreign currency fluctuations. The Company is in the process of evaluating its transaction and translation foreign currency exposures on a consolidated basis to determine the extent that any future foreign currency hedges are necessary.

## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b.) Reports on Form 8-K.

No events occurred requiring a Form 8-K to be filed.

SIGNATURES

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

Greif Bros. Corporation

(Registrant)

Date: September 13, 2001

/s/ Joseph W. Reed

Joseph W. Reed
Chief Financial Officer and Secretary
(Duly Authorized Signatory)