DECKERS OUTDOOR CORP
Form 10-K
February 29, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to
Commission File No. 0-22446

DECKERS OUTDOOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-3015862**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
495-A South Fairview Avenue, Goleta, California	**93117**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (805) 967-7611

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	**Name of each exchange on which registered**
Common Stock, Par value $0.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act. Yes o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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.

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was $1,244,870,298 based on the June 29, 2007 closing price of $100.90 on the NASDAQ Global Select Market on such date.

The number of shares of the registrant's Common Stock outstanding at February 15, 2008 was 13,006,358.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the registrant's 2008 annual meeting of stockholders, which will be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended December 31, 2007, are incorporated by reference in Part III of this Annual Report on Form 10-K.

DECKERS OUTDOOR CORPORATION
For the Fiscal Year Ended December 31, 2007

Table of Contents to Annual Report on Form 10-K

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	18
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	31
Item 3.	Legal Proceedings	31
Item 4.	Submission of Matters to a Vote of Security Holders	31
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
Item 6.	Selected Financial Data	35
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation	36
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	53
Item 8.	Financial Statements and Supplementary Data	53
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	53
Item 9A.	Controls and Procedures	54
Item 9B.	Other Information	55
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	56
Item 11.	Executive Compensation	56
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	56
Item 13.	Certain Relationships and Related Transactions, and Director Independence	56
Item 14.	Principal Accounting Fees and Services	56
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	57
Signatures		62

PART I

References in this Annual Report on Form 10-K to "Deckers", "we", "our", "us", or the "Company" refer to Deckers Outdoor Corporation. This Annual Report on Form 10-K contains forward-looking statements based on expectations, estimates and projections as of the date of this filing. Actual results may differ materially from those expressed in forward-looking statements. See Item 7 of Part II "Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements." Deckers®, ecoSNEAKS , GO.DO.BE®, Green Piggies , Mush®, Planet Walkers®, Pretty Rugged®, Simple®, Spider Rubber®, Terra-Fi®, Teva®, UGG®, and Wraptor® are some of our trademarks. Some of our graphic trademarks are shown below:

Other trademarks or trade names appearing elsewhere in this report are the property of their respective owners.

Item 1. *Business.*

Unless otherwise specifically indicated, all dollar amounts herein are expressed in thousands, except for weighted-average wholesale prices per pair and suggested retail prices for our footwear and accessories.

General

We are a leading designer, producer and brand manager of innovative, high-quality footwear and the category creator in the sport sandal, luxury sheepskin, and sustainable footwear segments. Our footwear is distinctive and appeals broadly to men, women and children. We sell our products, including accessories such as handbags, headwear, packs and outerwear, through quality domestic retailers and international distributors and directly to end-user consumers through our websites, catalogs, retail concept stores and retail outlet stores. Our primary objective is to build our footwear lines into global lifestyle brands with market leadership positions.

We market our products under three proprietary brands:

Teva®. Teva is our outdoor performance and lifestyle brand and pioneer of the sport sandal market. The Teva brand was founded in the 1980s to serve the demanding footwear needs of the professional river guide. This authentic heritage and commitment to function and performance remain core elements of the Teva brand. The Teva product line has expanded to include casual open-toe and closed-toe footwear, including adventure travel shoes, outdoor cross training shoes, trail running shoes, amphibious footwear, light hikers and other rugged outdoor footwear styles and accessories.

From 1985 until November 2002, we sold our Teva products under a license agreement with the brand's founder, Mark Thatcher. In November 2002, we acquired all of the Teva worldwide assets, including the Teva eCommerce business and all patents, trade names, trademarks and other

intellectual property associated with the acquired Teva assets, which we refer to collectively as the Teva Rights. We acquired the Teva Rights from Mr. Thatcher and his wholly-owned corporation, Teva Sport Sandals, Inc.

In recent seasons, we have focused on strengthening Teva's leadership position in the performance sandal market, and broadening that performance platform to include other outdoor activities such as trail running and light hiking. In 2008, we are introducing Teva's first complete line of fall and winter footwear. In the future, we intend to selectively expand our activity in the outdoor performance and lifestyle arenas.

UGG® UGG Australia is our luxury comfort brand and the category creator for luxury sheepskin footwear. The UGG brand has enjoyed several years of strong growth and positive consumer reception, driven by consistent introductions of new styles, introductions of UGG brand products in the fall and spring seasons and geographic distribution expansion. We carefully manage the distribution of our UGG brand products within high-end specialty and department store retailers in order to best reach our target consumers, preserve the UGG brand's retail channel positioning and maintain the UGG brand's position as a mid- to upper-price luxury brand.

The UGG brand gained brand recognition in the U.S. beginning in 1979 and was adopted as a favored brand by the California surf community. We acquired the UGG brand in 1995 and have carefully repositioned the brand as a luxury comfort collection sold through high-end retailers. In recent years, sales of UGG brand products have benefited from significant national media attention and celebrity endorsement through our marketing programs and product placement activities, raising the profile of UGG as a luxury comfort brand. We intend to further support the UGG brand's market positioning by expanding the selection of styles available in order to build consumer interest in our UGG brand collection. We also remain committed to limiting distribution of UGG brand products to high-end retail channels.

Simple®. Simple Shoes began in 1991 as an alternative to all the over-built, over-priced, and over-hyped products in the marketplace. The brand's legacy was built on its original sneaker design, the Old School Sneaker, and grew to include successful sandal and casual products. In 2005, as a response to the massive amount of waste produced by the footwear industry, the Simple brand launched a new collection of sustainable footwear called Green Toe®. Green Toe represents a revolutionary shift in thinking about footwear by building a shoe from the inside out using sustainable materials and processes. The Simple brand's mission is to be the world leader in sustainable footwear and accessories. We feel that how we make Simple products is just as important as why we make them. That means our goal is to find more sustainable and innovative ways of doing business as well as making products. We are committed to making Simple products 100% sustainable; thus, minimizing the ecological footprint left on the planet.

Through continued innovation, expansion of product offerings, premium distribution and strategic marketing initiatives, we have successfully developed three premier lifestyle brands. Our total net sales increased by 47.5% from $304,423 in 2006 to 448,929 in 2007, and our income from operations increased by 105.2% from $51,442 in 2006, which included a $15,300 impairment loss on our Teva trademarks, to $105,553 in 2007. For 2007, wholesale shipments of Teva, UGG and Simple products aggregated $82,003, $291,908 and $11,163, respectively, and represented 18.3%, 65.0% and 2.5% of our total net sales, respectively. Sales of our brands through our eCommerce division and our retail store division, which are in addition to our wholesale shipments, were $45,473 and $18,382, respectively, representing 10.1% and 4.1%, respectively, of total net sales in 2007.

History

Deckers was founded by Doug Otto in 1973 as a domestic manufacturer of sandals. We originally manufactured a single line of sandals under the Deckers brand name in a small factory in Carpinteria,

California. Since then, we have grown through the development and licensing of proprietary technology, targeted marketing and selective acquisitions. In 1985, we entered into our first license agreement for Teva sport sandals with Teva's founder, Mark Thatcher. In 1986, we developed the Universal Strapping System, establishing Teva as the sport sandal category-creator and generating significant national attention for the Teva brand.

Deckers experienced a period of rapid growth during the late 1980s and completed our initial public offering in 1993. As our sales grew, we terminated our manufacturing operations in the U.S., Mexico and Costa Rica, and today independent manufacturers in China and New Zealand manufacture all of our footwear products for us. We maintain our own offices in China and Macau to monitor the operations of our manufacturers in China.

In order to diversify our sales, and leverage our product development and sourcing capabilities, we completed the acquisition of the Simple brand from its founder in a series of transactions between 1993 and 1996. In 1995, we acquired the UGG brand from its founders, after which we initiated a repositioning of the line, focusing on comfort, luxury and premium distribution channels and developing products that appeal to consumers in a variety of climates.

Business Strategies

We seek to differentiate our brands by offering diverse lines that emphasize authenticity, functionality, quality and comfort and products tailored to a variety of activities, seasons and demographic groups. Key elements of our business strategies are:

Building Leading Global Brands. Our mission is to build niche footwear lines into global brands with market leadership positions. Our Teva, UGG and Simple brands began as footwear lines appealing to a narrow core enthusiast market. We have since built these lines into substantial global lifestyle brands with potential for further growth and line extensions. Across our brands, our styles remain true to the brands' heritage but have been selectively extended over time to broaden their appeal to men, women and children seeking high quality, comfortable styles for everyday use. Furthermore, we actively manage our brands to ensure that we reach brand appropriate retail distribution channels. We believe that building our brand image is best accomplished through a decentralized management structure that empowers a single brand manager for each brand to coordinate all aspects of brand image, from product development to marketing and retail channel management.

Sustaining Brand Authenticity. We believe our ability to increase sales, sustain strong gross margins, and maintain market share results, in part, from the appeal of our brand heritage. We believe that Teva footwear consumers are passionate and serious about the outdoors. Our Teva brand marketing programs focus on performance of our products, and feature national advertising in outdoor-oriented media as well as sponsorship of outdoor events and professional athletes. These efforts reinforce the Teva brand's heritage and positioning as a highly technical, performance-oriented outdoor footwear brand. Our UGG brand marketing strategy positions our products as a premium, luxury collection but also as functional footwear; UGG brand products are primarily marketed through national print advertising in major magazines and through our retailers and their catalogs and advertising. Historically, our marketing for UGG brand products has been focused on women, but with the recent introduction of innovative men's styles, we are increasing our marketing appeal to men through advertisements in national men's magazines with a continued focus on lifestyle and comfort. We promote our Simple brand by emphasizing that we make fun, casual, comfortable and sustainable footwear. Our goal for the Simple brand is to create a dialogue with the consumer through all communication vehicles and to show people that sustainability is an emerging lifestyle for everyone, not just environmentally conscious individuals. Our print advertising campaigns for our Simple brand include national publications and alternative weekly publications in select cities around the world. We also have an online advertising campaign that reaches consumers through websites that focus on

sustainability as well as pop culture. In 2007, we also sponsored environmental-themed concerts, film festivals, and green expos to showcase and tell the sustainable lifestyle brand story.

Driving Demand Through Innovation and Technical Leadership. We believe our reputation for innovation and technical leadership distinguishes our products from those of our competitors and provides us with significant competitive advantages. Just as our proprietary Universal Strapping System set the performance standard for sport sandals in the mid-1980s, more recent technical advances like our Spider Rubber® and our Teva Wraptor®, Wraptor-Lite®, and Drain Frame which we introduced in 2007, all provide uncompromised performance for the new outdoor athlete. We also continue to develop innovative styles, products and product categories for our UGG collection in order to support the UGG brand's positioning as a functional lifestyle brand, which can be worn in a variety of climates and weather conditions. The UGG brand has benefited from our continuing expansion into non-boot casuals, sheepskin-trimmed footwear and styles combining sheepskin with fine-grade suede and leathers, all designed to expand our market share in new categories and increase our sales in both the fall and spring selling seasons. The goal of the Simple brand is to revolutionize the footwear industry by producing 100% sustainable products. We believe that consumers are increasingly interested in living an environmentally friendly lifestyle and seeking out sustainable products. We are at the forefront of the industry in using new sustainable materials, such as bamboo, organic cotton, natural latex and cork combinations, recycled car tires, and recycled PET (from plastic water bottles) throughout our product line. The Simple brand will continue to innovate with the goal of achieving 100% sustainability in design, development, and material applications.

Maintaining Efficient Development and Production Processes. We believe our product development processes enable us to produce leading edge products on a timely and a cost effective basis. We design our products domestically. We maintain on-site supervisory offices in Pan Yu City, China and Macau that serve as local links to our independent manufacturers in China. This enables us to carefully monitor the production process, from receipt of the design brief to production of interim and final samples to shipment of finished product. We believe this local presence provides greater predictability of material availability, product flow and adherence to final design specifications than we could otherwise achieve through an agency arrangement.

Growth Strategies

Our growth will depend upon our broadening of the products offered under each brand, expanding domestic and international distribution, licensing our brand names and developing or acquiring new brands. Specifically, we intend to:

Introduce New Categories and Styles under Existing Brands. We intend to increase our sales by developing and introducing additional footwear products under our existing brands that meet our high standards of performance, practicality, authenticity, comfort and quality. We have expanded the open-toe footwear category under our Teva brand by launching new casual and performance styles, as well as several new sandal styles that provide increased foot coverage and protection. We have also introduced several closed-toe performance styles and collections, including amphibious footwear, light hikers, trail runners and outdoor cross trainers. We plan to further expand into the casual outdoor footwear market, which, in the aggregate, is considerably larger than the market for the Teva brand's core sport sandals. We have expanded our UGG product collection to incorporate additional styles and fabrications in order to further penetrate the fall, spring and winter seasons. We have expanded our men's and kids' product line and have introduced a cold-weather series featuring sheepskin, waterproof eVent uppers and Vibram outsoles. Our UGG brand has enhanced its Spring 2008 collection by introducing new fashion comfort categories for men, women and children. In response to the positive market reaction to espadrilles that our UGG brand introduced in 2007, we expanded that category as well with new styles and new heel heights.

As the sustainability lifestyle movement is reaching the mainstream market, our goal for the Simple brand is to lead the industry through new product innovations and pursue new solutions to make our business practices more sustainable. The influence of our Green Toe collection, products made primarily from sustainable materials, is seen throughout the entire Simple product line, especially in our sneaker segment with the introduction of ecoSNEAKS in 2007. We also expanded our kids' and infants' collection with Green Piggies . This collection of products follows the same guidelines as Green Toe. We round out the entire lifestyle of the Simple brand with our bag collection, which we launched in the 2006 holiday season and expanded in 2007. By introducing new categories under our brands, in particular, the closed-toe footwear under our Teva brand and the spring product offerings under our UGG brand, we believe we will expand the selling seasons for our brands with the goal of increasing sales and creating a more balanced year round business for each of these brands.

Expand Domestic Distribution. We believe that we have significant opportunities to increase our sales by expanding domestic distribution of our products. Our Teva brand has historically been distributed through the outdoor specialty, sporting goods and department store retail channels. In addition, we see the potential for expansion into the athletic specialty and running specialty sales channels, with strategic and focused product and marketing programs. The UGG brand originally realized a substantial portion of its sales in California. Today, we have a more balanced business, increasing our business significantly in the Midwest and North East. For our Simple line, we are focusing distribution on specialty independent retailers, department stores, outdoor retailers, and surf shops for our broad product offering, as well as the introduction into the health and wellness retail channel through our Green Toe offering of ecologically friendly footwear. We also plan to expand through internet sales, as consumers have continued to increase their reliance on the internet for footwear and other purchases. Further, we currently plan to open one additional retail outlet store and two additional UGG brand concept stores in major metropolitan areas by the end of 2008.

Expand International Distribution. In 2007, our international net sales totaled $62,336, representing approximately 13.9% of total net sales, an increase of 62.6% compared to 2006. The majority of our international sales occurred in Europe, with the remainder primarily in Asia, Canada and Latin America. In addition to our existing European regional office in London, during 2007 we opened a regional office in Hong Kong. To ensure we continue to drive growth and effectively implement our international strategies, we also strengthened our international team with a primary focus on sales and marketing, as well as sales operations and customer service.

We intend to further strengthen our international infrastructure to ensure optimum results with both short and long-term goals in mind. We will continue to work closely with our distributors on the effective management of our business objectives and brand strategies. In addition to our existing retail distribution, we plan to explore additional avenues to make our products available to international consumers, including the expansion of our business through internet sales and the potential opening of stand-alone brand stores as appropriate opportunities arise, particularly in the case of UGG Australia.

Pursue Licensing of Brands in Complementary Product Lines. We are actively pursuing selective licensing of our brand names in product categories beyond footwear. Previously, we introduced UGG brand licensed handbags, outerwear, and cold weather accessories for the domestic market and expanded into select international markets, beginning with handbags. In 2006, we launched our cold weather accessories and outerwear licenses internationally. We also restructured our domestic Teva product licensing program, which currently consists of headwear, bags and packs. In December 2007, we entered into our first licensing agreement for our Simple brand as a licensee for the Collegiate Licensing Company. Our Simple brand will be licensing the Collegiate Licensing Company trademarks on its Toe Foo and Retire footwear styles to select U.S. universities. We intend to introduce these licensed products to the market in Fall 2008. We are developing additional licensing programs carefully to ensure that licensed goods remain consistent with our brands' heritage and image. Because this

licensing strategy is in its early stages, and due to the lead times required to bring the products to market, we have only recently begun to recognize license revenues, and we do not expect significant incremental net sales and profits from licensing in the near future.

Build New Brands. We continue to explore ways to expand the number of brands that we manage. We have been successful previously in identifying entrepreneurial concepts for innovative, fashionable footwear targeted at niche markets and building these concepts into viable brands utilizing our expertise in product development, production and marketing. We intend to continue to identify and build or acquire new brands that demonstrate potential for significant future growth.

Products

Our primary product lines are:

Teva Performance Outdoor Footwear. We believe there has been a general shift in consumer preferences and lifestyles to include more outdoor recreational activities, including light hiking, trail running, outdoor cross training, bouldering, kayaking, kite boarding and whitewater river rafting. These consumers typically seek footwear specifically designed with the same quality and high performance attributes they have come to expect from traditional athletic footwear. The first Teva sport sandal was developed in the 1980s to meet the demanding needs of professional river rafting guides navigating the Colorado River and the rugged Grand Canyon terrain. As our core consumers' pursuits have evolved, we have retained our outdoor heritage while adding new products to our line, including slides, thongs, amphibious footwear, trail running shoes, light hiking boots and other rugged closed-toe footwear. Our brand remains popular among professional and amateur outdoor athletes seeking authentic, performance-oriented footwear, as well as among general footwear consumers seeking high quality, durable and comfortable styles for everyday use.

We market Teva products as the brand of GO.DO.BE®. This captures the lifestyle of the new outdoor athlete. The Go, the Do, and the Be each have their own unique properties and perspectives. Individually, they are elements of the outdoor experience. Together, they form the fabric of the outdoor lifestyle.

> ***Go.*** The Go product collection represents versatile, rugged, and comfortable footwear for travel, leisure, and light activities. Styles range from classic Teva sandal architecture to more compelling, contemporary designs.
>
> ***Do.*** The Do product collection is technical, lightweight footwear, engineered for the performance needs of the new outdoor athlete. Many styles include one or more of our proprietary performance technologies, such as the Wraptor Fit System, Spider Rubber traction technology, or Drain Frame technology.
>
> ***Be.*** The Be product collection is inspired by the laid-back attitude of life on the beach. Designs are simple, yet distinctive, with a premium on comfort. The styles are young, fresh and colorful for any casual lifestyle.

We introduced several new Teva products in 2007, and we plan to introduce new styles for men, women and children in the future. Our kids' product collection is a fun, colorful assortment of sandals, closed-toe, and amphibious styles for a variety of outdoor and water-based activities. The manufacturer's suggested domestic retail prices for adult sizes of the Spring 2008 Teva product collections range from $22.00 to $110.00.

UGG Footwear. Beginning in 1979, the UGG brand gained recognition in the U.S. for sheepskin boots and slippers and was later widely used by the California surf community. We acquired the brand in 1995 and expanded the collection, offering consumers a luxurious and distinctive look in sheepskin fabrications.

Our UGG product line comprises seven footwear collections, each of which includes styles for men, women and children:

Classic Collection. We offer a complete line of sheepskin boots built on the heritage and distinctive look of our first product, the Classic sheepskin boot. Our Classic Collection products are distinctive in styling, featuring an array of neutral and fashion colors.

Ultra Collection. The Ultra Collection builds upon the heritage of the original Ultra boot. These boots are designed with our comfort system, featuring a multi-surfaced rugged bottom with a heel-cushioning insert that offers enhanced traction, support and comfort. Our Ultra Collection also features a three-part insole designed to provide all-day comfort and support and a reflective barrier that captures body heat to create a natural foot warming mechanism. Our sheepskin products are naturally thermostatic, keeping feet comfortable across a wide range of temperatures.

Fashion Collection. Our Fashion Collection offers fashion forward styles for women, men, and children without compromising comfort. Luxurious materials and trend-influenced styles make this collection stand out. Within this collection is a fashion wedge group, a stacked high heel group for women, a European influenced collection for men, and fashionable styles for children.

Casual Collection. This collection features refined, sophisticated styles for men, women, and children. These footwear styles include suede and glove leather uppers, lined in a thinner insole of sheepskin for added comfort. Styles from the men's collection feature an interchangeable leather insole that allows them to be worn either with or without socks.

Surf Collection. This collection is taken from the laid-back surf lifestyle that was the original heritage of the brand. The Surf Collection features true comfort style including sandals, clogs, and boots that incorporate a thin layer of sheepskin for luxury and comfort.

Cold Weather Collection. This collection is designed with more rugged styling and features Vibram outsoles and waterproof eVent uppers designed to withstand colder, wetter climates.

Slipper Collection. Our Slipper Collection builds upon the UGG brand's reputation for comfort, warmth and luxury and is offered in a wide selection of styles and colors.

We have expanded our UGG brand collection from the Classic and Ultra sheepskin boot and slippers to a broader footwear line for men, women and children in a variety of styles, colors and materials designed for wear in a variety of climates and occasions. Over the last few years, our line expansion, distribution and high end marketing strategies, among other factors, have resulted in significantly increased exposure for our UGG brand products and have contributed to the growth of the UGG brand's year round business. The manufacturer's suggested domestic retail prices for adult sizes for the Fall 2008 UGG brand product collections range from $60.00 to $350.00.

Simple Sustainable Footwear. Finding the materials and processes that make our products sustainable is a method we call "the Green Toe process" and we measure our progress with a scale called "Good, Better, Best". The Best category represents our most sustainable shoes and bags and sets the bar for the rest of the line. Only the Best products may bear the Green Toe label. In the future, we plan to incorporate these same innovative materials and constructions in the Good and Better categories, raising the bar for the Best products.

Men's and Women's Green Toe. Part of the Best category, Green Toe products represent our efforts to reduce the ecological footprint left by shoes. Green Toe products are primarily made of sustainable materials like bamboo, jute, organic cotton, linen, coconut buttons, cork, crepe, latex, recycled car tires, and water based adhesives. This line includes sandals, loafers, mary janes, oxfords and boots.

Men's and Women's ecoSNEAKS. ecoSNEAKS are vulcanized sneakers that use old car tire outsoles, recycled PET for footbeds and shoelaces and organic cotton, thus leaving a better ecological footprint than ordinary sneakers.

Kids' Product. Our Kids' product line is made up of ecoSNEAKS and Green Piggies. Green Piggies is a kids' and infants' product collection that represents the brand's best ecological efforts through material and construction innovation. It uses materials such as organic cotton, hemp, and wool felt.

Bags. Our sustainable bag collection includes messenger bags, backpacks, totes and laptop sleeves. These are made from materials such as organic cotton, jute, hemp, coconuts and PET.

The manufacturer's suggested retail prices for our Simple brand product collections range from $24.00 to $90.00 and our Simple brand bags are priced from $20.00 to $100.00.

Sales and Distribution

We distribute our products in the U.S. through a dedicated network of approximately 47 independent sales representatives. Our sales representatives are organized geographically and by brand and visit retail stores to communicate the features, styling and technology of our products. In addition, we have 10 employee sales representatives who serve as territory representatives or key account executives for several of our largest customers. Products made under license agreements are sold primarily through the same retail channels as our footwear product offerings. Our licensing agreements generally give us the right to terminate the license if specified sales targets are not achieved.

Until mid-2005, our sales force was divided into two teams, one for Teva products and one for UGG and Simple products, as the UGG and Simple brands are generally sold through non-outdoor specialty and non-sporting goods distribution channels and are targeted toward a different consumer than our Teva brand. Beginning in mid-2005, however, we began to split the Simple and UGG brands' sales forces into two distinct groups to provide the Simple brand with its own dedicated sales function to improve its sales efforts and resources. While there is still some overlap between the sales teams, we have now established separate dedicated sales forces for each of our three brands. Each brand's respective sales manager recruits and manages his or her network of sales representatives and coordinates sales to national accounts. We believe this approach for the U.S. market maximizes the selling efforts to our national retail accounts on a cost-effective basis.

Internationally, we distribute our products through over 30 independent distributors in over 20 countries. During 2007, we commenced new distributor relationships for one or more of our brands in Scandinavia, France, China, Korea and Canada. In 2008, we plan to further develop our brands and increase our business in the key markets of the UK, Germany, Scandinavia, France, China, Japan, Korea and Canada. We will continue to analyze opportunities in the developing market economies of India, Russia and Latin America.

Our principal customers include specialty retailers, selected department stores, outdoor retailers, sporting goods retailers and shoe stores. Our five largest customers accounted for approximately 27.6% of our net sales for 2006, compared to 30.4% for 2007. One customer, Nordstrom, accounted for greater than 10% of our consolidated net sales in 2006 and 2007.

Teva. We sell our Teva products primarily through specialty outdoor sporting goods and department store retailers such as REI, Eastern Mountain Sports, L.L. Bean, Dick's Sporting Goods, The Sports Authority, Nordstrom, and Dillard's. We believe these retail channels are the first choice for athletes, outdoor enthusiasts and adventurers seeking technical and performance-oriented outdoor footwear. Furthermore, we believe that retailers who appreciate and can fully market the technical attributes of our products to the consumer best sell our Teva products.

UGG. We sell our UGG brand products primarily through high-end department stores such as Nordstrom, Neiman Marcus and Bloomingdale's, as well as independent specialty retailers such as Journey's, David Z. and Sport Chalet. We believe these retailers support the luxury positioning of our brand and are the destination shopping choice for the consumer who seeks out the fashion and functional elements of our UGG brand products.

Simple. Our Simple products are targeted primarily towards select department stores, outdoor specialty accounts, independent specialty retailers, surf shops, and health and wellness retailers that target consumers seeking comfortable, high quality, and sustainable footwear. These include key accounts such as Nordstrom, Dillard's, REI, Whole Earth Provision, Hobie Sports and Whole Foods Market.

We distribute products sold in the U.S. through our distribution centers in Ventura, California and in Camarillo, California. Our distribution centers feature an inventory management system that enables us to efficiently pick and pack products for direct shipment to retailers and distributors across the world. For certain customers requiring special handling, each shipment is pre-labeled and packed to the retailer's specifications, enabling the retailer to easily unpack our product and immediately display it on the sales floor. All incoming and outgoing shipments must meet our quality inspection process.

eCommerce. We acquired our eCommerce business as part of the acquisition of the Teva Rights in November 2002. The eCommerce business enables us to reach consumers through internet sales under the Teva.com, UGGAustralia.com and SimpleShoes.com internet addresses as well as through direct mailings for our UGG brand products under our catalog business. Our mailing list includes approximately 670,000 consumers who have purchased at least once in the past 36 months. Our eCommerce business is headquartered in Flagstaff, Arizona and order fulfillment is performed by our wholesale distribution centers in Ventura and Camarillo, California in order to reduce the cost of order cancellation, minimize out of stock positions and further leverage our distribution center occupancy costs. Products sold through our eCommerce business are sold at prices which approximate retail prices, enabling us to capture the full retail margin on each direct to consumer transaction.

Retail Stores. Our retail store business allows us to directly reach our customers and meet the growing demand for our products through our two UGG brand concept stores and our five retail outlet stores. In 2007, we opened one new retail outlet store in Woodbury, New York as well as an UGG brand concept store in Chicago, Illinois. Products sold through our concept stores are sold at prices which approximate department store prices, enabling us to capture the full retail margin on each direct to consumer transaction.

Marketing and Advertising

Our brands are generally advertised and promoted through a variety of consumer print advertising campaigns. We benefit from editorial coverage in both consumer and trade publications. Each brand's dedicated marketing team works closely with targeted accounts to maximize advertising and promotional effectiveness. We incurred approximately $10,536, $17,315 and $17,035 in advertising, marketing and promotional expenses in 2005, 2006 and 2007, respectively.

Teva. We use the following marketing methods to promote the Teva brand:

- targeted print advertising;
- sponsorship of a variety of events and competitions, such as the annual Teva Mountain Games in Vail, Colorado;
- sponsorship of athletes and teams, such as the Teva Whitewater Team and the Teva U.S. Mountain Running Team;

preferred buyer programs to professional river guides, kayakers, mountain bikers, rock climbers, and other outdoor athletes;

product seeding with various athletes and trendsetters; and

in-store promotions with key accounts.

We market the Teva brand through the placement of print advertisements in leading outdoor magazines such as *Outside, National Geographic Adventurer, Backpacker* and *Canoe and Kayak.* As we have introduced new sub-categories and collections, we have broadened our advertising presence to reach new consumers. For example, we advertise our performance trail running shoes in *Runner's World, Trail Runner* and *Running Times,* among other publications. To support our casual lines, we advertise in more mainstream publications such as *Women's Health*, *Men's Journal* and *Yoga Journal*.

The Teva brand is rooted in outdoor lifestyle pursuits such as river rafting, kayaking, bouldering, mountain biking, kite boarding, hiking and trail running. We sponsor outdoor events in the U.S. including the Teva Mountain Games at Vail, Colorado, the Teva Vail Trail Running Series and the Santa Cruz Surf Kayak Festival in Santa Cruz, California, among others. Internationally, our distributors sponsor outdoor events in France, Switzerland and Italy in order to increase our brand visibility to the European outdoor consumer. We are also the presenting sponsor of MacGillivray Freeman's new three dimensional documentary IMAX film, "*Grand Canyon Adventure, River at Risk*" scheduled to be released in IMAX theaters in March 2008. We believe our sponsorship activity in these areas links the Teva brand with its outdoor heritage and generates increased product exposure and brand awareness.

We also sponsor some of the world's best male and female professional and amateur athletes across several outdoor sports. Our Teva promotional team attends events across the U.S. The promotions team showcases Teva products at events and provides consumers with the opportunity to see and sample our latest styles. We believe by outfitting and sponsoring these highly visible athletes and teams, we create brand and product awareness among our targeted consumers.

UGG. We seek to build upon the success of our UGG brand's national print advertising campaign. We currently advertise in upscale national magazines such as *Vogue, Teen Vogue, Glamour, Vanity Fair,* and *O Magazine.* UGG Australia also began men's focused advertising with its 2005 campaign, including print advertising in *Outside, Men's Vogue, GQ,* and *Surfer.* We believe such advertising is an effective means to target our intended consumers and to convey the comfort and luxury of UGG brand products. We also benefit from editorial coverage of the UGG brand collection through numerous articles that have appeared in such magazines as *Glamour, InStyle, Cosmopolitan, Marie Claire, People, US Weekly, Maxim, Shape, Self, O Magazine* and *Real Simple.* In 2003, Footwear News, a leading industry trade publication, awarded UGG Australia "Brand of the Year." In 2004, UGG was awarded "Brand of the Year" by *Footwear Plus,* another leading trade publication, and was recognized with the ACE Award for the "it" accessory of the year by the Accessories Council. International exposure has also expanded with features in leading fashion publications like *Vogue Japan, Elle Japan, Marie Claire UK,* and *Vogue UK.*

We also actively seek to place UGG brand products at selected events. In collaboration with our distributor in Switzerland, we produced a special edition UGG brand cold weather boot featuring a matching red-outsole for the entire 2006 Swiss Olympic Team. We believe this product placement further strengthened the consumer's image of UGG brand products as high quality, luxurious sheepskin goods well-suited for use in cold weather.

We also have improved visibility of the UGG brand through placement of the product in selected television shows and feature films. UGG brand products have appeared on numerous television shows, including *Entourage, The Sopranos, Gilmore Girls, The Oprah Winfrey Show, The King of Queens, Still Standing, Will and Grace, Men in Trees, The OC, The George Lopez Show, Jeopardy* and *Saturday Night*

Live. Our marketing efforts have also resulted in UGG brand product appearances in several recent feature films. In addition, the UGG brand has been embraced by Hollywood celebrities, who are often seen and photographed wearing UGG brand boots. We believe our target consumer identifies with celebrities and that greater exposure further heightens awareness of the brand and stimulates sales.

Simple. We believe that our consumers are looking for brands that do more than their part to ensure that the world we all share is respected and cared for. Our commitment to produce and market our products in a sustainable manner reflects our consumers' commitment to purchase products made in the same fashion. We will continue to establish the brand as a leader in sustainable footwear through our marketing initiatives. This year was the first year the Simple brand introduced a national print advertising campaign targeted at various demographic groups, which included print ads targeted at the ecologically-minded consumer through magazines like *RollingStone, Vanity Fair, Outside, Surfer,* and *Surfing.* We also benefit from print and television editorial coverage of the Simple brand collection. In addition, we target online consumers through sustainability websites like Treehugger.com. We will continue to advertise on TheOnion.com, which complements our Onion print campaign in key markets. In addition, we are active on Pitchforkmedia.com, a popular independent-focused online music publication.

In 2007, we sponsored environmental-themed concerts, film festivals, and green expos to show our leadership in sustainable footwear. Our most successful events in 2007 were Jack Johnson's Kokua Festival in Hawaii and the Green Festivals in Washington, DC and Chicago. Earth Day 2007 was also a major focus for the brand. We were present at several local Earth Day celebrations in key markets such as San Francisco, New York, Boulder, Austin and Santa Barbara. Our Earth Day promotions are supported with local advertising, community outreach and extensive press coverage.

We also marketed the Simple brand through our dedicated website, SimpleShoes.com. We will continue to ensure that the consumer can visit our website and have the ultimate brand experience. We experienced a substantial increase in traffic on our website in 2007, demonstrating that our marketing is resonating positively with the consumer.

Product Design and Development

The design and product development staff for each of our brands creates new innovative footwear products that combine our standards of high quality, comfort and functionality. The design function for all of our brands is performed by a combination of our internal design and development staff plus outside design firms. By introducing outside firms to the design process, we believe we are able to review a variety of different design perspectives on a cost-efficient basis and anticipate color and style trends more quickly.

To ensure that high performance technical products continue to satisfy the requirements of the Teva brand's historical consumer base of performance-oriented "core enthusiasts," our design staff solicits input from our Teva Whitewater Team athletes, our Teva U.S. Mountain Running Team and other professional outdoor athletes, as well as several of our key retailers. We regularly add new innovations, components and styles to our product line in response to their input. For example, for 2007, our proprietary Wraptor technology was incorporated into performance watersport and trail running shoes, and light hikers. In addition, for specific traction and durability requirements, we have added variations of our proprietary Spider Rubber compound which now includes Original Spider Rubber, a sticky, non-slip rubber outsole material for use across wet and dry terrain; SSR, a super sticky rubber compound for use specifically in extreme water conditions to provide superior grip on smooth wet surfaces, like rocks, fiberglass, and raft rubber; and Spider XC, an off-road hybrid rubber compound that combines the non-slip traction of Spider Rubber with durability for use in both wet and dry conditions.

Our UGG and Simple products are designed to appeal to consumers seeking our distinctive and innovative styling. We strive to be a leader in product uniqueness and appearance by regularly updating our UGG and Simple lines, which also generates further awareness and interest in the UGG and Simple collections. In our UGG line, we have successfully evolved the product offering over the last few years from its original sheepskin heritage to a diverse collection of luxury and comfort styles suited for a variety of climates and seasons. The evolution of our Simple line has resulted in new categories for the brand, including the recent introduction of the first successful sustainable footwear in our Green Toe collection. We believe that our commitment to become 100% sustainable makes Simple a leader in sustainable footwear and accessories. We believe our ability to incorporate up-to-date styles while remaining true to our heritage, combined with the performance-oriented features that consumers have come to expect, results in continued enthusiasm for our brands in the marketplace.

In order to ensure quality, consistency and efficiency in our design and product development process, we continually evaluate the availability and cost of raw materials, the capabilities and capacity of our independent contract manufacturers and the target retail price of new models and lines. The design and development staff works closely with brand management to develop new styles of footwear for their various product lines. We develop detailed drawings and prototypes of our new products to aid in conceptualization and to ensure our contemplated new products meet the standards for innovation and performance our consumers demand. Throughout the development process, members of the design staff coordinate with our domestic and overseas product development, manufacturing and sourcing personnel toward a common goal of developing and producing a high quality product to be delivered on a timely basis.

Manufacturing

We do not manufacture our products; we outsource the manufacturing of our Teva, Simple and UGG brand footwear to independent manufacturers in China. We also outsource the manufacturing of a portion of our UGG brand footwear to independent manufacturers in New Zealand. We require our independent contract manufacturers and designated suppliers to adopt our Factory Charter, which specifies that they comply with all local laws and regulations governing human rights, working conditions and environmental compliance before we are willing to conduct business with them. We require our licensees to demand the same from their contract factories and suppliers. We have no long-term contracts with our manufacturers. As we grow, we expect to continue to rely exclusively on independent manufacturers for our sourcing needs.

The production of footwear by our independent manufacturers is performed in accordance with our detailed specifications and is subject to our quality control standards. We maintain on-site supervisory offices in Pan Yu City, China and Macau that serve as local links to our independent manufacturers, enabling us to carefully monitor the production process from receipt of the design brief to production of interim and final samples and shipment of finished product. We believe this local presence provides greater predictability of material availability, product flow and adherence to final design specifications than we could otherwise achieve through an agency arrangement. To ensure the production of high quality products, many of the materials and components used in production of our products by these independent manufacturers are purchased from independent suppliers designated by us. Excluding sheepskin, we believe that substantially all the various raw materials and components used in the manufacture of our footwear, including rubber, leather and nylon webbing are generally available from multiple sources at competitive prices. We outsource our manufacturing requirements on the basis of individual purchase orders rather than maintaining long-term purchase commitments with our independent manufacturers.

At our direction, our manufacturers currently purchase the majority of the sheepskin used in our products from two tanneries in China, which source their skins from Australia and the U.S. We maintain constant communication with the tanneries to monitor the supply of sufficient high quality

sheepskin available for our projected UGG brand footwear production. To ensure adequate supplies for our manufacturers, we forecast our usage of top grade sheepskin one year in advance at a forward price. We believe current supplies are sufficient to meet our needs in the near future, but we continue to search for alternate suppliers in order to accommodate any unexpected future growth.

Our Simple brand continues to innovate the design, development and production of sustainable footwear through the sourcing of environmentally friendly materials. With the global trend of companies embracing the sustainable green movement in materials, the sourcing and availability of these materials may be impacted in the near future. Strong relationships are being established with suppliers, and we are developing strategies to keep supply chain needs fulfilled for the future.

We have instituted pre-production and post-production inspections to meet or exceed the high quality demanded by consumers of our products. Our quality assurance program includes our own employee on-site inspectors at our independent manufacturers who oversee the production process and perform quality assurance inspections. We also inspect our products upon arrival at our U.S. distribution centers.

Patents and Trademarks

We now hold more than 50 utility and design patents and registrations in the U.S. and abroad and have filed for approximately 20 new patents which are currently pending. We also currently hold trademark registrations for Teva, UGG, Simple and other marks in the U.S. and in many other countries, including the countries of the European Union, Canada, Japan and Korea. We regard our proprietary rights as valuable assets and vigorously protect such rights against infringement by third parties.

Seasonality

Our business is seasonal, with the highest percentage of Teva brand net sales occurring in the first and second quarters of each year and the highest percentage of UGG brand net sales occurring in the third and fourth quarters of each year. To date, the Simple brand has not had a seasonal impact on the Company. With the dramatic growth in UGG brand product sales in recent years, net sales in the last half of the year have exceeded that for the first half of the year. Given our expectations for each of our brands in 2008, we currently expect this trend to continue. Nonetheless, actual results could differ materially depending upon consumer preferences, availability of product, competition and our customers continuing to carry and promote our various product lines, among other risks and uncertainties. See Part I, Item 1A, "Risk Factors."

Backlog

Historically, we have encouraged our customers to place, and we have received, a significant portion of orders as preseason orders, generally four to eight months prior to shipment date. We provide customers with price incentives to participate in such preseason programs to enable us to better plan our production schedule, inventory and shipping needs. Unfilled customer orders as of any date, which we refer to as backlog, represent orders scheduled to be shipped at a future date and which can be cancelled prior to shipment. The backlog as of a particular date is affected by a number of factors, including seasonality, manufacturing schedule and the timing of product shipments as well as variations in the quarter-to-quarter and year-to-year preseason incentive programs. The mix of future and immediate delivery orders can vary significantly from quarter-to-quarter and year-to-year. As a result, comparisons of the backlog from period-to-period may be misleading.

Competition

The casual, outdoor, athletic and fashion footwear markets are highly competitive. We compete with numerous domestic and foreign footwear designers, manufacturers and marketers. Our Teva brand primarily competes with Nike, Adidas-Salomon, Timberland, Merrell, Chaco, Reef, Columbia Sportswear, Crocs and Keen. Our UGG brand footwear line primarily competes with Emu, Merrell, Acorn, Aussie Dogs, LB Evans and Timberland, as well as retailers' own private label footwear. In addition, due to the popularity of our UGG brand products, we face increasing competition from a significant number of competitors selling "knock-off" products. Our Simple line primarily competes with Vans, Converse, Sanuk, Merrell, Keen, Patagonia, and Earth.

Our three footwear lines compete primarily on the basis of brand recognition and authenticity, product quality and design, functionality, performance, fashion appeal and price. Our ability to successfully compete depends on our ability to:

- shape and stimulate consumer tastes and preferences by offering innovative, attractive and exciting products;
- anticipate and respond to changing consumer demands in a timely manner;
- maintain brand authenticity;
- develop high quality products that appeal to consumers;
- appropriately price our products;
- provide strong and effective marketing support; and
- ensure product availability.

We believe we are particularly well positioned to compete in the footwear industry. Our diversified portfolio of footwear brands and products allows us to operate a business that does not depend on any one demographic group, merchandise preference or product trend. We have developed a portfolio of brands that appeals to a broad spectrum of consumers. We continually look to acquire or develop more footwear brands to complement our existing portfolio and grow our existing consumer base.

Employees

At December 31, 2007, we employed approximately 370 employees in our U.S. facilities including retail stores and approximately 50 employees located in the Far East and the U.K., none of whom were represented by a union. We believe our relationships with our employees are good.

Financial Information about Segments and Geographic Areas

Our five reportable business segments include the strategic business units responsible for the worldwide wholesale operations of each of our brands Teva, Simple and UGG wholesale divisions, as well as our eCommerce and retail store businesses. In prior periods, the Company had determined it had four reportable segments, with the eCommerce and retail store businesses being combined into one segment, Consumer Direct. The following table shows our domestic and international revenues for each of the years ended December 31, 2005, 2006 and 2007.

	Years Ended December 31,		
	2005	2006	2007
Net sales by location:			
U.S.	$ 229,487	$ 266,092	$ 386,593
International	35,273	38,331	62,336
Total	$ 264,760	$ 304,423	$ 448,929

Refer to note 9 to our accompanying consolidated financial statements for further discussion of our business segment data and our long-lived assets that are attributable to our domestic versus international operations.

Available Information

Our internet address is www.deckers.com. We post links to our website to the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"): annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendment to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available through our website free of charge. Our filings may also be read and copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is www.sec.gov.

Item 1A. ***Risk Factors.***

Our short- and long-term success is subject to many factors beyond our control. Stockholders and potential stockholders should carefully consider the following risk factors in addition to the other information contained in this report and the information incorporated by reference in this report. If any of the following risks occur, our business, financial condition or results of operations could be adversely affected. In that case, the value of our common stock could decline and stockholders and potential stockholders may lose all or part of their investment.

Risks Relating To Our Business

Our success depends on our ability to anticipate fashion trends.

Our success depends largely on the continued strength of our Teva, UGG and Simple brands, on our ability to anticipate, understand and react to the rapidly changing fashion tastes of footwear consumers and to provide appealing merchandise in a timely and cost effective manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. We are also dependent on customer receptivity to our products and marketing strategy. There can be no assurance that consumers will continue to prefer our brands, that we will respond quickly enough to changes in consumer preferences or that we will successfully introduce acceptable new models and styles of footwear to our target consumer. Achieving market acceptance for new products also will likely require us to exert substantial product development and marketing efforts and expend significant funds to create consumer demand. A failure to introduce new products that gain market acceptance would erode our competitive position, which would reduce our profits and could adversely affect the image of our brands, resulting in long-term harm to our business.

Our UGG brand may not continue to grow at the same rate it has experienced in the recent past.

Our UGG brand has experienced strong growth over the past few years, with net wholesale sales of UGG brand products having increased from $23,491 in 2002 to $291,908 in 2007, representing a compound annual growth rate of 65.5%. We do not expect to sustain this growth rate in the future. UGG brand products may include fashion items that could go out of style at any time. UGG brand products represent a significant portion of our business, and if UGG brand product sales were to decline or to fail to increase in the future, our overall financial performance could be adversely affected.

Our Teva brand may decline.

During 2007, our Teva brand experienced an increase in net wholesale sales of 8.9% compared to 2006. However, during 2006 and 2005, Teva experienced declines in revenue of 6.4% and 3.6% compared to 2005 and 2004, respectively. We conducted our annual impairment tests of goodwill and other intangible assets as of December 31, 2007 and 2006 and concluded that the fair value of our Teva trademarks was above the carrying value as of December 31, 2007 but was below the carrying value as of December 31, 2006. Accordingly, in the fourth quarter of 2006, we recorded an impairment loss of $15,300, included in income from operations. If Teva product sales decline again to a point that the fair value of our Teva trademarks or reporting unit do not exceed carrying values, we may be required to further write down the related intangible assets, the goodwill or both, causing us to incur additional impairment losses, which could materially affect our consolidated financial position and results of operations.

We may experience shortages of top grade sheepskin, which could interrupt product manufacturing and increase product costs.

We depend on a limited number of key resources for sheepskin, the principal raw material for most of our UGG brand products. In 2007, two suppliers provided all of the sheepskin purchased by

our independent manufacturers. The top grade sheepskin used in UGG brand footwear is in high demand and limited supply. In addition, sheep are susceptible to hoof and mouth disease, which can result in the extermination of an infected herd and could have a material adverse effect on the availability of top grade sheepskin for our products. Additionally, the supply of sheepskin can be adversely impacted by weather conditions and harvesting decisions that are completely outside our control. Our potential inability to obtain top grade sheepskin for UGG brand products could impair our ability to meet our production requirements for UGG brand products in a timely manner and could lead to inventory shortages, which can result in lost sales, delays in shipments to customers, strain on our relationships with customers and diminished brand loyalty. Additionally, there have been significant increases in the prices of top grade sheepskin as the demand for this material has increased. Any further price increases will likely raise our costs, increase our costs of sales and decrease our profitability unless we are able to pass the higher prices on to our customers.

If we do not accurately forecast consumer demand, we may have excess inventory to liquidate or have difficulty filling our customers' orders.

Because the footwear industry has relatively long lead times for design and production, we must plan our production tooling and production volumes many months before consumer tastes become apparent. The footwear industry is subject to fashion risks and rapid changes in consumer preferences, as well as the effects of weather, general market conditions and other factors affecting demand. A large number of models, colors and styles in our three product lines increase these risks. As a result, we may fail to accurately forecast styles, colors and features that will be in demand. If we overestimate demand for any products or styles, we may be forced to liquidate excess inventories at a discount to customers, resulting in higher markdowns and lower, or negative, gross margins. Further, the excess inventories may prolong our cash flow cycle, resulting in reduced cash flow and increased liquidity risks. Conversely, if we underestimate consumer demand for any products or styles, we could have inventory shortages, which could result in lost potential sales, delays in shipments to customers, strains on our relationships with customers and diminished brand loyalty. This may be particularly true with regard to our UGG brand product line, which has experienced strong consumer demand and rapid sales growth.

We may not succeed in implementing our growth strategy.

As part of our growth strategy, we seek to enhance the positioning of our brands, extend our brands into complementary product categories and markets through licensing, expand geographically and improve our operational performance. We may not be able to successfully implement any or all of our strategies. If we fail to do so, our rate of growth may slow or our results of operations may decline, which in turn could have a negative effect on the value of our common stock.

Our financial success is limited to the success of our customers.

Our financial success is directly related to the success of our customers and the willingness of our customers to continue to buy our products. We do not have long-term contracts with any of our customers. Sales to our customers are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by our customers. If any of our major customers experiences a significant downturn in its business, or fails to remain committed to our products or brands, then these customers may reduce or discontinue purchases from us, which could have a material adverse effect on our business, results of operations and financial condition.

Certain of our customers account for a significant portion of our sales, and the loss of one or more of these key customers would significantly reduce our sales.

Our five largest customers accounted for approximately 27.6% of net sales in 2006 and 30.4% of net sales in 2007. Nordstrom, our largest customer, accounted for greater than 10% of net sales in 2006 and 2007. Any potential loss of a key customer, or a significant reduction in purchases from a key

customer, could have a material adverse effect on our business, results of operations and financial condition.

Establishing and protecting our trademarks, patents and other intellectual property is costly and difficult. If our efforts to do so are unsuccessful, the value of our brands could suffer.

We believe that our trademarks and other intellectual property rights are of value and are integral to our success and our competitive position. Some countries' laws do not protect intellectual property rights to the same extent as do U.S. laws. From time to time, we discover products in the marketplace that infringe upon our trademark, patent, copyright and other intellectual property rights. If we are unsuccessful in challenging a third party's products on the basis of patent and trade dress rights, continued sales of such competing products by third parties could adversely impact our business, financial condition and results of operations. If our brands are associated with competitors' inferior products, this could also adversely affect the integrity of our brands. Furthermore, our efforts to enforce our trademark and other intellectual property rights are typically met with defenses and counterclaims attacking the validity and enforceability of our trademark and other intellectual property rights. Similarly, from time to time we may be the subject of litigation challenging our ownership of intellectual property. Any decision or settlement in any of these matters that allowed a third party to continue to use our Teva, UGG or Simple trademarks or a domain name with our UGG trademark in connection with the sale of products similar to our products or to continue to manufacture or distribute counterfeit products could have an adverse effect on our sales and on our intellectual property, which could have a material adverse effect on our results of operations and financial condition.

We may lose pending litigation and the rights to certain of our intellectual property.

We are currently involved in several disputes, including cases pending in U.S. federal and foreign courts and in foreign trademark offices, regarding infringement by third parties of our trademarks, trade dress, copyrights, patents and other intellectual property and the validity of our intellectual property. Any decision or settlement in any of these disputes that renders our intellectual property invalid or unenforceable, or that allows a third party to continue to use our intellectual property in connection with products that are similar to ours, could have an adverse effect on our sales and on our intellectual property, which could have a material adverse effect on our results of operations and financial condition.

Counterfeiting of our brands can divert sales and damage our brand image.

Our brands and designs are constantly at risk for counterfeiting and infringement of our intellectual property rights, and we frequently find counterfeit products and products that infringe on our intellectual property rights in our markets and online as well as internet domain names that use our trade names or trademarks without our consent. We have not always been successful, particularly in some foreign countries, in combating counterfeit products and stopping infringement of our intellectual property rights. Counterfeit and infringing products not only cause us to lose significant sales, but also can harm the integrity of our brands by associating our trademarks or designs with lesser quality or defective goods.

In particular, we are experiencing more infringers of our UGG trademark and more counterfeit products seeking to benefit from the consumer demand for our UGG brand products. Enforcement of our rights to the UGG trademark faces many challenges due in part to the proliferation of the term "UGG" in third party domain names that promote counterfeit products or otherwise use the UGG trademark without our permission. In spite of our enforcement efforts, we expect such unauthorized use to continue, which could result in a loss of sales for authorized UGG brand products and a reduction in the goodwill and other intangible assets associated with the UGG trademark.

As our patents expire, our competitors will be able to copy our technology or incorporate it in their products without paying royalties.

Patents generally have a life of twenty years from filing, and some of our patents have recently expired or will expire in the next few years. For example, the patent for our Universal Strapping System used in many of our Teva sandals expired in September 2007. Our Universal Strapping System is currently used in many of our Teva sandals. Once patent protection has expired, our competitors can copy our products or incorporate our innovations in their products without obtaining our permission or paying royalties, which could also cause us to lose significant sales. To combat this, we must continually create new designs and technology, obtain patent protection and incorporate the new technology or design in our footwear; however, we cannot provide assurance that we will be able to do so.

If our customers cancel existing orders, we may have excess inventory. If customers postpone delivery of existing orders to future periods, we may not achieve sales and earnings targets for the period, which could have a negative impact on our stock price.

We receive customer orders and indications of future orders, which we use to determine which inventory items in what quantities to purchase. We also use the timing of delivery dates in our customer orders to forecast our sales and earnings for future periods. If our customers cancel existing orders, it may result in lower sales as well as excess inventories that could lead to increased inventory write-downs and closeout sales, resulting in lower gross margins. The excess inventories could also have a negative impact on our cash flow. If customers postpone delivery of their orders, we may not achieve our expected sales and earnings forecasts for the period, which could have a negative impact on our results from operations as well as our stock price.

Because we depend on independent manufacturers, we face challenges in maintaining a continuous supply of goods that meet our quality standards.

We use independent manufacturers to produce all of our products, with the majority of the production occurring among six manufacturers in China. We depend on these manufacturers' ability to finance the production of goods ordered and to maintain manufacturing capacity. The manufacturers in turn depend upon their suppliers of raw materials. We do not exert direct control over either the independent manufacturers or their raw materials suppliers, so we may be unable to obtain timely delivery of acceptable products.

In addition, we do not have long-term contracts with these independent manufacturers, and any of them may unilaterally terminate their relationship with us at any time or seek to increase the prices they charge us. As a result, we are not assured of an uninterrupted supply of products of an acceptable quality from our independent manufacturers. If there is an interruption, we may not be able to substitute suitable alternative manufacturers because substitutes may not be available or they may not be able to provide us with products or services of a comparable quality at an acceptable price or on a timely basis. If a change in our independent manufacturers becomes necessary, we would likely experience increased costs as well as substantial disruption of our business, which could result in a loss of sales and earnings.

Similarly, if we experience a significant increase in demand and a manufacturer is unable to ship orders of our products in accordance with our timing demands and our quality standards, we could miss customer delivery date requirements. This in turn could result in cancellation of orders, customer refusals of shipments or a reduction in selling prices, any of which could have a material adverse effect on our sales and financial condition. We compete with other companies for the production capacity and the import quota capacity of our manufacturers. Accordingly, our independent manufacturers may not produce and ship some or all of any orders placed by us.

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Foreign currency translation
(27.6
)

5.6

(9.6
)

(109.5
)
Net reclassification of cash flow hedges to earnings
—

—

—

0.1

Minimum pension liabilities, net
2.9

(0.9
)

3.5

5.5

Other comprehensive income (loss), net of tax
(24.7
)

4.7

(6.1
)

(103.9

)

Comprehensive income (loss)	21.7	14.0	62.9	(45.9)
Comprehensive income (loss) attributable to noncontrolling interests	(3.4)	2.8	(1.7)	(23.3)
Comprehensive income (loss) attributable to Greif, Inc.	$ 25.1	$ 11.2	$ 64.6	$ (22.6)

See accompanying Notes to Condensed Consolidated Financial Statements

4

Table of Contents

GREIF, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In millions)
ASSETS

	July 31, 2016	October 31, 2015
Current assets		
Cash and cash equivalents	$94.3	$ 106.2
Trade accounts receivable, less allowance of $9.2 in 2016 and $11.8 in 2015	418.1	403.7
Inventories	288.5	297.0
Deferred tax assets	—	25.4
Assets held for sale	11.7	16.9
Prepaid expenses and other current assets	133.7	159.3
	946.3	1,008.5
Long-term assets		
Goodwill	791.0	807.1
Other intangible assets, net of amortization	119.8	132.7
Deferred tax assets	10.9	7.8
Assets held by special purpose entities	50.9	50.9
Other long-term assets	92.0	91.0
	1,064.6	1,089.5
Properties, plants and equipment		
Timber properties, net of depletion	278.0	277.1
Land	104.2	106.3
Buildings	389.7	410.4
Machinery and equipment	1,463.4	1,457.9
Capital projects in progress	98.3	78.0
	2,333.6	2,329.7
Accumulated depreciation	(1,160.6)	(1,112.0)
	1,173.0	1,217.7
Total assets	$3,183.9	$ 3,315.7

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

GREIF, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In millions)
LIABILITIES AND EQUITY

	July 31, 2016	October 31, 2015
Current liabilities		
Accounts payable	$340.5	$ 355.3
Accrued payroll and employee benefits	90.2	83.5
Restructuring reserves	14.8	21.3
Current portion of long-term debt	300.3	30.7
Short-term borrowings	55.2	40.7
Deferred tax liabilities	—	2.4
Liabilities held for sale	—	1.8
Other current liabilities	113.3	111.3
	914.3	647.0
Long-term liabilities		
Long-term debt	758.6	1,116.2
Deferred tax liabilities	191.7	214.9
Pension liabilities	144.7	141.1
Postretirement benefit obligations	13.4	14.9
Liabilities held by special purpose entities	43.3	43.3
Contingent liabilities and environmental reserves	9.0	8.2
Other long-term liabilities	82.4	70.2
	1,243.1	1,608.8
Commitments and Contingencies (Note 13)	—	—
Redeemable Noncontrolling Interest (Note 18)	32.3	—
Equity		
Common stock, without par value	141.4	139.1
Treasury stock, at cost	(135.6)	(130.6)
Retained earnings	1,355.2	1,384.5
Accumulated other comprehensive loss:		
-foreign currency translation	(261.9)	(256.6)
-minimum pension liabilities	(117.3)	(120.8)
Total Greif, Inc. equity	981.8	1,015.6
Noncontrolling interests	12.4	44.3
Total equity	994.2	1,059.9
Total liabilities and equity	$3,183.9	$ 3,315.7

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

GREIF, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions)

For the Nine months ended July 31,	2016	2015
Cash flows from operating activities:		
Net income	$69.0	$58.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	95.8	100.9
Timberland gains	—	(24.3)
Non-cash asset impairment charges	44.9	22.3
Gain on disposals of properties, plants and equipment, net	(9.5)	(9.3)
(Gain) Loss on disposals of businesses, net	(4.1)	8.5
Unrealized foreign exchange (gain) loss	4.1	(2.8)
Deferred income tax expense	(2.8)	(3.3)
Gain from Venezuela monetary assets and liabilities remeasurement	—	(4.9)
Loss for Venezuela non-monetary assets to net realizable value	—	9.3
Other, net	—	(1.4)
Increase (decrease) in cash from changes in certain assets and liabilities:		
Trade accounts receivable	(29.5)	3.3
Inventories	(3.6)	11.7
Deferred purchase price on sold receivables	(20.2)	(10.8)
Accounts payable	7.3	(74.8)
Restructuring reserves	(6.4)	13.5
Pension and postretirement benefit liabilities	(1.6)	(1.5)
Other, net	14.6	(21.0)
Net cash provided by operating activities	158.0	73.4
Cash flows from investing activities:		
Acquisitions of companies, net of cash acquired	(0.4)	(1.5)
Collection of subordinated note receivable	44.2	—
Purchases of properties, plants and equipment	(71.4)	(108.2)
Purchases of and investments in timber properties	(4.7)	(38.2)
Purchases of properties, plants and equipment with insurance proceeds	(4.4)	—
Proceeds from the sale of properties, plants, equipment and other assets	10.9	46.8
Proceeds from the sale of businesses	23.8	18.9
Proceeds from insurance recoveries	6.6	3.4
Net cash provided by (used in) investing activities	4.6	(78.8)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	919.5	643.4
Payments on long-term debt	(937.5)	(576.0)
Proceeds from short-term borrowings, net	8.5	18.0
Proceeds from trade accounts receivable credit facility	58.5	115.7
Payments on trade accounts receivable credit facility	(131.0)	(79.9)
Dividends paid to Greif, Inc. shareholders	(74.0)	(74.0)
Dividends paid to noncontrolling interests	(4.8)	(4.0)
Exercise of stock options	—	0.2
Acquisitions of treasury stock	(5.2)	—
Purchases of redeemable noncontrolling interest	(6.0)	—
Cash contribution from noncontrolling interest holder	0.8	—

Net cash provided by (used in) financing activities	(171.2)	43.4
Effects of exchange rates on cash	(3.3)	(21.4)
Net increase (decrease) in cash and cash equivalents	(11.9)	16.6
Cash and cash equivalents at beginning of period	106.2	85.1
Cash and cash equivalents at end of period	$94.3	$101.7

See accompanying Notes to Condensed Consolidated Financial Statements

7

Table of Contents

GREIF, INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016
(Unaudited)
NOTE 1 — BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Basis of Presentation
The condensed consolidated financial statements have been prepared in accordance with the U.S. Securities and Exchange Commission ("SEC") instructions to Quarterly Reports on Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States ("GAAP") for interim financial reporting. The preparation of financial statements in conformity with GAAP 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.
The Company's fiscal year begins on November 1 and ends on October 31 of the following year. Any references to the year 2016 or 2015, or to any quarter of those years, relates to the fiscal year or quarter, as the case may be, ended in that year.
The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the condensed consolidated balance sheets as of July 31, 2016 and October 31, 2015, the condensed consolidated statements of income and comprehensive income (loss) for the three and nine months ended July 31, 2016 and 2015 and the condensed consolidated statements of cash flows for the nine month periods ended July 31, 2016 and 2015 of Greif, Inc. and its subsidiaries (the "Company"). The condensed consolidated financial statements include the accounts of Greif, Inc., all wholly-owned and consolidated subsidiaries and investments in limited liability companies, partnerships and joint ventures in which it has controlling influence or is the primary beneficiary. Non-majority owned entities include investments in limited liability companies, partnerships and joint ventures in which the Company does not have controlling influence and are accounted for using either the equity or cost method, as appropriate.
The unaudited condensed consolidated financial statements included in the Quarterly Report on Form 10-Q (this "Form 10-Q") 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, 2015 (the "2015 Form 10-K").
Recently Issued Accounting Standards
In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-3, "Interest: Imputation of Interest (Subtopic 835-30)." The objective of this update is to simplify the presentation of debt issuance costs in the financial statements. Under this ASU, the Company would present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset; amortization of the costs is reported as interest expense. This ASU is effective for annual periods beginning after December 15, 2015. The Company would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period would be adjusted). This ASU requires the Company to "disclose in the first fiscal year after the entity's adoption date, and in the interim periods within the first fiscal year, the following: (1)the nature and reason for the change in accounting principle; (2) the transition method; (3) a description of the prior-period information that has been retrospectively adjusted; and (4) the effect of the change on the financial statement line item (that is, the debt issuance costs asset and the debt liability)." The Company is expected to adopt this guidance beginning on November 1, 2016 and the adoption of this new guidance is not expected to have a material impact on the Company's financial position, results of operations, comprehensive income (loss) or cash flows, other than the related disclosures.
In February 2015, the FASB issued ASU 2015-2, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which makes changes to both the variable interest model and voting interest model and eliminates the indefinite deferral of FASB Statement No. 167, included in ASU 2010-10, for certain investment funds. All reporting entities that hold a variable interest in other legal entities will need to re-evaluate their consolidation conclusions as well as disclosure requirements. This ASU is effective for annual periods beginning after December 15, 2015 and early adoption is permitted, including any interim period. The Company is in the process of analyzing the impact of adopting this guidance, however it is not expected to have a material impact on the Company's financial position,

results of operations, comprehensive income (loss) or cash flows, other than the related disclosures.
In May 2014, the FASB issued ASU No. 2014-9, “Revenue from Contracts with Customers (Topic 606),” which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, Revenue Recognition. This ASU is

8

Table of Contents

based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The update is effective in fiscal year 2019 using one of two retrospective application methods. The Company is in the process of determining the potential impact of adopting this guidance on its financial position, results of operations, comprehensive income (loss), cash flows and disclosures.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as Going Concern." The objective of this update is to reduce the diversity in the timing and content of footnote disclosures related to going concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. This update applies to all entities that would be required to disclose information about their potential inability to continue as a going concern when "substantial doubt" about their ability to continue as a going concern exists. The Company will be required to evaluate "relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued." The Company will have to document its consideration of this ASU, but not because the Company believes there is substantial doubt about its ability to continue as a going concern. The Company is expected to adopt this guidance beginning November 1, 2017, and the adoption of the new guidance is not expected to impact the Company's financial position, results of operations, comprehensive income (loss) or cash flows, other than the related disclosures.

In February 2016, the FASB issued ASU 2016-2, "Leases (Topic 842)," which amends the lease accounting and disclosure requirements in ASC 842, Leases. The objective of this update is to increase transparency and comparability among organizations recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease arrangements. This ASU will require the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The update is effective in fiscal year 2020 using a modified retrospective approach. The Company is in the process of determining the potential impact of adopting this guidance on its financial position, results of operations, comprehensive income (loss), cash flows and disclosures.

In March 2016, the FASB issued ASU 2016-9, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transaction. This ASU is effective for annual periods beginning after December 15, 2016 and early adoption is permitted, including any interim period. The Company is in the process of determining the potential impact of adopting this guidance on its financial position, results of operations, comprehensive income (loss), cash flows, and disclosures.

Newly Adopted Accounting Standards

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Tax Items." This ASU amends ASC 740-10-45-4, which now states that in a classified statement of financial position, an entity must classify deferred tax liabilities and assets as noncurrent amounts. This ASU also supersedes ASC 740-10-45-5, which required the valuation allowance for a particular tax jurisdiction to be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis. For public companies, this ASU is effective for periods beginning after December 15, 2016. The Company elected to adopt the new guidance beginning February 1, 2016 prospectively, resulting in deferred tax liabilities and assets being classified as noncurrent on the Company's balance sheet. Prior periods were not retrospectively adjusted. The adoption did not have a material impact on the Company's financial position, results of operations, comprehensive income (loss) or cash flows. Refer to Note 11 herein for additional disclosures regarding the adoption of this new guidance.

NOTE 2 — ACQUISITIONS AND DIVESTITURES

The Company completed four divestitures and no material acquisitions for the nine months ended July 31, 2016. The divestitures were of nonstrategic businesses, three in the Rigid Industrial Packaging & Services and one in Flexible Products & Services segments. The gain on the disposal of businesses was $4.1 million for the nine months ended July 31, 2016. Proceeds from divestitures were $25.2 million. Additionally, the Company recorded notes receivable of $2.4 million for the sale of two of the businesses sold in the second quarter of 2016, which are expected to be collected in the fourth quarter of 2017. Proceeds from divestitures completed in fiscal year 2015 and collected during

the nine months ended July 31, 2016 were $1.0 million. The Company has $4.4 million of notes receivable recorded from the sale of businesses, ranging in remaining term from fourteen months to twenty-nine months.

The Company completed eight divestitures and no material acquisitions for the nine months ended July 31, 2015. The divestitures were of nonstrategic businesses, six in the Rigid Industrial Packaging & Services segment and two in the Flexible

Table of Contents

Products & Services segment. The loss on disposal of businesses was $8.5 million for the nine months ended July 31, 2015. Proceeds from divestitures were $18.9 million.

NOTE 3 — SALE OF NON-UNITED STATES ACCOUNTS RECEIVABLE

On April 27, 2012, Cooperage Receivables Finance B.V. (the “Main SPV”) and Greif Coordination Center BVBA, an indirect wholly owned subsidiary of Greif, Inc. (“Seller”), entered into the Nieuw Amsterdam Receivables Purchase Agreement (the “European RPA”) with affiliates of a major international bank (the “Purchasing Bank Affiliates”). On April 20, 2015, the Main SPV and Seller amended and extended the term of the existing European RPA. Under the European RPA, as amended, the number of entities participating in the agreement have decreased. Additionally, the terms have been amended to decrease the maximum amount of receivables that may be sold and outstanding under the European RPA at any time to €100.0 million ($110.6 million as of July 31, 2016). Under the terms of the European RPA, the Company has the ability to loan excess cash to the Purchasing Bank Affiliates in the form of a subordinated loan receivable. As of October 31, 2015, the Company had loaned $44.2 million of excess cash back to the Purchasing Bank Affiliates. During the nine months ended July 31, 2016, the Company collected the full balance of the subordinated note receivable.

Under the terms of the European RPA, the Company has agreed to sell trade receivables meeting certain eligibility requirements that the Seller had purchased from other of our indirect wholly-owned subsidiaries under a factoring agreement. The structure of the transactions provide for a legal true sale, on a revolving basis, of the receivables transferred from our various subsidiaries to the respective banks and their affiliates. The purchaser funds an initial purchase price of a certain percentage of eligible receivables based on a formula, with the initial purchase price approximating 75 percent to 90 percent of eligible receivables. The remaining deferred purchase price is settled upon collection of the receivables. At the balance sheet reporting dates, we remove from accounts receivable the amount of proceeds received from the initial purchase price since they meet the applicable criteria of ASC 860, “Transfers and Servicing,” and we continue to recognize the deferred purchase price in accounts receivable. The receivables are sold on a non-recourse basis with the total funds in the servicing collection accounts pledged to the banks between settlement dates.

In October 2007, Greif Singapore Pte. Ltd., an indirect wholly-owned subsidiary of Greif, Inc., entered into the Singapore Receivable Purchase Agreement (the “Singapore RPA”) with a major international bank. The maximum amount of aggregate receivables that may be financed under the Singapore RPA is 15.0 million Singapore Dollars ($11.1 million as of July 31, 2016).

Table of Contents

The table below contains certain information related to the Company's accounts receivables programs (Dollars in millions):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
European RPA				
Gross accounts receivable sold to third party financial institution	$160.0	$165.9	$463.3	$552.6
Cash received for accounts receivable sold under the programs	140.7	147.1	409.2	489.5
Deferred purchase price related to accounts receivable sold	19.3	18.8	53.7	63.1
Loss associated with the programs	0.2	0.3	0.7	1.2
Expenses associated with the programs	—	—	—	—
Singapore RPA				
Gross accounts receivable sold to third party financial institution	$11.4	$12.0	$32.5	$36.4
Cash received for accounts receivable sold under the program	11.4	12.0	32.5	36.4
Deferred purchase price related to accounts receivable sold	—	—	—	—
Loss associated with the program	—	—	—	—
Expenses associated with the program	—	—	—	0.1
Total RPAs				
Gross accounts receivable sold to third party financial institution	$171.4	$177.9	$495.8	$589.0
Cash received for accounts receivable sold under the program	152.1	159.1	441.7	525.9
Deferred purchase price related to accounts receivable sold	19.3	18.8	53.7	63.1
Loss associated with the program	0.2	0.3	0.7	1.2
Expenses associated with the program	—	—	—	0.1

The table below contains certain information related to the Company's accounts receivables programs and the impact it has on the condensed consolidated balance sheets (Dollars in millions):

	July 31, 2016	October 31, 2015
European RPA		
Accounts receivable sold to and held by third party financial institution	$116.8	$ 114.8
Uncollected deferred purchase price related to accounts receivable sold	25.9	—
Deferred purchase price liability related to accounts receivable sold	—	(1.5)
Singapore RPA		
Accounts receivable sold to and held by third party financial institution	$3.5	$ 4.0
Uncollected deferred purchase price related to accounts receivable sold	—	—
Total RPAs		
Accounts receivable sold to and held by third party financial institution	$120.3	$ 118.8
Uncollected deferred purchase price related to accounts receivable sold	25.9	—
Deferred purchase price liability related to accounts receivable sold	—	(1.5)

The deferred purchase price related to the accounts receivable sold is reflected as prepaid expenses and other current assets or other current liabilities on the Company's consolidated balance sheet and was initially recorded at an amount which approximates its fair value due to the short-term nature of these items. The cash received initially and the deferred purchase price relate to the sale or ultimate collection of the underlying receivables and are not subject to significant other risks given

Table of Contents

their short nature; therefore, the Company reflects all cash flows under the accounts receivable sales programs as operating cash flows on the Company's consolidated statements of cash flows.

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 European RPA and the Singapore RPA. The servicing liability for these receivables is not material to the consolidated financial statements.

NOTE 4 — INVENTORIES

Inventories are stated at the lower of cost or market and are summarized as follows (Dollars in millions):

	July 31, 2016	October 31, 2015
Raw materials	$ 191.1	$ 190.7
Work-in-process	12.8	18.3
Finished Goods	84.6	88.0
	$ 288.5	$ 297.0

NOTE 5 — ASSETS AND LIABILITIES HELD FOR SALE AND DISPOSALS OF PROPERTIES, PLANTS AND EQUIPMENT, NET, AND TIMBERLAND GAINS

The following table presents assets and liabilities classified as held for sale as of July 31, 2016 and October 31, 2015 (Dollars in millions):

	July 31, 2016	October 31, 2015
Trade accounts receivable, less allowance	$ —	$ 2.3
Inventories	—	1.6
Properties, plants and equipment, net	11.7	8.1
Other assets	—	4.9
Assets held for sale	11.7	16.9
Accounts payable	—	1.8
Liabilities held for sale	$ —	$ 1.8

As of July 31, 2016, there was one asset group within the Rigid Industrial Packaging & Services segment and one asset group in the Flexible Products & Services segment classified as assets held for sale. The assets held for sale are being marketed for sale, and it is the Company's intention to complete the sales of these assets within the next twelve months.

As of October 31, 2015, there were four asset groups in the Rigid Industrial Packaging & Services segment and one asset group in the Flexible Products & Services segment classified as assets and liabilities held for sale.

For the three months ended July 31, 2016, the Company recorded a gain on disposal of properties, plants and equipment, net of $0.7 million. This included disposals of assets in the Flexible Products & Services segment classified as held for sale that resulted in gains of $0.4 million, insurance recoveries that resulted in gains of $0.2 million in the Paper Packaging segment, other net gains totaling $0.3 million, offset by disposals of an asset in the Rigid Industrial Packaging & Services segment classified as held for sale that resulted in a loss of $0.2 million

For the nine months ended July 31, 2016, the Company recorded a gain on disposal of properties, plants and equipment, net of $9.5 million. This included insurance recoveries that resulted in gains of $6.4 million in the Rigid Industrial Packaging & Services segment, disposals of assets in the Flexible Products & Services segment classified as held for sale that resulted in gains of $1.3 million, sales of surplus properties in the Land Management segment that resulted in gains of $0.9 million, insurance recoveries that resulted in gains of $0.2 million in the Paper Packaging segment, and other net gains totaling an additional $0.7 million.

For the three months ended July 31, 2015, the Company recorded a gain on disposal of properties, plants and equipment, net of $7.0 million. This includes sales of HBU and surplus properties that resulted in gains of $1.5 million in the Land Management

Table of Contents

segment, a disposal of an asset group previously classified as held for sale in the Rigid Industrial Packaging & Services segment that resulted in a gain of $4.4 million, and other net gains and insurance recoveries totaling an additional $1.1 million.

For the nine months ended July 31, 2015, the Company recorded a gain on disposal of properties, plants and equipment, net of $9.3 million. This includes sales of HBU and surplus properties that resulted in gains of $2.7 million in the Land Management segment, and other net gains and insurance recoveries within the Rigid Industrial Packaging & Services segment that resulted in gains of $6.6 million

For the three and nine months ended July 31, 2016, the Company recorded no gains relating to the sale of timberland. For the three and nine months ended July 31, 2015, the Company recorded no gains and gains of $24.3 million, respectively.

NOTE 6 — GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the changes in the carrying amount of goodwill by segment for the nine month period ended July 31, 2016 (Dollars in millions):

	Rigid Industrial Packaging & Services	Paper Packaging & Services	Total
Balance at October 31, 2015	$ 747.6	$ 59.5	$ 807.1
Goodwill acquired	—	—	—
Goodwill allocated to divestitures and businesses held for sale (1)	3.4	—	3.4
Goodwill adjustments	—	—	—
Goodwill impairment charge (2)	(21.0)		(21.0)
Currency translation	1.5	—	1.5
Balance at July 31, 2016	$ 731.5	$ 59.5	$ 791.0

(1) Goodwill previously allocated to divestitures and businesses held for sale that was impaired during the first quarter of 2016.

(2) Goodwill impairment charge recorded for businesses reclassified to held for sale during the nine months ended July 31, 2016.

As of July 31, 2016 and October 31, 2015, the accumulated goodwill impairment loss was $50.3 million in the Flexible Products & Services segment.

Table of Contents

The following table summarizes the carrying amount of net other intangible assets by class as of July 31, 2016 and October 31, 2015 (Dollars in millions):

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
July 31, 2016:			
Indefinite lived:			
Trademarks and patents	$ 13.1	$ —	$ 13.1
Definite lived:			
Customer relationships	177.9	89.0	88.9
Trademarks and patents	12.1	4.6	7.5
Non-compete agreements	1.1	1.0	0.1
Other	23.9	13.7	10.2
Total	$ 228.1	$ 108.3	$ 119.8
October 31, 2015:			
Indefinite lived:			
Trademarks and patents	$ 13.1	$ —	$ 13.1
Definite lived:			
Customer relationships	180.7	81.7	99.0
Trademarks and patents	12.4	4.2	8.2
Non-compete agreements	4.9	4.5	0.4
Other	24.2	12.2	12.0
Total	$ 235.3	$ 102.6	$ 132.7

Amortization expense for the three months ended July 31, 2016 and 2015 was $4.2 million and $4.5 million, respectively. Amortization expense for the nine months ended July 31, 2016 and 2015 was $12.7 million and $13.9 million, respectively. Amortization expense for the next five years is expected to be $16.9 million in 2016, $16.1 million in 2017, $15.7 million in 2018, $15.7 million in 2019 and $15.1 million in 2020.

Definite lived intangible assets for the periods presented are subject to amortization and are being amortized using the straight-line method over periods that are contractually, legally determined, or over the period a market participant would benefit from the asset.

NOTE 7 — RESTRUCTURING CHARGES

The following is a reconciliation of the beginning and ending restructuring reserve balances for the nine month period ended July 31, 2016 (Dollars in millions):

	Employee Separation Costs	Other Costs	Total
Balance at October 31, 2015	$ 14.7	$6.6	$21.3
Costs incurred and charged to expense	10.7	7.2	17.9
Costs paid or otherwise settled	(16.6)	(7.8)	(24.4)
Balance at July 31, 2016	$ 8.8	$6.0	$14.8

The focus for restructuring activities in 2016 is to continue to rationalize operations and close underperforming assets throughout all segments. During the three months ended July 31, 2016, the Company recorded restructuring charges of $10.2 million, which compares to $16.2 million of restructuring charges recorded during the three months ended July 31, 2015. The restructuring activity for the three months ended July 31, 2016 consisted of $5.3 million in employee separation costs and $4.9 million in other restructuring costs, primarily consisting of professional fees incurred for services specifically associated with employee separation and relocation. During the nine months ended July 31, 2016, the Company recorded restructuring charges of $17.9 million, which compares to $26.7 million of restructuring charges recorded during the nine months ended July 31, 2015. The restructuring activity for the nine months ended July 31, 2016 consisted of $10.7 million in employee separation

14

Table of Contents

costs and $7.2 million in other restructuring costs, primarily consisting of professional fees incurred for services specifically associated with employee separation and relocation.

The following is a reconciliation of the total amounts expected to be incurred from approved restructuring plans or plans that are being formulated and have not been announced as of the date of this Form 10-Q. Remaining amounts expected to be incurred are $12.9 million as of July 31, 2016 compared to $14.7 million as of October 31, 2015. The change was due to the formulation of new plans during the period offset by the realization of expenses from plans formulated in prior periods. (Dollars in millions):

	Total Amounts Expected to be Incurred	Amount expensed during the nine month period ended July 31, 2016	Amounts Remaining to be Incurred
Rigid Industrial Packaging & Services			
Employee separation costs	$ 17.4	$ 6.6	$ 10.8
Other restructuring costs	5.0	4.6	0.4
	22.4	11.2	11.2
Flexible Products & Services			
Employee separation costs	5.5	3.8	1.7
Other restructuring costs	1.8	1.8	—
	7.3	5.6	1.7
Paper Packaging & Services			
Employee separation costs	0.3	0.3	—
Other restructuring costs	0.8	0.8	—
	1.1	1.1	—
	$ 30.8	$ 17.9	$ 12.9

NOTE 8 — CONSOLIDATION OF VARIABLE INTEREST ENTITIES

The Company evaluates whether an entity is a variable interest entity ("VIE") whenever reconsideration events occur and performs reassessments of all VIEs quarterly to determine if the primary beneficiary status is appropriate. The Company consolidates VIEs for which it is the primary beneficiary. If the Company is not the primary beneficiary and an ownership interest is held, the VIE is accounted for under the equity or cost methods of accounting, as appropriate. The primary beneficiary is the variable interest that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and the obligation to absorb the expected losses and/or the right to receive the expected returns of the VIE.

Significant Nonstrategic Timberland Transactions

In 2005, the Company sold certain timber properties to Plum Creek Timberlands, L.P. ("Plum Creek") in a series of transactions that included the creation of two separate legal entities that are now consolidated as separate VIEs. One is an indirect subsidiary of Plum Creek (the "Buyer SPE"), and the other is STA Timber LLC, an indirect wholly owned subsidiary of the Company ("STA Timber"). As of July 31, 2016 and October 31, 2015, consolidated assets of Buyer SPE consisted of $50.9 million of restricted bank financial instruments which are expected to be held to maturity. For both of the three month periods ended July 31, 2016 and 2015, Buyer SPE recorded interest income of $0.6 million. For both of the nine month periods ended July 31, 2016 and 2015, Buyer SPE recorded interest income of $1.8 million.

As of July 31, 2016 and October 31, 2015, STA Timber had consolidated long-term debt of $43.3 million. For both of the three month periods ended July 31, 2016 and 2015, STA Timber recorded interest expense of $0.5 million. For both of the nine month periods ended July 31, 2016 and 2015, STA timber recorded interest expense of $1.7 million.

The intercompany borrowing arrangement between the two VIEs is eliminated in consolidation. STA Timber is exposed to credit-related losses in the event of nonperformance by an issuer of a deed of guarantee in the transaction.

Table of Contents

Flexible Packaging Joint Venture

On September 29, 2010, Greif, Inc. and its indirect subsidiary Greif International Holding Supra C.V. ("Greif Supra") formed a joint venture (referred to herein as the "Flexible Packaging JV" or "FPS VIE") with Dabbagh Group Holding Company Limited and one of its subsidiaries, originally National Scientific Company Limited and now Gulf Refined Packaging for Industrial Packaging Company LTD. The Flexible Packaging JV owns the operations in the Flexible Products & Services segment. The Flexible Packaging JV has been consolidated into the operations of the Company as of its formation date of September 29, 2010.

The Flexible Packaging JV is deemed to be a VIE since the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support. The major factors that led to the conclusion that the Company was the primary beneficiary of this VIE was that (1) the Company has the power to direct the most significant activities due to its ability to direct the operating decisions of the FPS VIE, which power is derived from the significant CEO discretion over the operations of the FPS VIE combined with the Company's sole and exclusive right to appoint the CEO of the FPS VIE, and (2) the significant variable interest through the Company's equity interest in the FPS VIE.

All entities contributed to the Flexible Packaging JV were existing businesses acquired by Greif Supra that were reorganized under Greif Flexibles Asset Holding B.V. and Greif Flexibles Trading Holding B.V., respectively.

The following table presents the Flexible Packaging JV total net assets (Dollars in millions):

	July 31, 2016	October 31, 2015
Cash and cash equivalents	$ 10.3	$ 14.5
Trade accounts receivable, less allowance of $2.9 in 2016 and $3.2 in 2015	45.0	47.5
Inventories	50.8	44.7
Properties, plants and equipment, net	29.0	43.1
Other assets	41.7	36.8
Total Assets	176.8	186.6
Accounts payable	27.6	27.9
Other liabilities	43.2	50.6
Total Liabilities	$ 70.8	$ 78.5

Net losses attributable to the noncontrolling interest in the Flexible Packaging JV for the three months ended July 31, 2016 and 2015 were $1.9 million and $2.6 million, respectively; and for the nine months ended July 31, 2016 and 2015, net losses attributable to the noncontrolling interest were $4.5 million and $8.9 million, respectively.

Non-United States Accounts Receivable VIE

As further described in Note 3, Cooperage Receivables Finance B.V. is a party to the European RPA. Cooperage Receivables Finance B.V. is deemed to be a VIE since this entity is not able to satisfy its liabilities without the financial support from the Company. While this entity is a separate and distinct legal entity from the Company and no ownership interest in this entity is held by the Company, the Company is the primary beneficiary because it has (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE. As a result, Cooperage Receivables Finance B.V. has been consolidated into the operations of the Company.

Table of Contents

NOTE 9 — LONG-TERM DEBT

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

	July 31, 2016	October 31, 2015
Amended Credit Agreement	$205.7	$217.4
Senior Notes due 2017	300.3	300.7
Senior Notes due 2019	246.7	246.0
Senior Notes due 2021	219.8	219.4
Amended Receivables Facility	75.0	147.6
Other debt	11.4	15.8
	1,058.9	1,146.9
Less current portion	(300.3)	(30.7)
Long-term debt	$758.6	$1,116.2

Amended Credit Agreement

On December 19, 2012, the Company and two of its international subsidiaries amended and restated the Company's existing $1.0 billion senior secured credit agreement with a syndicate of financial institutions (the "Amended Credit Agreement"). The total available borrowing under this facility was $705.1 million as of July 31, 2016, which has been reduced by $14.4 million for outstanding letters of credit, all of which is available without violating covenants.

The Amended Credit Agreement contains financial covenants that require the Company to maintain a certain leverage ratio and an interest coverage ratio. The leverage ratio generally requires that at the end of any fiscal quarter the Company will not permit the ratio of (a) the Company's total consolidated indebtedness, to (b) the Company's consolidated net income plus depreciation, depletion and amortization, interest expense (including capitalized interest), and income taxes, and minus certain extraordinary gains and non-recurring gains (or plus certain extraordinary losses and non-recurring losses) and plus or minus certain other items for the preceding twelve months ("adjusted EBITDA") to be greater than 4.00 to 1. The interest coverage ratio generally requires that at the end of any fiscal quarter the Company will not permit the ratio of (a) the Company's consolidated adjusted EBITDA to (b) the Company's consolidated interest expense to the extent paid or payable, to be less than 3.00 to 1, during the preceding twelve month period (the "Interest Coverage Ratio Covenant").

As of July 31, 2016, $205.7 million was outstanding under the Amended Credit Agreement. The Amended Credit Agreement was entirely classified as long term. The weighted average interest rate on the Amended Credit Agreement was 1.91% for the nine months ended July 31, 2016. The actual interest rate on the Amended Credit Agreement was 1.28% as of July 31, 2016.

Senior Notes due 2017

On February 9, 2007, the Company issued $300.0 million of 6.75% Senior Notes due February 1, 2017. Interest on these Senior Notes is payable semi-annually. These Senior Notes are classified as current portion of long-term debt on the condensed consolidated balance sheet as of July 31, 2016. The Company intends to refinance these Senior Notes prior to their stated maturity date.

Senior Notes due 2019

On July 28, 2009, the Company issued $250.0 million of 7.75% Senior Notes due August 1, 2019. Interest on these Senior Notes is payable semi-annually.

Senior Notes due 2021

On July 15, 2011, Greif, Inc.'s wholly-owned subsidiary, Greif Nevada Holdings, Inc., S.C.S. (formerly Greif Luxembourg Finance S.C.A.) issued €200.0 million of 7.375% Senior Notes due July 15, 2021. These Senior Notes are fully and unconditionally guaranteed on a senior basis by Greif, Inc. Interest on these Senior Notes is payable semi-annually.

Table of Contents

United States Trade Accounts Receivable Credit Facility

On September 31, 2013, the Company amended and restated its existing receivables facility in the United States to establish a $170.0 million United States Trade Accounts Receivable Credit Facility (the "Amended Receivables Facility") with a financial institution. On December 1, 2015, the Amended Receivables Facility was amended to reduce the amount of available proceeds from $170 million to $150 million. The Amended Receivables Facility matures in September 2016, and the Company intends to refinance this facility on similar terms.

NOTE 10 — FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The following table presents the fair value for those assets and (liabilities) measured on a recurring basis as of July 31, 2016 and October 31, 2015 (Dollars in millions):

	July 31, 2016				
	Fair Value Measurement				
	Level 1	Level 2	Level 3	Total	Balance Sheet Location
Foreign exchange hedges	$—	$ 0.5	$ —	$0.5	Prepaid expenses and other current assets
Foreign exchange hedges	—	(0.1)	—	(0.1)	Other current liabilities
Insurance annuity	—	—	20.1	20.1	Other long-term assets
Total*	$—	$ 0.4	$ 20.1	$20.5	

	October 31, 2015				
	Fair Value Measurement				
	Level 1	Level 2	Level 3	Total	Balance Sheet Location
Foreign exchange hedges	$—	$ 0.3	$ —	$0.3	Prepaid expenses and other current assets
Foreign exchange hedges	—	(0.2)	—	(0.2)	Other current liabilities
Insurance annuity	—	—	20.1	20.1	Other long-term assets
Total*	$—	$ 0.1	$ 20.1	$20.2	

* The carrying amounts of cash and cash equivalents, trade accounts receivable, accounts payable, current liabilities and short-term borrowings as of July 31, 2016 and October 31, 2015 approximate their fair values because of the short-term nature of these items and are not included in this table.

Foreign Exchange Hedges

The Company conducts business in various international currencies and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce volatility associated with foreign exchange rate changes. Accordingly, from time to time, the Company enters into various contracts that change in value as foreign exchange rates change to protect the value of certain existing foreign currency assets and liabilities, commitments and anticipated foreign currency cash flows.

As of July 31, 2016, the Company had outstanding foreign currency forward contracts in the notional amount of $85.1 million ($129.9 million as of October 31, 2015). Adjustments to fair value are recognized in earnings, offsetting the impact of the hedged item. The assumptions used in measuring fair value of foreign exchange hedges are considered level 2 inputs, which were based on observable market pricing for similar instruments, principally foreign exchange futures contracts. Gains recorded under fair value contracts were $0.6 million for the three months ended July 31, 2015 . Losses recorded under fair value contracts were $2.0 million for the three months ended July 31, 2016; and were $2.3 million and $6.2 million for the nine months ended July 31, 2016 and 2015, respectively.

Other financial instruments

The fair values of the Company's Amended Credit Agreement and the Amended Receivables Facility do not materially differ from carrying value as the Company's cost of borrowing is variable and approximates current borrowing rates. The book value of the net assets and liabilities held by special purpose entities approximate their fair value. 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

Table of Contents

interest rates offered for the debt of the same remaining maturities, which are considered level 2 inputs in accordance with ASC Topic 820, Fair Value Measurements and Disclosures.

The following table presents the estimated fair values of the Company's senior notes (Dollars in millions):

	July 31, 2016	October 31, 2015
Senior Notes due 2017		
Estimated fair value	$ 307.2	$ 314.8
Senior Notes due 2019		
Estimated fair value	282.5	280.6
Senior Notes due 2021		
Estimated fair value	266.9	258.7

Non-Recurring Fair Value Measurements

Long-Lived Assets

The Company recognized asset impairment charges of $4.1 million during the three months ended July 31, 2016 and $17.6 million for the three months ended July 31, 2015. As a result of the Company measuring long-lived assets at fair value on a non-recurring basis, during the three months ended July 31, 2016, the Company recorded impairment charges of $1.3 million related to properties, plants and equipment, net, in the Rigid Industrial Packaging & Services segment. The Company recognized asset impairment charges of $44.9 million and $22.3 million during the nine months ended July 31, 2016 and 2015, respectively. As a result of the Company measuring long-lived assets at fair value on a non-recurring basis, during the nine months ended July 31, 2016, the Company recorded impairment charges of $5.0 million related to properties, plants and equipment, net, in the Rigid Industrial Packaging & Services segment, $1.5 million related to a cost method investment in the Paper Packaging & Services segment, and $0.8 million of properties, plants and equipment, net, in the Flexible Products & Services segment.

The assumptions used in measuring fair value of long-lived assets are considered level 3 inputs, which include bids received from third parties, recent purchase offers, market comparable information and discounted cash flows based on assumptions that market participants would use.

Assets and Liabilities Held for Sale

The assumptions used in measuring fair value of assets and liabilities held for sale are considered level 3 inputs, which include recent purchase offers, market comparables and/or data obtained from commercial real estate brokers. During the nine month period ended July 31, 2016, three asset groups were reclassified to assets and liabilities held for sale, resulting in a $23.6 million impairment to net realizable value. Included in that asset impairment, was $9.1 million of goodwill allocated to the business classified as held for sale. During the nine month period ended July 31, 2016, one asset group classified as held for sale as of October 31, 2015, was remeasured to net realizable value, resulting in an impairment of $14.0 million. Included in that asset impairment, was $11.9 million of goodwill allocated to the business classified as held for sale. During the three months ended July 31, 2016, one asset group was reclassified to assets and liabilities held for sale, resulting in a $2.8 million impairment to net realizable value.

Table of Contents

The following table presents quantitative information about the significant unobservable inputs used to determine the fair value of the impairment of long-lived assets held and used and net assets held for sale for the nine months ended July 31, 2016.

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value of Impairment	Valuation Technique	Unobservable Input	Range of Input Values
	(in millions)			
July 31, 2016				
Impairment of Net Assets Held for Sale	$37.6	Broker Quote/ Indicative Bids	Indicative Bids	N/A
Impairment of Long Lived Assets	$7.3	Sales Value	Sales Value	N/A
July 31, 2015				
Impairment of Long Lived Assets - Land & Building	$17.7	Broker Quote/ Indicative Bids	Indicative Bids	N/A
Impairment of Long Lived Assets - Machinery & Equipment	$3.0	Sales Value	Sales Value	N/A

Goodwill and Other Intangible Assets

On an annual basis or whenever events or circumstances indicate impairment may have occurred, the Company performs impairment tests for goodwill and long lived intangible assets as defined under ASC 350, “Intangibles-Goodwill and Other.” The Company concluded that no such impairment existed as of July 31, 2016 and October 31, 2015.

NOTE 11 — INCOME TAXES

Income tax expense for the quarter was computed in accordance with ASC 740-270 Income Taxes - Interim Reporting ("ASC 740-270"). Under this method, losses from jurisdictions for which a valuation allowance has been provided have not been included in the amount to which the ASC 740-270 rate was applied. Income tax expense of the Company fluctuates primarily due to changes in income mix by jurisdiction, changes in losses from jurisdictions for which a valuation allowance has been provided and the impact of discrete items in the respective quarter.

Income tax expense was $3.5 million and $18.7 million for the three months ended July 31, 2016 and 2015, respectively. Income tax expense was $38.2 million and $45.8 million for the nine months ended July 31, 2016 and 2015, respectively.

As of July 31, 2016, the Company had not recognized U.S. deferred income taxes on the undistributed earnings from certain non-U.S. subsidiaries. The Company’s intention is to reinvest these earnings indefinitely outside of the U.S., or to repatriate the earnings only when it is tax-efficient to do so. Therefore, no U.S. tax provision has been accrued related to the repatriation of these earnings. It is not practicable to estimate the amount of any additional taxes that may be payable on the undistributed earnings given the various alternatives the Company could employ should the Company decide to repatriate those earnings in the future.

NOTE 12 — POST RETIREMENT BENEFIT PLANS

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
Service cost	$3.2	$4.1	$9.4	$12.4
Interest cost	5.7	7.1	16.9	21.3
Expected return on plan assets	(8.3)	(8.4)	(24.9)	(25.3)
Amortization of prior service cost, initial net asset and net actuarial gain	2.8	3.7	8.6	11.0
Net periodic pension costs	$3.4	$6.5	$10.0	$19.4

20

Table of Contents

The Company made $9.4 million and $8.1 million in pension contributions in the nine months ended July 31, 2016 and 2015, respectively. The Company estimates $12.5 million of pension contributions for the twelve months ended October 31, 2016.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
Service cost	$—	$—	$—	$—
Interest cost	0.2	0.1	0.4	0.5
Amortization of prior service cost and recognized actuarial gain	(0.4)	(0.4)	(1.2)	(1.2)
Net periodic benefit for postretirement benefits	$(0.2)	$(0.3)	$(0.8)	$(0.7)

NOTE 13 — CONTINGENT LIABILITIES AND ENVIRONMENTAL RESERVES

Litigation-related Liabilities

The Company may become involved in litigation and regulatory matters incidental to its business, including governmental investigations, enforcement actions, personal injury claims, product liability, employment health and safety matters, commercial disputes, intellectual property matters, disputes regarding environmental clean-up costs, litigation in connection with acquisitions and divestitures, and other matters arising out of the normal conduct of its business. The Company intends to vigorously defend itself in such litigation. The Company does not believe that the outcome of any pending litigation will have a material adverse effect on its condensed consolidated financial statements.

The Company may accrue for contingencies related to litigation and regulatory matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions can occur, assessing contingencies is highly subjective and requires judgments about future events. The Company reviews contingencies at least quarterly to determine whether its accruals are adequate. The amount of ultimate loss may differ from these estimates.

Environmental Reserves

As of July 31, 2016 and October 31, 2015, environmental reserves of $9.0 million and $8.2 million, respectively, were recorded on an undiscounted basis. These reserves are principally based on environmental studies and cost estimates provided by third parties, but also take into account management estimates. The estimated liabilities are reduced to reflect the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of relevant costs. For sites that involve formal actions subject to joint and several liabilities, these actions have formal agreements in place to apportion the liability. As of July 31, 2016 and October 31, 2015, environmental reserves of the Company included $4.2 million and $4.3 million, respectively, for various European drum facilities acquired from Blagden and Van Leer; $2.1 million and $2.0 million, respectively, for its various container life cycle management and recycling facilities acquired in 2011 and 2010; $1.7 million and $0.8 million for remediation of a sites no longer owned by the Company; and $1.0 million and $1.1 million for various other facilities around the world.

The Company's exposure to adverse developments with respect to any individual site is not expected to be material. Although environmental remediation could have a material effect on results of operations if a series of adverse developments occur in a particular quarter or year, the Company believes that the chance of a series of adverse developments occurring in the same quarter or year is remote. Future information and developments will require the Company to continually reassess the expected impact of these environmental matters.

NOTE 14 — EARNINGS PER SHARE

The Company has two classes of common stock and redeemable noncontrolling interests and, as such, applies the "two-class method" of computing earnings per share ("EPS") as prescribed in ASC 260, "Earnings Per Share." In accordance with this guidance, earnings are allocated in the same fashion as dividends would be distributed. Under the Company's articles of incorporation, any distribution of dividends in any year must be made in proportion of one cent a share for Class A Common Stock to one and one-half cents a share for Class B Common Stock, which results in a 40% to 60%

split to Class A and B shareholders, respectively. In accordance with this, earnings are allocated first to Class A and Class B Common Stock to the

21

Table of Contents

extent that dividends are actually paid and the remainder is allocated assuming all of the earnings for the period have been distributed in the form of dividends.

The Company calculates EPS as follows:

Basic Class A EPS	=	40% * Average Class A Shares Outstanding / 40% * Average Class A Shares Outstanding + 60% * Average Class B Shares Outstanding	*	Undistributed Net Income / Average Class A Shares	+ Class A Dividends Per Share
Diluted Class A EPS	=	40% * Average Class A Shares Outstanding / 40% * Average Class A Shares Outstanding + 60% * Average Class B Shares Outstanding	*	Undistributed Net Income / Average Diluted Class A Shares	+ Class A Dividends Per Share
Basic Class B EPS	=	60% * Average Class B Shares Outstanding / 40% * Average Class A Shares Outstanding + 60% * Average Class B Shares Outstanding	*	Undistributed Net Income / Average Class B Shares	+ Class B Dividends Per Share

*Diluted Class B EPS calculation is identical to Basic Class B calculation

The following table provides EPS information for each period, respectively:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
Numerator for basic and diluted EPS				
Net income attributable to Greif, Inc.	$46.1	$8.6	$66.4	$59.5
Cash dividends	(24.7)	(24.8)	(74.0)	(74.0)
Undistributed net (loss) income attributable to Greif, Inc.	$21.4	$(16.2)	$(7.6)	$(14.5)

The Class A Common Stock has no voting rights unless four quarterly cumulative dividends upon the Class A Common Stock are in arrears. The Class B Common Stock has full voting rights. There is no cumulative voting for the election of directors.

Common stock repurchases

The Company's Board of Directors has authorized the purchase of up to four million shares of Class A Common Stock or Class B Common Stock or any combination of the foregoing. In April 2016, the Stock Repurchase Committee authorized the Company to repurchase 110,241 shares of Class B Common Stock as part of the program and those shares were repurchased during the second quarter. There have been no other shares repurchased under this program from November 1, 2014 through July 31, 2016. As of July 31, 2016, the Company had repurchased 3,294,513 shares, including 1,425,452 shares of Class A Common Stock and 1,869,061 shares of Class B Common Stock.

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

	Authorized Shares	Issued Shares	Outstanding Shares	Treasury Shares
July 31, 2016				
Class A Common Stock	128,000,000	42,281,920	25,781,791	16,500,129
Class B Common Stock	69,120,000	34,560,000	22,009,725	12,550,275
October 31, 2015				

Class A Common Stock	128,000,000	42,281,920	25,693,564	16,588,356
Class B Common Stock	69,120,000	34,560,000	22,119,966	12,440,034

22

Table of Contents

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,	
	2016	2015	2016	2015
Class A Common Stock:				
Basic shares	25,781,146	25,692,973	25,746,797	25,659,750
Assumed conversion of stock options	2,038	5,574	349	5,574
Diluted shares	25,783,184	25,698,547	25,747,146	25,665,324
Class B Common Stock:				
Basic and diluted shares	22,009,725	22,119,966	22,079,544	22,119,966

NOTE 15 – EQUITY EARNINGS OF UNCONSOLIDATED AFFILIATES, NET OF TAX AND NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS

Equity earnings of unconsolidated affiliates, net of tax

Equity earnings of unconsolidated affiliates, net of tax represent the Company's share of earnings of affiliates in which the Company does not exercise control and has a 20 percent or more voting interest. Investments in such affiliates are accounted for using the equity method of accounting. The Company has an equity interest in one such affiliate as of July 31, 2016. The Company had an equity interest in two such affiliates as of July 31, 2015. If the fair value of an investment in an affiliate is below its carrying value and the difference is deemed to be other than temporary, the difference between the fair value and the carrying value is charged to earnings. Equity earnings of unconsolidated affiliates, net of tax were $0.8 million for the three and nine months ended July 31, 2016. Equity earnings of unconsolidated affiliates, net of tax were $0.6 million for the three months ended and $0.3 million for the nine months ended July 31, 2015. There were no dividends received from the Company's equity method affiliates for the three and nine months ended July 31, 2016 and 2015.

Net (income) loss attributable to noncontrolling interests

Net (income) loss attributable to noncontrolling interests represent the portion of earnings or losses from the operations of the Company's consolidated subsidiaries attributable to unrelated third party equity owners. Net (income) loss attributable to noncontrolling interests for the three months ended July 31, 2016 and 2015 was ($0.3) million and ($0.7) million, respectively. Net (income) loss attributable to noncontrolling interests for the nine months ended July 31, 2016 and 2015 was ($2.6) million and $1.5 million, respectively

Table of Contents

NOTE 16 — EQUITY AND COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes of equity from October 31, 2015 to July 31, 2016 (Dollars in millions, shares in thousands):

	Capital Stock		Treasury Stock						
	Common Shares	Amount	Treasury Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Greif, Inc. Equity	Non controlling interests	Total Equity
As of October 31, 2015	47,814	$ 139.1	29,028	$ (130.6)	$ 1,384.5	$ (377.4)	$ 1,015.6	$ 44.3	$ 1,059.9
Net income					66.4		66.4	2.6	69.0
Other comprehensive income (loss):									
- foreign currency translation						(5.3)	(5.3)	(4.3)	(9.6)
- minimum pension liability adjustment, net of income tax expense						3.5	3.5		3.5
Comprehensive income (loss)							64.6		62.9
Out of period mark to redemption value of redeemable noncontrolling interest					(19.8)		(19.8)		(19.8)
Current period mark to redemption value of redeemable noncontrolling interest					(3.1)		(3.1)		(3.1)
Reclassification of redeemable noncontrolling interest					1.2		1.2	(22.8)	(21.6)
Net income allocated to redeemable noncontrolling interests								(3.9)	(3.9)
Other							—	(0.4)	(0.4)
Dividends paid to Greif, Inc. shareholders					(74.0)		(74.0)		(74.0)
Contributions from noncontrolling interest							—	0.8	0.8
Dividends to noncontrolling interests								(3.9)	(3.9)
Treasury shares acquired	(110)		110	(5.2)			(5.2)		(5.2)
Restricted stock executives and directors	47	1.3	(47)	0.1			1.4		1.4
Long-term incentive shares issued	41	1.0	(41)	0.1			1.1		1.1
As of July 31, 2016	47,792	$ 141.4	29,050	$ (135.6)	$ 1,355.2	$ (379.2)	$ 981.8	$ 12.4	$ 994.2

Table of Contents

The following table summarizes the changes of equity from October 31, 2014 to July 31, 2015 (Dollars in millions, shares in thousands):

	Capital Stock		Treasury Stock						
	Common Shares	Amount	Treasury Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Greif, Inc. Equity	Non controlling interests	Total Equity
As of October 31, 2014	47,724	$135.5	29,118	$(130.7)	$1,411.7	$ (274.4)	$1,142.1	$ 81.1	$1,223.2
Net income					59.5		59.5	(1.5)	58.0
Other comprehensive income (loss):									
- foreign currency translation						(87.7)	(87.7)	(21.8)	(109.5)
- Net reclassification of cash flow hedges to earnings, net of immaterial income tax benefit						0.1	0.1		0.1
- minimum pension liability adjustment, net of income tax benefit of $2.4 million						5.5	5.5		5.5
Comprehensive income (loss)							(22.6)		(45.9)
Acquisition of noncontrolling interest and other					(0.4)		(0.4)	(10.1)	(10.5)
Dividends paid to Greif, Inc. shareholders					(74.0)		(74.0)		(74.0)
Dividends paid to noncontrolling interests							—	(4.0)	(4.0)
Stock options exercised	10	0.2	(10)	—			0.2		0.2
Restricted stock executives and directors	31	1.4	(31)	—			1.4		1.4
Long-term incentive shares issued	49	2.0	(49)	0.1			2.1		2.1
As of July 31, 2015	47,814	$139.1	29,028	$(130.6)	$1,396.8	$ (356.5)	$1,048.8	$ 43.7	$1,092.5

The following table provides the rollforward of accumulated other comprehensive income (loss) for the nine months ended July 31, 2016 (Dollars in millions):

	Foreign Currency Translation	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance as of October 31, 2015	$ (256.6)	$ (120.8)	$ (377.4)
Other Comprehensive Income (Loss) Before Reclassifications	(5.3)	3.5	(1.8)
Current-period Other Comprehensive Income (Loss)	(5.3)	3.5	(1.8)
Balance as of July 31, 2016	$ (261.9)	$ (117.3)	$ (379.2)

The following table provides the rollforward of accumulated other comprehensive income (loss) for the nine months ended July 31, 2015 (Dollars in millions):

Table of Contents

	Foreign Currency Translation	Cash Flow Hedges	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance as of October 31, 2014	$ (144.5)	$ (0.1)	$ (129.8)	$ (274.4)
Other Comprehensive Income (Loss) Before Reclassifications	(87.7)	—	5.5	(82.2)
Amounts reclassified from Accumulated Other Comprehensive Loss	—	0.1	—	0.1
Current-period Other Comprehensive Income (Loss)	(87.7)	0.1	5.5	(82.1)
Balance as of July 31, 2015	$ (232.2)	$ —	$ (124.3)	$ (356.5)

The components of accumulated other comprehensive income (loss) above are presented net of tax, as applicable.

NOTE 17 — BUSINESS SEGMENT INFORMATION

The Company has five operating segments, which are aggregated into four reportable business segments: Rigid Industrial Packaging & Services; Paper Packaging & Services; Flexible Products & Services; and Land Management. The Company's reportable business segments offer different products and services. The accounting policies of the reportable business segments are substantially the same as those described in the "Basis of Presentation and Summary of Significant Accounting Policies" note in the 2015 Form 10-K. The measure of segment profitability that is used by the Company is operating profit.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
Net sales				
Rigid Industrial Packaging & Services	$596.8	$669.0	$1,721.3	$1,985.3
Paper Packaging & Services	172.5	176.7	498.1	496.3
Flexible Products & Services	69.9	79.2	219.0	249.3
Land Management	5.8	5.1	17.6	17.3
Total net sales	$845.0	$930.0	$2,456.0	$2,748.2
Operating profit (loss):				
Rigid Industrial Packaging & Services	$56.7	$29.5	$113.4	$75.5
Paper Packaging & Services	19.1	21.5	64.4	76.7
Flexible Products & Services	(5.9)	(9.7)	(11.9)	(23.8)
Land Management	1.7	2.9	6.1	32.3
Total operating profit	$71.6	$44.2	$172.0	$160.7
Depreciation, depletion and amortization expense:				
Rigid Industrial Packaging & Services	$20.8	$21.8	$63.7	$70.2
Paper Packaging & Services	8.0	6.8	23.6	21.5
Flexible Products & Services	1.8	2.2	5.9	6.6
Land Management	0.9	0.8	2.6	2.6
Total depreciation, depletion and amortization expense	$31.5	$31.6	$95.8	$100.9

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

Table of Contents

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015
Net sales:				
United States	$400.3	$431.5	$1,179.0	$1,269.7
Europe, Middle East and Africa	318.9	337.3	905.9	979.5
Asia Pacific and other Americas	125.8	161.2	371.1	499.0
Total net sales	$845.0	$930.0	$2,456.0	$2,748.2

The following table presents total assets by segment and total properties, plants and equipment, net by geographic area (Dollars in millions):

	July 31, 2016	October 31, 2015
Assets:		
Rigid Industrial Packaging & Services	$1,978.4	$ 2,043.3
Paper Packaging & Services	444.6	444.0
Flexible Products & Services	166.1	187.0
Land Management	337.4	335.2
Total segments	2,926.5	3,009.5
Corporate and other	257.4	306.2
Total assets	$3,183.9	$ 3,315.7
Properties, plants and equipment, net:		
United States	$719.3	$ 734.1
Europe, Middle East and Africa	314.3	335.4
Asia Pacific and other Americas	139.4	148.2
Total properties, plants and equipment, net	$1,173.0	$ 1,217.7

NOTE 18 —REDEEMABLE NONCONTROLLING INTERESTS

During the first quarter of 2016, the Company identified errors related to the accounting for and presentation related to various noncontrolling interests of consolidated entities. The Company has concluded that the errors are not material to any prior period, the current period, or to the trend in earnings and, as such, has presented the error corrections as an out-of-period reclassification in the current condensed consolidated financial statements.

Mandatorily Redeemable Noncontrolling Interests

The terms of the joint venture agreement for one joint venture within the Rigid Industrial Packaging & Services segment include mandatory redemption by the Company, in cash, of the noncontrolling interest holders' equity at a formulaic price after the expiration of a lockout period specific to each noncontrolling interest holder. The redemption features cause the interest to be classified as a mandatorily redeemable instrument under the accounting guidance and included at the current redemption value each period in long-term or short-term liabilities of the Company, as applicable. The impact of marking to redemption value at each period end is recorded in interest expense.

During the second quarter of 2016, the Company purchased the interest of one of the mandatorily redeemable noncontrolling interest holders that notified the Company of the exercise of its option requiring the Company to purchase its equity for the redemption price of $0.8 million. One remaining partner has the ability to require the Company to redeem its equity in 2017 and the Company has a contractual obligation to redeem the outstanding equity interests of each remaining partner in 2021 and 2022, respectively, and therefore, such redemption values of $10.0 million are included in other long-term liabilities in these condensed consolidated financial statements.

Table of Contents

The following table provides the rollforward of the mandatorily redeemable noncontrolling interest for the nine months ended July 31, 2016 (Dollars in millions):

	Mandatorily Redeemable Noncontrolling Interest
Balance as of October 31, 2015	$ —
Reclassification of book value of noncontrolling interest	10.4
Out-of period reversal of cumulative income allocated to noncontrolling interest	(1.2)
Out-of period mark to redemption value	0.1
Current period mark to redemption value	1.5
Repurchase of redeemable shareholder interest	(0.8)
Balance as of July 31, 2016	$ 10.0

Redeemable Noncontrolling Interests

Redeemable noncontrolling interests related to one joint venture within the Paper Packaging & Services segment and one joint venture within the Rigid Industrial Packaging & Services segment are held by the respective noncontrolling interest owners. The holders of these interests share in the profits and losses of these entities on a pro rata basis with the Company. However, the noncontrolling interest owners have the right to put all or a portion of those noncontrolling interests to the Company at a formulaic price after a set period of time, specific to each agreement. During the third quarter of 2016, the Company purchased the remaining interest of one of the redeemable noncontrolling interests for the redemption price of $5.5 million.

Redeemable noncontrolling interests are reflected in the condensed consolidated balance sheets at redemption value. The following table provides the rollforward of the redeemable noncontrolling interest for the nine months ended July 31, 2016 (Dollars in millions):

	Redeemable Noncontrolling Interest
Balance as of October 31, 2015	$ —
Reclassification of book value of noncontrolling interest	12.4
Out-of period mark to redemption value*	19.8
Current period mark to redemption value	3.1
Repurchase of redeemable shareholder interest	(5.5)
Redeemable Noncontrolling Interest share of Income/(Loss) and other	3.9
Contributions from /(Dividends to) redeemable noncontolling interest and other	(1.4)
Balance as of July 31, 2016	$ 32.3

* The out-of-period mark to redemption value amounts were charged to retained earnings in the first quarter of 2016.

Table of Contents

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

GENERAL

The terms "Greif," "our company," "we," "us" and "our" as used in this discussion refer to Greif, Inc. and its subsidiaries. Our fiscal year begins on November 1 and ends on October 31 of the following year. Any references in this Form 10-Q to the years 2016 or 2015, or to any quarter of those years, relates to the fiscal year or quarter, as the case may be, ended in that year.

The discussion and analysis presented below relates to the material changes in financial condition and results of operations for our condensed consolidated balance sheets as of July 31, 2016 and October 31, 2015, and for the condensed consolidated statements of income for the three and nine months ended July 31, 2016 and 2015. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements that appear elsewhere in this Form 10-Q and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015 (the "2015 Form 10-K"). Readers are encouraged to review the entire 2015 Form 10-K, as it includes information regarding Greif not discussed in this Form 10-Q. This information will assist in your understanding of the discussion of our current period financial results.

All statements, other than statements of historical facts, included in this Form 10-Q, including without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, goals, trends and plans and objectives of management for future operations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "aspiration," "objective," "project," "believe," "continue," "on trac negative thereof or variations thereon or similar terminology. All forward-looking statements made in this Form 10-Q are based on assumptions, expectations and other information currently available to management. Although we believe that the expectations reflected in forward-looking statements have a reasonable basis, we can give no assurance that these expectations will prove to be correct.

Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those forecasted, projected or anticipated, whether expressed in or implied by the statements. Such risks and uncertainties that might cause a difference include, but are not limited to, the following: (i) historically, our business has been sensitive to changes in general economic or business conditions, (ii) our operations subject us to currency exchange and political risks that could adversely affect our results of operations, (iii) the current and future challenging global economy and disruption and volatility of the financial and credit markets may adversely affect our business, (iv) the continuing consolidation of our customer base and suppliers may intensify pricing pressure, (v) we operate in highly competitive industries, (vi) our business is sensitive to changes in industry demands, (vii) raw material and energy price fluctuations and shortages may adversely impact our manufacturing operations and costs, (viii) we may encounter difficulties arising from acquisitions, (ix) we may incur additional restructuring costs and there is no guarantee that our efforts to reduce costs will be successful, (x) tax legislation initiatives or challenges to our tax positions may adversely impact our results or condition, (xi) full realization of our deferred tax assets may be affected by a number of factors, (xii) several operations are conducted by joint ventures that we cannot operate solely for our benefit, (xiii) our ability to attract, develop and retain talented and qualified employees, managers and executives is critical to our success, (xiv) our business may be adversely impacted by work stoppages and other labor relations matters, (xv) our pension plans are underfunded and will require future cash contributions, and our required future cash contributions could be higher than we expect, each of which could have a material adverse effect on our financial condition and liquidity, (xvi) we may be subject to losses that might not be covered in whole or in part by existing insurance reserves or insurance coverage, (xvii) our business depends on the uninterrupted operations of our facilities, systems and business functions, including our information technology and other business systems, (xviii) a security breach of customer, employee, supplier or company information may have a material adverse effect on our business, financial condition and results of operations, (xix) legislation/regulation related to environmental and health and safety matters and corporate social responsibility could negatively impact our operations and financial

performance, (xx) product liability claims and other legal proceedings could adversely affect our operations and financial performance, (xxi) we may incur fines or penalties, damage to our reputation or other adverse consequences if our employees, agents or business partners violate, or are alleged to have violated, anti-bribery, competition or other laws, (xxii) changing climate, climate change regulations and greenhouse gas effects may adversely affect our operations and financial performance, (xxiii) the frequency and volume of our timber and timberland sales will impact our financial performance, (xxiv) changes in U.S. generally accepted accounting principles and SEC rules and regulations could materially impact our reported results, (xxv) if the company fails to maintain an effective system of internal control, the company may not be able to accurately report financial results or prevent fraud, (xxvi) the company has a significant amount of goodwill and long-lived assets which, if impaired in the future, would adversely impact our results of operations, and (xxvii) changes in business results may impact our book tax rates. The risks described above are not all-inclusive, and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-

looking statements as a prediction of actual results. For a more detailed discussion of the most significant risks and uncertainties that could cause our actual results to differ materially from those forecasted, projected or anticipated, see "Risk Factors" in Part I, Item 1A of our 2015 Form 10-K and our other filings with the Securities and Exchange Commission. All forward-looking statements made in this Form 10-Q are expressly qualified in their entirety by reference to such risk factors. Except to the limited extent required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

Business Segments

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

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

We produce and sell containerboard, corrugated sheets, corrugated containers and other corrugated and specialty products to customers in North America in industries such as packaging, automotive, food and building products. Our corrugated container products are used to ship such diverse products as home appliances, small machinery, grocery products, building products, automotive components, books and furniture, as well as numerous other applications.

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

As of July 31, 2016, we owned approximately 243,000 acres of timber properties in the southeastern United States. Our Land Management team is focused on the active harvesting and regeneration of our United States timber properties to achieve sustainable long-term yields. While timber sales are subject to fluctuations, we seek to maintain a consistent cutting schedule, within the limits of market and weather conditions. We also sell, from time to time, timberland and special use properties, which consist of surplus properties, higher and better use ("HBU") properties and development properties.

CRITICAL ACCOUNTING POLICIES

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

Our significant accounting policies are discussed in Part II, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of the 2015 Form 10-K. We believe that the consistent application of these policies enables us to provide readers of the condensed consolidated financial statements with useful and reliable information about our results of operations and financial condition.

There have been no changes to our critical accounting policies.

RESULTS OF OPERATIONS

The following comparative information is presented for the three and nine months ended July 31, 2016 and 2015. Historical revenues and earnings may or may not be representative of future operating results as a result of various economic and other factors.

Table of Contents

Items that could have a significant impact on the financial statements include the risks and uncertainties listed in Part I, Item 1A — Risk Factors, of the 2015 Form 10-K. Actual results could differ materially using different estimates and assumptions, or if conditions are significantly different in the future.

The non-GAAP financial measure of EBITDA is used throughout the following discussion of our results of operations. EBITDA is defined as net income, plus interest expense, net, plus income tax expense, net of tax, plus depreciation, depletion and amortization. Since we do not calculate net income by business segment, EBITDA by business segment is reconciled to operating profit business by segment. We use EBITDA as one of the financial measures to evaluate our historical and ongoing operations and believe that this non-GAAP financial measure is useful to enable investors to perform meaningful comparisons of our historical and current performance.

Third Quarter Results

The following table sets forth the net sales, operating profit (loss) and EBITDA for each of our business segments for the three month periods ended July 31, 2016 and 2015 (Dollars in millions):

Three Months Ended July 31,	2016	2015
Net sales:		
Rigid Industrial Packaging & Services	$596.8	$669.0
Paper Packaging & Services	172.5	176.7
Flexible Products & Services	69.9	79.2
Land Management	5.8	5.1
Total net sales	$845.0	$930.0
Operating profit (loss):		
Rigid Industrial Packaging & Services	$56.7	$29.5
Paper Packaging & Services	19.1	21.5
Flexible Products & Services	(5.9)	(9.7)
Land Management	1.7	2.9
Total operating profit	$71.6	$44.2
EBITDA:		
Rigid Industrial Packaging & Services	$77.2	$52.5
Paper Packaging & Services	27.1	28.7
Flexible Products & Services	(5.7)	(6.9)
Land Management	2.6	3.7
Total EBITDA	$101.2	$78.0

The following table sets forth EBITDA, reconciled to net income and operating profit, for our consolidated results for the three month periods ended July 31, 2016 and 2015 (Dollars in millions):

Table of Contents

Three Months Ended July 31,	2016	2015
Net income	$46.4	$9.3
Plus: interest expense, net	19.8	18.4
Plus: income tax expense	3.5	18.7
Plus: depreciation, depletion and amortization expense	31.5	31.6
EBITDA	$101.2	$78.0
Net income	$46.4	$9.3
Plus: interest expense, net	19.8	18.4
Plus: income tax expense	3.5	18.7
Plus: other (income) expense, net	2.7	(1.6)
Plus: equity earnings of unconsolidated affiliates, net of tax	(0.8)	(0.6)
Operating profit	71.6	44.2
Less: other (income) expense, net	2.7	(1.6)
Less: equity earnings of unconsolidated affiliates, net of tax	(0.8)	(0.6)
Plus: depreciation, depletion and amortization expense	31.5	31.6
EBITDA	$101.2	$78.0

The following table sets forth EBITDA for our business segments, reconciled to the operating profit (loss) for each segment, for the three month periods ended July 31, 2016 and 2015 (Dollars in millions):

Three Months Ended July 31,	2016	2015
Rigid Industrial Packaging & Services		
Operating profit	$56.7	$29.5
Less: other (income) expense, net	1.1	(1.1)
Less: equity earnings of unconsolidated affiliates, net of tax	(0.8)	(0.1)
Plus: depreciation and amortization expense	20.8	21.8
EBITDA	$77.2	$52.5
Paper Packaging & Services		
Operating profit	$19.1	$21.5
Less: other income, net	—	(0.4)
Plus: depreciation and amortization expense	8.0	6.8
EBITDA	$27.1	$28.7
Flexible Products & Services		
Operating loss	$(5.9)	$(9.7)
Less: other (income) expense, net	1.6	(0.1)
Less: equity earnings of unconsolidated affiliates, net of tax	—	(0.5)
Plus: depreciation and amortization expense	1.8	2.2
EBITDA	$(5.7)	$(6.9)
Land Management		
Operating profit	$1.7	$2.9
Plus: depreciation, depletion and amortization expense	0.9	0.8
EBITDA	2.6	3.7
Consolidated EBITDA	$101.2	$78.0

Net Sales

Net sales were $845.0 million for the third quarter of 2016 compared with $930.0 million million for the third quarter of 2015. The 9.1 percent decrease in net sales was due to the negative impact of foreign currency translation of 6.5 percent

Table of Contents

primarily attributable to the revaluation of our Venezuelan operations in 2015 and a decrease in volumes of 4.5 percent, primarily attributable to divestitures completed during 2015, partially offset by a slight increase in prices and product mix.

Gross Profit

Gross profit was $176.5 million for the third quarter of 2016 compared with $166.8 million for the third quarter of 2015. The respective reasons for the improvement or decline in each segment are described below in the “Segment Review.” Gross profit margin was 20.9 percent for the third quarter of 2016 compared to 17.9 percent for the third quarter of 2015. The 2015 gross profit includes a $6.0 million net charge related to our Venezuelan operations, which includes the devaluation of the inventory through costs of products sold of $9.3 million offset by margin contribution of $3.3 million.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses decreased 4.4 percent to $92.6 million for the third quarter of 2016 from $96.9 million for the third quarter of 2015. This decrease was primarily due to the impact of foreign currency translation and the impact of divestitures offset by increases in incentives due to improved business performance. SG&A expenses were 11.0 percent of net sales for the third quarter of 2016 compared with 10.4 percent of net sales for the third quarter of 2015.

Restructuring Charges

Restructuring charges were $10.2 million for the third quarter of 2016 compared with $16.2 million for the third quarter of 2015. Charges for both periods were primarily related to employee separation costs, relocation fees and professional fees incurred for services specifically associated with employee separation and relocation.

Gain on Disposal of Properties, Plants and Equipment, net

The gain on disposal of properties, plants and equipment, net was $0.7 million and $7.0 million for the third quarter 2016 and 2015, respectively. See Note 5 to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for additional information on the gain reported during the third quarter of 2016.

Gain on Disposal of Businesses, net

The gain on disposal of businesses was $1.3 million and $1.1 million for the third quarter of 2016 and 2015, respectively. See Note 2 to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for additional information on the gain reported during the third quarter of 2016.

Operating Profit

Operating profit was $71.6 million for the third quarter of 2016 compared with $44.2 million for the third quarter of 2015. The $27.4 million increase consisted of a $27.2 million increase in the Rigid Industrial Packaging & Services segment and a $3.8 million increase in the Flexible Products & Services segment, offset by a $2.4 million decrease in the Paper Packaging & Services segment and a $1.2 million decrease in the Land Management segment. The primary factors that contributed to the $27.4 million increase, when compared to the third quarter of 2015, were lower non-cash impairment charges of $13.5 million and the impact of the devaluation of our Venezuelan inventory in the third quarter of 2015 of $9.3 million.

EBITDA

EBITDA was $101.2 million for the third quarter of 2016 compared with $78.0 million for the third quarter of 2015. The $23.2 million increase was primarily due to the same factors that impacted operating profit, as described above. Depreciation, depletion and amortization expense was $31.5 million for the third quarter of 2016 compared with $31.6 million for the third quarter of 2015.

Trends

Our fiscal year 2016 results will continue to benefit from the further implementation of our transformation efforts, which emphasize customer service excellence and have resulted in fundamental operational improvements, but will be partially

offset by the impact of a sluggish global industrial economy, a challenged containerboard environment for the remainder of the year and weaker than expected seasonal agricultural sales.

Segment Review

Rigid Industrial Packaging & Services

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

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

Net sales decreased 10.8 percent to $596.8 million for the third quarter of 2016 compared with $669.0 million for the third quarter of 2015. The decrease in net sales was primarily due to the negative impact of foreign currency translation of 8.8 percent, primarily attributable to the remeasurement of our Venezuelan operations in August of 2015, and a net volume decrease of 6.7 percent, primarily due to the impact of divestitures made since the third quarter 2015. Changes in volumes decreased net sales by 15.1 percent and 11.1 percent in North America and Latin America, respectively, primarily attributable to divestitures completed in those regions, while volume improvement increased net sales by 1.5 percent in Asia Pacific. Volumes were generally flat in Europe, Middle East and Africa.

Gross profit was $131.8 million for the third quarter of 2016 compared with $120.9 million for the third quarter of 2015. The $10.9 million increase in gross profit was primarily due to the positive impact of strategic volume and pricing actions and a $6.0 million net charge in the third quarter 2015 related to the devaluation of inventory through costs of products sold in the Venezuelan operation of $9.3 million net of operational gross margin contribution of the Venezuelan operation of $3.3 million. Gross profit margin increased from 18.1 percent to 22.1 percent for the three months ended July 31, 2015 to 2016, respectively. This increase was primarily attributable to gross profit margin increases from 17.3 percent to 20.5 percent in Asia Pacific, and 19.2 percent to 24.3 percent in North America, and 21.1 percent to 22.5 percent in Europe, Middle East, and Africa for the three months ended July 31, 2015 to 2016, respectively. In Latin America, gross profit margins increased from 3.3 percent to 11.7 percent, due primarily to the impact of the devaluation of the Venezuelan inventory through costs of products sold in the third quarter 2015.

Operating profit was $56.7 million for the third quarter of 2016 compared with operating profit of $29.5 million for the third quarter of 2015. The $27.2 million increase was primarily attributable to the same factors impacting gross profit, a $2.2 million reduction in SG&A expenses, a reduction in restructuring costs of $4.7 million and a reduction in non-cash asset impairment charges of $15.1 million, offset by a decrease of $5.7 million in gain on sales of properties, plants and equipment and businesses, net. On a geographic basis, for the third quarter of 2016, operating profit increased $20.3 million in Latin America, $4.4 million in Europe, Middle East and Africa, $2.7 million in North America and $0.7 million in Asia Pacific, partially offset by a decrease in operating profit of $0.9 million in our closures and reconditioning business.

EBITDA was $77.2 million for the third quarter of 2016 compared with $52.5 million for the third quarter of 2015. The $24.7 million increase was due to the same factors that impacted the segment’s operating profit, as described above. Depreciation, depletion and amortization expense was $20.8 million for the third quarter of 2016 compared with $21.8 million for the third quarter of 2015.

Paper Packaging & Services

Table of Contents

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

- Selling prices, product mix, customer demand and sales volumes;
- Raw material costs, primarily old corrugated containers;
- Energy and transportation costs; and
- Benefits from executing the Greif Business System.

Net sales decreased to $172.5 million for the third quarter of 2016 compared with $176.7 million for the third quarter of 2015. Net volumes increased 2.5 percent from the third quarter 2015 to the third quarter 2016, primarily related to a shorter annual maintenance shutdown for the mill system and increased output from the Riverville modernization project in the third quarter of 2016. These increases were offset by selling price decreases of 4.9 percent, primarily due to changes in published containerboard index prices during the first nine months of 2016.

Gross profit was $32.3 million for the third quarter of 2016 compared with $35.1 million for the third quarter of 2015. Gross profit margin was 18.7 percent and 19.9 percent for the third quarters of 2016 and 2015, respectively. This decrease was due to the decrease in net sales and an increase in input costs, primarily old corrugated container costs, during third quarter of 2016 as compared to the third quarter of 2015.

Operating profit was $19.1 million for the third quarter of 2016 compared with $21.5 million for the third quarter of 2015. The decrease was primarily due to the same factors impacting gross profit, as described above.

EBITDA was $27.1 million for the third quarter of 2016 compared with $28.7 million for the third quarter of 2015. This decrease was due to the same factors that impacted the segment's gross profit. Depreciation, depletion and amortization expense was $8.0 million and $6.8 million for the third quarters of 2016 and 2015, respectively.

Flexible Products & Services

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

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

Net sales decreased $9.3 million to $69.9 million for the third quarter of 2016 compared with $79.2 million for the third quarter of 2015. This decrease was primarily attributable to volume decreases of 8.4 percent and the negative impact of foreign currency translation of 2.3 percent for the third quarter of 2016 compared with the third quarter of 2015.

Gross profit was $10.2 million for the third quarter of 2016 compared with $8.9 million for the third quarter of 2015. This increase was primarily attributable to reduced fixed costs and the impact of strategic volume and pricing decisions. Gross profit margin increased to 14.6 percent for the third quarter of 2016 from 11.2 percent for the third quarter of 2015.

Operating loss was $5.9 million for the third quarter of 2016 compared with an operating loss of $9.7 million for the third quarter of 2015. This improvement in operating loss was primarily related to the the same factors impacting gross profit and reductions in SG&A expense.

EBITDA was negative $5.7 million for the third quarter of 2016 compared with negative $6.9 million for the third quarter of 2015. This improvement was due to the same factors that impacted the segment's operating loss, as described above.

Table of Contents

Depreciation, depletion and amortization expense was $1.8 million for the third quarter of 2016 compared with $2.2 million for the third quarter of 2015.

Land Management

As of July 31, 2016, our Land Management segment consisted of approximately 243,000 acres of timber properties in the southeastern United States. Key factors influencing profitability in the Land Management segment are:

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

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

- Surplus property, meaning land that cannot be efficiently or effectively managed by us, whether due to parcel size, lack of productivity, location, access limitations or for other reasons.
- HBU property, meaning land that in its current state has a higher market value for uses other than growing and selling timber.
- Development property, meaning HBU land that, with additional investment, may have a significantly higher market value than its HBU market value.
- Core Timberland, meaning land that is best suited for growing and selling timber.

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

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

As of July 31, 2016, we had approximately 21,000 acres of special use property in the United States that we expect will be available for sale in the next five to seven years.

Net sales increased to $5.8 million for the third quarter of 2016 compared with $5.1 million for the third quarter of 2015.

Operating profit decreased to $1.7 million for the third quarter of 2016 from $2.9 million for the third quarter of 2015 due to a reduction in gain on disposal of properties, plants and equipment of $1.2 million.

EBITDA was $2.6 million and $3.7 million for the third quarters of 2016 and 2015, respectively. Depreciation, depletion and amortization expense was $0.9 million and $0.8 million for the third quarters of 2016 and 2015, respectively.

Other Income Statement Changes

Interest expense, net

Interest expense, net, was $19.8 million for the third quarter of 2016 compared with $18.4 million for the third quarter of 2015. This increase was a result of mandatorily redeemable noncontrolling interest adjustments to redemption value for the third quarter of 2016 compared to the third quarter of 2015.

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

Table of Contents

Income before income tax expense derived from non-U.S. operations as a percentage of consolidated income before income tax expense decreased from 5.0 percent to negative 3.7 percent from the third quarter of 2015 to the third quarter of 2016. After eliminating the impact of timberland gains, restructuring charges, non-cash asset impairment charges and gains and losses on the sales of businesses, income before income tax expense derived from non-U.S. operations as a percentage of consolidated income before income tax expense decreased from 54.1 percent to 11.9 percent from the third quarter of 2015 to the third quarter of 2016, respectively. Refer to the following tables for details of the U.S and non-U.S income before income taxes results for the periods presented.

Summary

	Three Months Ended July 31,	
	2016	2015
Non-U.S. % of Consolidated Net Sales	52.6 %	53.6 %
U.S. % of Consolidated Net Sales	47.4 %	46.4 %
	100.0 %	100.0%
Non-U.S. % of Consolidated I.B.I.T.	(3.7)%	5.0 %
U.S. % of Consolidated I.B.I.T.	103.7 %	95.0 %
	100.0 %	100.0%
Non-U.S. % of Consolidated I.B.I.T. before Special Items	11.9 %	54.1 %
U.S. % of Consolidated I.B.I.T. before Special Items	88.1 %	45.9 %
	100.0 %	100.0%

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

	Three Months Ended July 31,	
	2016	2015
Non-U.S. I.B.I.T.	$(1.8)	$1.4
Non-cash asset impairment charges	3.6	15.9
Restructuring charges	6.9	13.9
Gain on sale of businesses	(1.3)	(0.7)
Impact of Venezuela devaluation on cost of goods sold	—	9.3
Impact of Venezuela devaluation on other income/expense	—	(4.9)
Total Non-U.S. Special Items	9.2	33.5
Non-U.S. I.B.I.T. before Special Items	$7.4	$34.9

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

	Three Months Ended July 31,	
	2016	2015
U.S. I.B.I.T.	$50.9	$26.0
Non-cash asset impairment charges	0.5	1.7
Timberland gains	—	—
Restructuring charges	3.3	2.3
(Gain)/Loss on sale of businesses	—	(0.4)
Total U.S. Special Items	3.8	3.6
U.S. I.B.I.T. before Special Items	$54.7	$29.6

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

Income tax expense

The total pretax income was $49.1 million for the third quarter of 2016 compared with $27.4 million for the third quarter of 2015. Our income tax expense is impacted by the respective mix of pretax income between the U.S. and non-U.S. jurisdictions in which we operate, changes in losses from jurisdictions for which a valuation allowance has been provided and

Table of Contents

the impact of discrete items. The mix of pretax income was 103.7 percent U.S. and negative 3.7 percent non-U.S. for the third quarter of 2016 and was 95.0 percent U.S. and 5.0 percent non-U.S. for the third quarter of 2015. Refer to the tables above for details of the U.S and non-U.S pretax income for the periods presented.

We evaluate our deferred tax assets under ASC 740 and determine those which are unlikely to be realized as a result of existing cumulative losses and insufficient projected future sources of taxable income. As a result, our tax expense is impacted by valuation allowances on deferred tax assets.

Income tax expense for the quarter was computed in accordance with ASC 740-270. Under this method, losses from jurisdictions for which a valuation allowance has been provided have not been included in the amount to which the ASC 740-270 rate was applied. Income tax expense of the Company fluctuates primarily due to changes in income mix by jurisdiction, changes in losses from jurisdictions for which a valuation allowance has been provided and the impact of discrete items in the respective quarter.

Income tax expense was $3.5 million for the third quarter of 2016 and $18.7 million for the third quarter of 2015. The third quarter of 2016 tax expense reflected the tax consequences of rebalancing our global debt, net discrete gains and losses for which there was not a proportionate tax recognized, adjustments to uncertain tax position estimates due to audit settlements and expiration of the statue of limitations on several positions, and the impact of losses in jurisdictions with a valuation allowance for which we did not receive a tax benefit.

We have estimated the reasonably possible expected net change in unrecognized tax benefits through July 31, 2017 under ASC 740. Our estimate is based on lapses of the applicable statutes of limitations, settlements and payments of uncertain tax positions and current year increases in uncertain tax positions. The estimated net decrease in unrecognized tax benefits for the next 12 months ranges from $0 to $3.0 million. Actual results may differ materially from this estimate.

Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests represents the portion of earnings from the operations of our majority owned subsidiaries that was added to net income to arrive at net income attributable to us. Net income attributable to noncontrolling interests for the third quarters of 2016 and 2015 was $0.3 million and $0.7 million, respectively.

Net income attributable to Greif, Inc.

Based on the same factors that impacted our operating profit, interest expense, and income tax expense, net income attributable to Greif, Inc. was $46.1 million for the third quarter of 2016 compared to $8.6 million for the third quarter of 2015.

OTHER COMPREHENSIVE INCOME (LOSS) CHANGES

Foreign currency translation.

In accordance with ASC 830, “Foreign Currency Matters,” the assets and liabilities denominated in a foreign currency are translated into United States Dollars at the rate of exchange existing at the end of the current period, and revenues and expenses are translated at average exchange rates over the month in which they are incurred. The cumulative translation adjustments, which represent the effects of translating assets and liabilities of our international operations, are presented in the condensed consolidated statements of changes in equity in accumulated other comprehensive income (loss).

Minimum pension liability, net

Change in minimum pension liability, net for the third quarters of 2016 and 2015 was $2.9 million and $(0.9) million, respectively. The increase in comprehensive income (loss) resulting from the change in minimum pension liability, net was primarily due to changes in valuation assumptions and the impact of foreign currency translation.

Year-to-Date Results

The following table sets forth the net sales, operating profit (loss) and EBITDA for each of our business segments for the nine month periods ended July 31, 2016 and 2015 (Dollars in millions):

Table of Contents

Nine Months Ended July 31,	2016	2015
Net sales:		
Rigid Industrial Packaging & Services	$1,721.3	$1,985.3
Paper Packaging & Services	498.1	496.3
Flexible Products & Services	219.0	249.3
Land Management	17.6	17.3
Total net sales	$2,456.0	$2,748.2
Operating profit (loss):		
Rigid Industrial Packaging & Services	$113.4	$75.5
Paper Packaging & Services	64.4	76.7
Flexible Products & Services	(11.9)	(23.8)
Land Management	6.1	32.3
Total operating profit	$172.0	$160.7
EBITDA:		
Rigid Industrial Packaging & Services	$173.5	$145.2
Paper Packaging & Services	88.0	98.6
Flexible Products & Services	(9.0)	(17.8)
Land Management	8.7	34.9
Total EBITDA	$261.2	$260.9

The following table sets forth EBITDA, reconciled to net income and operating profit, for our consolidated results for the nine month periods ended July 31, 2016 and 2015 (Dollars in millions):

Nine Months Ended July 31,	2016	2015
Net income	$69.0	$58.0
Plus: interest expense, net	58.2	56.2
Plus: income tax expense	38.2	45.8
Plus: depreciation, depletion and amortization expense	95.8	100.9
EBITDA	$261.2	$260.9
Net income	$69.0	$58.0
Plus: interest expense, net	58.2	56.2
Plus: income tax expense	38.2	45.8
Plus: other expense, net	7.4	1.0
Plus: equity earnings losses of unconsolidated affiliates, net of tax	(0.8)	(0.3)
Operating profit	172.0	160.7
Less: other expense, net	7.4	1.0
Less: equity earnings losses of unconsolidated affiliates, net of tax	(0.8)	(0.3)
Plus: depreciation, depletion and amortization expense	95.8	100.9
EBITDA	$261.2	$260.9

The following table sets forth EBITDA for our business segments, reconciled to the operating profit (loss) for each segment, for the nine month periods ended July 31, 2016 and 2015 (Dollars in millions):

39

Table of Contents

Nine Months Ended July 31,	2016	2015
Rigid Industrial Packaging & Services		
Operating profit	$113.4	$75.5
Less: other expense, net	4.4	0.5
Less: equity earnings of unconsolidated affiliates, net of tax	(0.8)	—
Plus: depreciation and amortization expense	63.7	70.2
EBITDA	173.5	145.2
Paper Packaging & Services		
Operating profit	$64.4	$76.7
Less: other income, net	—	(0.4)
Plus: depreciation and amortization expense	23.6	21.5
EBITDA	88.0	98.6
Flexible Products & Services		
Operating loss	$(11.9)	$(23.8)
Less: other expense, net	3.0	0.9
Less: equity earnings of unconsolidated affiliates, net of tax	—	(0.3)
Plus: depreciation and amortization expense	5.9	6.6
EBITDA	(9.0)	(17.8)
Land Management		
Operating profit	$6.1	$32.3
Plus: depreciation, depletion and amortization expense	2.6	2.6
EBITDA	8.7	34.9
Consolidated EBITDA	$261.2	$260.9

Net Sales

Net sales were $2,456.0 million for the first nine months of 2016 compared with $2,748.2 million for the first nine months of 2015. The 10.6 percent decrease in net sales was primarily due to the negative impact of foreign currency translation of 7.1 percent and a decrease due to volumes of 3.9 percent, primarily attributable to divestitures completed in 2015 and 2016.

Gross Profit

Gross profit was $501.5 million for the first nine months of 2016 compared with $501.8 million for the first nine months of 2015. The gross profit decline in the Paper Packaging & Services segment was almost completely offset by increases in the Rigid Industrial Packaging & Services, Flexible Products & Services and Land Management segments. The respective reasons for the movement in each segment are described below in the “Segment Review.” Gross profit margin was 20.4 percent for the first nine months of 2016 compared to 18.3 percent for the first nine months of 2015. The increases in gross profit margin are a result of strategic volume and pricing decisions and cost containment efforts.

Selling, General and Administrative Expenses

SG&A expenses decreased $36.9 million, or 11.6 percent, to $280.3 million for the first nine months of 2016 from $317.2 million for the first nine months of 2015. This decrease was primarily due to the impact of foreign currency translation of $31.9 million and the impact of divestitures of $4.1 million for the first nine months of 2016. The third quarter of 2016 results reflect increases in incentives across several divisions related to improved performance. SG&A expenses were 11.4 percent of net sales for the first nine months of 2016 compared with 11.5 percent of net sales for the first nine months of 2015.

Restructuring Charges

Restructuring charges were $17.9 million for the first nine months of 2016 compared with $26.7 million for the first nine months of 2015. Charges for both periods were primarily related to employee separation costs, relocation fees and professional fees incurred for services specifically associated with employee separation and relocation.

Table of Contents

Gain on Sales of Timberlands

There were no gains on timberland sales for the first nine months of 2016. The gain on timberland sales for the first nine months of 2015 was $24.3 million.

Gain on Disposal of Properties, Plants and Equipment, net

The gain on disposal of properties, plants and equipment, net was $9.5 million and $9.3 million for the first nine months of 2016 and 2015, respectively. See Note 5 to the Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q for additional information on the gain reported during the first nine months of 2016.

(Gain) loss on Disposal of Businesses, net

The (gain) loss on disposal of businesses was $(4.1) million and $8.5 million for the first nine months of 2016 and 2015, respectively. See Note 2 to the Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q for additional information on the gain reported during the first nine months of 2016.

Operating Profit

Operating profit was $172.0 million for the first nine months of 2016 compared with $160.7 million for the first nine months of 2015. The $11.3 million increase consisted of a $37.9 million increase in the Rigid Industrial Packaging & Services segment and a $11.9 million increase in the Flexible Products & Services segment partially offset by a $12.3 million decrease in the Paper Packaging & Services segment and a $26.2 million decrease in the Land Management segment. The primary factors that contributed to the $11.3 million increase, when compared to the first nine months of 2015, were lower SG&A expenses described above, a decrease in restructuring charges of $8.8 million and an increase of $12.8 million in gain on sales of properties, plants and equipment and businesses, net which were offset by higher non-cash asset impairment charges of $22.6 million and lower timberland gains of $24.3 million.

EBITDA

EBITDA was $261.2 million for the first nine months of 2016 compared with $260.9 million for the first nine months of 2015. Depreciation, depletion and amortization expense was $95.8 million for the first nine months of 2016 compared with $100.9 million for the first nine months of 2015.

Segment Review

Rigid Industrial Packaging & Services

Net sales decreased 13.3 percent to $1,721.3 million for the first nine months of 2016 compared with $1,985.3 million for the first nine months of 2015. The decrease in net sales was primarily due to the negative impact of foreign currency translation of 9.3 percent and an impact due to volume decreases of 6.4 percent, primarily due to divestitures made during 2015 and 2016, partially offset by an increase in selling prices and product mix of 2.4 percent. Changes in volumes decreased net sales by 15.5 percent in North America, 7.3 percent in Latin America and 6.1 percent in Asia Pacific, primarily due to the impact of divestitures, while volume improvement increased net sales by 1.4 percent in Europe, Middle East and Africa.

Gross profit was $358.5 million for the first nine months of 2016 compared with $351.2 million for the first nine months of 2015. The $7.3 million increase in gross profit was primarily due to the positive impact of strategic volume and pricing actions, cost containment efforts, decrease in raw material costs, and a $6.0 million net charge in the third quarter 2015 related to the devaluation of inventory through costs of products sold in the Venezuelan operation of $9.3 million net of operational gross margin contribution of the Venezuelan operation of $3.3 million. Gross profit margin increased from 17.7 percent to 20.8 percent for the first nine months of 2015 and 2016, respectively. This increase was primarily attributable to gross profit margin increases from 16.8 percent to 22.7 percent in Asia Pacific, 17.2 percent to 22.0 percent in North America and 10.9 percent to 14.2 percent in Latin America for the first nine months of 2015 and 2016, respectively. In Europe, Middle East, and Africa, gross profit margins were generally flat.

Operating profit was $113.4 million for the first nine months of 2016 compared with $75.5 million for the first nine months of 2015. The $37.9 million increase was primarily attributable to the same factors impacting gross profit, a $26.3 million reduction in SG&A expense, primarily attributable to impact of foreign currency translation, an increase of $13.6 million in gain on sales of properties, plants and equipment and business, net, a reduction in restructuring costs of $9.2 million, partially offset by an increase in non-cash asset impairment charges of $18.5 million. On a geographic basis, for the first nine months

41

Table of Contents

of 2016, operating profit increased in Latin America by $18.0 million, North America by $13.6 million, Europe, Middle East and Africa by $6.4 million, and $0.8 million in closures and reconditioning businesses, partially offset by a decrease of $0.9 million in Asia Pacific.

EBITDA was $173.5 million for the first nine months of 2016 compared with $145.2 million for the first nine months of 2015. The $28.3 million increase was due to the same factors that impacted the segment's operating profit, as described above. Depreciation, depletion and amortization expense was $63.7 million for the first nine months of 2016 compared with $70.2 million for the first nine months of 2015. The decrease in depreciation, depletion and amortization expense was primarily due to the impact of divestitures, foreign currency translation, and previous non-cash impairment charges.

Paper Packaging & Services

Net sales increased to $498.1 million for the first nine months of 2016 compared with $496.3 million for the first nine months of 2015. Net volumes increased 5.7 percent from the first nine months 2015 as compared to the first nine months 2016, primarily related to increased containerboard output from the Riverville mill modernization project completed in the second quarter of 2015, and the addition of two lines in the corrugator business. These increases were offset by selling price decreases of 5.3 percent, primarily due to a reduction in published index prices impacting the first nine months 2016.

Gross profit was $105.5 million for the first nine months of 2016 compared with $117.0 million for the first nine months of 2015. Gross profit margin was 21.2 percent and 23.6 percent for the first nine months of 2016 and 2015, respectively. This decrease was due to higher production costs and lower sales price during the first nine months of 2016, as compared to the first nine months of 2015.

Operating profit was $64.4 million for the first nine months of 2016 compared with $76.7 million for the first nine months of 2015. The decrease was primarily due to the same factors impacting gross profit, as described above.

EBITDA was $88.0 million for the first nine months of 2016 compared with $98.6 million for the first nine months of 2015. This decrease was due to the same factors that impacted the segment's operating profit, as described above. Depreciation, depletion and amortization expense was $23.6 million and $21.5 million for the first nine months of 2016 and 2015, respectively. This increase was primarily due to the completion of the Riverville modernization completed in the second quarter of 2015.

Flexible Products & Services

Net sales decreased 12.2 percent to $219.0 million for the first nine months of 2016 compared with $249.3 million for the first nine months of 2015. This decrease was attributable to volume decreases of 8.9 percent and the negative impact of foreign currency translation of 4.5 percent for the first nine months of 2016 compared with the first nine months of 2015, partially offset by an increase in selling prices of 1.2 percent.

Gross profit was $30.3 million for the first nine months of 2016 compared with $26.8 million for the first nine months of 2015. This increase was mainly due to improved margins as a result of strategic volume and pricing decisions and reductions in fixed and variable production costs, partially offset by $1.2 million in costs associated with the move to an in-house labor model in Turkey. Gross profit margin increased to 13.8 percent for the first nine months of 2016 from 10.8 percent for the first nine months of 2015.

Operating loss was $11.9 million for the first nine months of 2016 compared with an operating loss of $23.8 million for the first nine months of 2015. This improvement in operating loss was primarily due to the same factors impacting the segment's gross profit as well as SG&A expense reductions realized as part of our transformation efforts.

EBITDA was negative $9.0 million for the first nine months of 2016 compared with negative $17.8 million for the first nine months of 2015. This improvement was due to the same factors that impacted the segment's operating loss, as described above. Depreciation, depletion and amortization expense was $5.9 million for the first nine months of 2016 compared with $6.6 million for the first nine months of 2015, respectively.

Land Management

Net sales increased to $17.6 million for the first nine months of 2016 compared with $17.3 million for the first nine months of 2015.

Table of Contents

Operating profit decreased to $6.1 million for the first nine months of 2016 from $32.3 million for the first nine months of 2015. This decrease was due to no timberland gains in the first nine months of 2016 compared with $24.3 million of timberland gains in the first nine months of 2015.

EBITDA was $8.7 million and $34.9 million for the first nine months of 2016 and 2015, respectively. This decrease was due to the same factors that impacted the segment's operating profit, as described above. Depreciation, depletion and amortization expense was $2.6 million for the first nine months of 2016 and 2015, respectively.

Other Income Statement Changes

Interest expense, net

Interest expense, net, was $58.2 million for the first nine months of 2016 compared with $56.2 million for the first nine months of 2015. This increase was a result of mandatorily redeemable noncontrolling interest adjustments to redemption value for the first nine months of 2016 compared to the first nine months of 2015.

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

Income before income tax expense derived from non-U.S. operations as a percentage of consolidated income before income tax expense decreased from 43.1 percent to 31.9 percent from the first nine months of 2015 to the first nine months of 2016. After eliminating the impact of timberland gains, restructuring charges, non-cash asset impairment charges and gains and losses on the sales of businesses, income before income tax expense derived from non-U.S. operations as a percentage of consolidated income before income tax expense decreased from 53.2 percent to 41.7 percent from the first nine months of 2015 to the first nine months of 2016. Refer to the following tables for details of the U.S and non-U.S income before income taxes results for the periods presented.

Summary

	Nine Months Ended July 31,	
	2016	2015
Non-U.S. % of Consolidated Net Sales	52.0 %	53.8 %
U.S. % of Consolidated Net Sales	48.0 %	46.2 %
	100.0 %	100.0 %
Non-U.S. % of Consolidated I.B.I.T.	31.9 %	43.1 %
U.S. % of Consolidated I.B.I.T.	68.1 %	56.9 %
	100.0 %	100.0 %
Non-U.S. % of Consolidated I.B.I.T. before Special Items	41.7 %	53.2 %
U.S. % of Consolidated I.B.I.T. before Special Items	58.3 %	46.8 %
	100.0 %	100.0 %

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

	Nine Months Ended July 31,	
	2016	2015
Non-U.S. I.B.I.T.	$33.9	$44.6
Non-cash asset impairment charges	23.4	15.4
Restructuring charges	13.1	20.1
Gain on sale of businesses	(1.6)	(9.5)
Impact of Venezuela devaluation on cost of goods sold	—	9.3
Impact of Venezuela devaluation on other income/expense	—	(4.9)
Total Non-U.S. Special Items	34.9	30.4
Non-U.S. I.B.I.T. before Special Items	$68.8	$75.0

Table of Contents

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

	Nine Months Ended July 31,	
	2016	2015
U.S. I.B.I.T.	$72.5	$58.9
Non-cash asset impairment charges	21.5	6.9
Timberland gains	—	(24.3)
Restructuring charges	4.8	6.6
(Gain)/Loss on sale of businesses	(2.5)	18.0
Total U.S. Special Items	23.8	7.2
U.S. I.B.I.T. before Special Items	$96.3	$66.1

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

Income tax expense

The total pretax income was $106.4 million for the first nine months of 2016 compared with $103.5 million for the first nine months of 2015. Our income tax expense is impacted by the respective mix of pretax income between the U.S. and non-U.S. jurisdictions in which we operate, changes in losses from jurisdictions for which a valuation allowance has been provided and the impact of discrete items. The mix of pretax income was 68.1 percent U.S. and 31.9 percent non-U.S. for the first nine months of 2016 and was 56.9 percent U.S. and 43.1 percent non-U.S. for the first nine months of 2015. Refer to the tables above for details of the U.S and non-U.S pretax income for the periods presented.

We evaluate our deferred tax assets under ASC 740 and determine those which are unlikely to be realized as a result of existing cumulative losses and insufficient projected future sources of taxable income. As a result, our tax expense is impacted by valuation allowances on deferred tax assets.

Income tax for the period was computed in accordance with ASC 740-270. Under this method, losses from jurisdictions for which a valuation allowance has been provided have not been included in the amount to which the ASC 740-270 rate was applied. Income tax expense of the Company fluctuates primarily due to changes in income mix by jurisdiction, changes in losses from jurisdictions for which a valuation allowance has been provided and the impact of discrete items in the respective quarter.

Income tax expense was $38.2 million for the first nine months of 2016 and $45.8 million for the first nine months of 2015. The first nine months of 2016 income tax expense reflected the tax consequences of rebalancing our global debt, net discrete gains and losses for which there was not a proportionate tax recognized, adjustments to uncertain tax position estimates due to audit settlements and expiration of the statue of limitations on several positions, and the impact of losses in jurisdictions with a valuation allowance for which we did not receive a tax benefit.

We have estimated the reasonably possible expected net change in unrecognized tax benefits through July 31, 2017 under ASC 740. Our estimate is based on lapses of the applicable statutes of limitations, settlements and payments of uncertain tax positions and current year increases in uncertain tax positions. The estimated net decrease in unrecognized tax benefits for the next 12 months ranges from $0 to $3.0 million. Actual results may differ materially from this estimate.

Net (income) loss attributable to noncontrolling interests

Net (income) loss attributable to noncontrolling interests represents the portion of earnings from the operations of our majority owned subsidiaries that was added to net income to arrive at net income attributable to us. Net (income) loss attributable to noncontrolling interests for the first nine months of 2016 and 2015 was $(2.6) million and $1.5 million, respectively. The improvement in net (income) attributable to noncontrolling interests was due to the overall decrease in the net operating loss of the Flexible Products & Services segment.

Net income attributable to Greif, Inc.

Based on the factors noted above, net income attributable to Greif, Inc. was $66.4 million for the first nine months of 2016 compared to $59.5 million for the first nine months of 2015.

Table of Contents

OTHER COMPREHENSIVE INCOME (LOSS) CHANGES

Foreign currency translation.

In accordance with ASC 830, "Foreign Currency Matters," the assets and liabilities denominated in a foreign currency are translated into United States Dollars at the rate of exchange existing at the end of the current period, and revenues and expenses are translated at average exchange rates over the month in which they are incurred. The cumulative translation adjustments, which represent the effects of translating assets and liabilities of our international operations, are presented in the condensed consolidated statements of changes in equity in accumulated other comprehensive income (loss).

Minimum pension liability, net

Change in minimum pension liability, net for the first nine months of 2016 and 2015 was $3.5 million and $5.5 million, respectively. The decrease in comprehensive income resulting from the change in minimum pension liability, net was primarily due to changes in valuation assumptions and the impact of foreign currency translation.

BALANCE SHEET CHANGES

Working capital changes

The $14.4 million increase in accounts receivable to $418.1 million as of July 31, 2016 from $403.7 million as of October 31, 2015 was primarily due to timing of collections.

The $14.8 million decrease in accounts payable to $340.5 million as of July 31, 2016 from $355.3 million as of October 31, 2015 was primarily due to the timing of payments and benefits from early payment discounts where financially justified.

We reclassified our 6.75% Senior Notes due February 1, 2017 from Long-term debt to Current portion of long-term debt in the Consolidated Balance Sheet during the three months ended April 30, 2016. We intend to refinance these Senior Notes at their maturity date.

Other balance sheet changes

The $5.2 million decrease in assets held for sale to $11.7 million as of July 31, 2016 from $16.9 million as of October 31, 2015 was primarily due to the sale of three asset groups within the Rigid Industrial Packaging & Services segment during the second and third quarter of 2016, partially offset by the reclassifications into assets held for sale for one asset group in the Rigid Industrial Packaging & Services segment and one asset group in the Flexible Products & Services segment during the third quarter of 2016.

The $25.6 million decrease in prepaid expenses and other current assets to $133.7 million as of July 31, 2016 from $159.3 million as of October 31, 2015 was primarily due to the receipt of $44.2 million in full payment of a subordinated note receivable during the first quarter of 2016, partially offset by in an increase in the deferred purchase price related to accounts receivable sold of $20.2 million.

The $16.1 million decrease in goodwill to $791.0 million as of July 31, 2016 from $807.1 million as of October 31, 2015 was due to impairments recognized on goodwill allocated to divestitures, partially offset by a positive impact of foreign currency translation.

The $44.7 million decrease in properties, plants and equipment, net to $1,173.0 million as of July 31, 2016 from $1,217.7 million as of October 31, 2015 was primarily due to depreciation and the impairment of asset groups within the Rigid Industrial Packaging & Services segment, partially offset by capital expenditures incurred during the period.

The $31.9 million decrease in noncontrolling interests to $12.4 million as of July 31, 2016 from $44.3 million as of October 31, 2015 was primarily due to the reclassification of mandatorily redeemable and redeemable noncontrolling interests out of noncontrolling interests. See Note 18 to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for additional information concerning this reclassification.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are operating cash flows and borrowings under our senior secured credit facility and the senior notes we have issued and proceeds from our United States trade accounts receivable credit facility and proceeds from the sale

Table of Contents

of our non-United States accounts receivable. Our United States trade accounts receivable credit facility is scheduled to expire in September 2016, and we intend to refinance this facility on similar terms. We use these sources to fund our working capital needs, capital expenditures, dividend payments, common stock repurchases and acquisitions. We anticipate continuing to fund these items in a like manner. We currently expect that operating cash flows, borrowings under our senior secured credit facility, proceeds from our U.S. trade accounts receivable credit facility and proceeds from the sale of our non-United States accounts receivable will be sufficient to fund our anticipated working capital, capital expenditures, debt repayment, dividend payments, potential acquisitions of businesses and other liquidity needs for at least 12 months. Alternatively, if funds held outside the U.S. are needed for operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate those funds. Those international earnings are considered to be permanently reinvested, as we have no plans or intentions to repatriate such funds for U.S. operations.

Capital Expenditures

During the first nine months of 2016, we invested $71.4 million in capital expenditures and $4.7 million in purchases of and investments in timber properties, compared with capital expenditures of $108.2 million and purchases of and investments in timber properties of $38.2 million, during the first nine months of 2015.

We expect capital expenditures, excluding purchases of and investments in timber properties, to be approximately $95.0 to $110.0 million in 2016. The 2016 capital expenditures will replace and improve existing equipment and fund new facilities.

Sale of Non-United States Accounts Receivable

Certain of our international subsidiaries have entered into discounted receivables purchase agreements and factoring agreements (collectively, the “RPAs”) pursuant to which trade receivables generated from certain countries other than the United States and which meet certain eligibility requirements are sold to certain international banks or their affiliates. In particular, in April 2012, certain of our international subsidiaries entered into an RPA with affiliates of a major international bank (the “2012 RPA”). On April 20, 2015, Cooperage Receivables Finance B.V. and Greif Coordination Center BVBA amended and extended the term of the 2012 RPA for an additional two years. Under the 2012 RPA as amended, the number of entities participating in the agreement have decreased. Additionally, the terms have been amended to decrease the maximum amount of receivables that may be sold and outstanding under the agreement at any time to €100 million ($110.6 million as of July 31, 2016). A significant portion of the proceeds from the 2012 RPA was used to pay the obligations under previous RPAs, which were then terminated, and to pay expenses incurred in connection with this transaction. The subsequent proceeds from the RPAs are available for working capital and general corporate purposes. Under the terms of a performance and indemnity agreement, the performance obligations of our international subsidiaries under the 2012 RPA have been guaranteed by Greif, Inc.

See Note 3 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Form 10-Q for additional information regarding these various RPAs.

Acquisitions, Divestitures and Other Significant Transactions

We completed four divestitures and no material acquisitions for the nine months ended July 31, 2016. The divestitures were of three nonstrategic businesses in the Rigid Industrial Packaging & Services and one in Flexible Products & Services segments.

The gain on the disposal of businesses was $4.1 million for the nine months ended July 31, 2016. Proceeds from the divestitures were $25.2 million. Additionally, we recorded notes receivable of $2.4 million for the sale of two businesses completed during the second quarter of 2016, which are expected to be collected in the fourth quarter of 2017.

We completed eight divestitures and no material acquisitions for the nine months ended July 31, 2015. The divestitures were of nonstrategic businesses, six in the Rigid Industrial Packaging & Services segment and two in the Flexible Products & Services segment. The loss on disposal of businesses was $8.5 million for the nine months ended July 31, 2015. Proceeds from divestitures were $18.9 million.

See Note 2 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Form 10-Q for additional information regarding these divestitures.

We purchased the remaining redeemable noncontrolling interest of one of our joint ventures for $5.5 million in the third quarter of 2016. We have conditional and mandatory contractual obligations to redeem the outstanding equity

interest of certain

noncontrolling interest holders in our joint ventures in 2017, 2021 and 2022, at which time we may incur additional cash outflows.

Borrowing Arrangements

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

	July 31, 2016	October 31, 2015
Amended Credit Agreement	$205.7	$ 217.4
Senior Notes due 2017	300.3	300.7
Senior Notes due 2019	246.7	246.0
Senior Notes due 2021	219.8	219.4
Amended Receivables Facility	75.0	147.6
Other long-term debt	11.4	15.8
	1,058.9	1,146.9
Less current portion	(300.3)	(30.7)
Long-term debt	$758.6	$ 1,116.2

Credit Agreement

We and two of our international subsidiaries have a senior secured credit agreement (the “Amended Credit Agreement”) with a syndicate of financial institutions.

The Amended Credit Agreement provides us with an $800 million revolving multicurrency credit facility and a $200 million term loan, both expiring in December 2017, with an option to add $250 million to the facilities with the agreement of the lenders. The $200 million term loan is scheduled to amortize by the payment of principal in the amount of $2.5 million each quarter-end for the first eight quarters, beginning January 2013, the payment of $5.0 million each quarter-end for the next twelve quarters and the payment of the remaining balance on the maturity date. In August 2014, we made an unscheduled principal payment of $25 million on the term loan portion of the Amended Credit Facility. The remaining loan balance is scheduled to amortize, beginning January 2015, by the payment of principal in the amount of $4.3 million over the next twelve quarters and the payment of the remaining balance on the maturity date. The revolving credit facility under the Amended Credit Agreement is available to fund ongoing working capital and capital expenditure needs, for general corporate purposes and to finance acquisitions. Interest is based on a Eurodollar rate or a base rate that resets periodically plus an agreed upon margin amount. The total available borrowing under this facility was $705.1 million as of July 31, 2016, which included a reduction of $14.4 million for outstanding letters of credit, all of which is available without violating covenants. The weighted average interest rate under the Amended Credit Agreement was 1.91% for the nine months ended July 31, 2016.

The Amended Credit Agreement contains financial covenants that require us to maintain a certain leverage ratio and an interest coverage ratio. The leverage ratio generally requires that at the end of any fiscal quarter we will not permit the ratio of (a) our total consolidated indebtedness, to (b) our consolidated net income plus depreciation, depletion and amortization, interest expense (including capitalized interest), income taxes, and minus certain extraordinary gains and non-recurring gains (or plus certain extraordinary losses and non-recurring losses) and plus or minus certain other items for the preceding twelve months (“adjusted EBITDA”) to be greater than 4.00 to 1. The interest coverage ratio generally requires that at the end of any fiscal quarter we will not permit the ratio of (a) our consolidated adjusted EBITDA to (b) our consolidated interest expense to the extent paid or payable, to be less than 3.00 to 1, during the preceding twelve month period (the “Interest Coverage Ratio Covenant”). As of July 31, 2016, we were in compliance with these covenants.

The terms of the Amended Credit Agreement limit our ability to make “restricted payments,” which include dividends and purchases, redemptions and acquisitions of our equity interests. The repayment of amounts borrowed under the Amended Credit Agreement are secured by a security interest in the personal property of Greif, Inc. and certain of our United States subsidiaries, including equipment and inventory and certain intangible assets, as well as a pledge of the capital stock of substantially all of our United States subsidiaries. The repayment of amounts borrowed under the Amended Credit Agreement is also secured, in part, by capital stock of the non-U.S. subsidiaries that are parties to the Amended Credit Agreement. However, in the event that we receive and maintain an investment grade rating from

either Moody's Investors Service, Inc. or Standard & Poor's Corporation, we may request the release of such collateral. The payment of outstanding principal under the Amended Credit Agreement and accrued interest thereon may be accelerated and become immediately due and payable upon

Table of Contents

our default in its payment or other performance obligations or our failure to comply with the financial and other covenants in the Amended Credit Agreement, subject to applicable notice requirements and cure periods as provided in the Amended Credit Agreement.

Senior Notes

We have issued $300.0 million of our 6.75% Senior Notes due February 1, 2017. Proceeds from the issuance of these Senior Notes were principally used to fund the purchase of our previously outstanding senior subordinated notes and for general corporate purposes. These Senior Notes are general unsecured obligations of Greif, Inc., provide for semi-annual payments of interest at a fixed rate of 6.75%, and do not require any principal payments prior to maturity on February 1, 2017. These Senior Notes are not guaranteed by any of our subsidiaries and thereby are effectively subordinated to all of our subsidiaries' existing and future indebtedness. The Indenture pursuant to which these Senior Notes were issued contains covenants, which, among other matters, limit our ability to create liens on our assets to secure debt and to enter into sale and leaseback transactions. These covenants are subject to a number of limitations and exceptions as set forth in the Indenture. As of July 31, 2016, we were in compliance with these covenants. These Senior Notes were reclassified to current portion of long-term debt in the Condensed Consolidated Balance Sheets in Item 1 of this Form 10-Q as of July 31, 2016. We intend to refinance these Senior Notes prior to their stated maturity date.

We have issued $250.0 million of our 7.75% Senior Notes due August 1, 2019. Proceeds from the issuance of these Senior Notes were principally used for general corporate purposes, including the repayment of amounts outstanding under the then existing revolving multicurrency credit facility, without any permanent reduction of the commitments. These Senior Notes are general unsecured obligations of Greif, Inc., provide for semi-annual payments of interest at a fixed rate of 7.75%, and do not require any principal payments prior to maturity on August 1, 2019. These Senior Notes are not guaranteed by any of our subsidiaries and thereby are effectively subordinated to all of our subsidiaries' existing and future indebtedness. The Indenture pursuant to which these Senior Notes were issued contains covenants, which, among other matters, limit our ability to create liens on our assets to secure debt and to enter into sale and leaseback transactions. These covenants are subject to a number of limitations and exceptions as set forth in the Indenture. As of July 31, 2016, we were in compliance with these covenants.

Our Luxembourg subsidiary has issued €200.0 million of 7.375% Senior Notes due July 15, 2021. These Senior Notes are fully and unconditionally guaranteed on a senior basis by Greif, Inc. A portion of the proceeds from the issuance of these Senior Notes was used to repay non-U.S. borrowings under our then existing revolving multicurrency credit facility, without any permanent reduction of the commitments thereunder, with the remaining proceeds available for general corporate purposes, including the financing of acquisitions. These Senior Notes are general unsecured obligations of the Luxembourg subsidiary and Greif, Inc. and provide for semi-annual payments of interest at a fixed rate of 7.375%, and do not require any principal payments prior to maturity on July 15, 2021. These Senior Notes are not guaranteed by any subsidiaries of Greif, Inc. or of the issuer and thereby are effectively subordinated to all existing and future indebtedness of the subsidiaries of the issuer and of Greif, Inc. The Indenture pursuant to which these Senior Notes were issued contains covenants, which, among other matters, limit our ability to create liens on our assets to secure debt and to enter into sale and leaseback transactions. These covenants are subject to a number of limitations and exceptions as set forth in the Indenture. As of July 31, 2016, we were in compliance with these covenants.

The assumptions used in measuring fair value of all of the Senior Notes are considered level 2 inputs, which were based on observable market pricing for similar instruments.

United States Trade Accounts Receivable Credit Facility

We and certain of our domestic subsidiaries have a $150.0 million United States Accounts Receivable Credit Facility (the "Amended Receivables Facility") with a financial institution. The Amended Receivables Facility matures in September 2016, and we intend to refinance this facility in similar terms. In addition, we can terminate the Amended Receivables Facility at any time upon five days prior written notice. The Amended Receivables Facility is secured by certain of our United States trade accounts receivables and bears interest at a variable rate based on the London InterBank Offered Rate or an applicable base rate, plus a margin, or a commercial paper rate plus a margin. Interest is payable on a monthly basis and the principal balance is payable upon termination of the Amended Receivables

Facility. The Amended Receivables Facility also contains certain covenants and events of default, including a requirement that, at the end of any fiscal quarter, we will not permit the Interest Coverage Ratio Covenant to be less than 3.00 to 1 during the applicable trailing twelve-month period. As of July 31, 2016, we were in compliance with this covenant. Proceeds of the Amended Receivables Facility are available for working capital and general corporate purposes.

Table of Contents

Financial Instruments

Interest Rate Derivatives

As of July 31, 2016, we have no interest rate derivatives. We may use interest rate derivatives in the future to manage exposure to interest rate fluctuations as needed.

Foreign Exchange Hedges

We conduct business in major international currencies and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce volatility associated with foreign exchange rate changes to allow management to focus its attention on business operations. Accordingly, we enter into various contracts that change in value as foreign exchange rates change to protect the value of certain existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenues and expenses.

As of July 31, 2016, we had outstanding foreign currency forward contracts in the notional amount of $85.1 million ($129.9 million as of October 31, 2015). Adjustments to fair value are recognized in earnings, offsetting the impact of the hedged item. The assumptions used in measuring fair value of foreign exchange hedges are considered level 2 inputs, which were based on observable market pricing for similar instruments, principally foreign exchange futures contracts. Gains recorded under fair value contracts were $0.6 million for the three months ended July 31, 2015. Losses recorded under fair value contracts were $2.0 million for the three months ended July 31, 2016; and were $2.3 million and $6.2 million for the nine months ended July 31, 2016 and 2015, respectively.

Stock Repurchase Program and Other Share Acquisitions

Our Board of Directors has authorized the purchase of up to four million shares of Class A Common Stock or Class B Common Stock or any combination of the foregoing. In April 2016, the Stock Repurchase Committee authorized us to repurchase 110,241 shares of Class B Common Stock as part of the program and those shares were repurchased during the second quarter. There have been no other shares repurchased under this program from November 1, 2014 through July 31, 2016. As of July 31, 2016, we had repurchased 3,294,513 shares, including 1,425,452 shares of Class A Common Stock and 1,869,061 shares of Class B Common Stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There has not been a significant change in the quantitative and qualitative disclosures about our market risk from the disclosures contained in the 2015 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2014, in conjunction with the implementation of additional internal controls started in 2013, related to the calculation and reconciliation of deferred income tax assets, deferred income tax liabilities and uncertain tax positions, management identified unreconciled differences and errors in the income tax accounts of certain of the Company’s non-U.S. subsidiaries. Specifically, prior to 2014, certain calculations and reconciliations had not been accurately and consistently performed for these income tax accounts for certain non-U.S. subsidiaries nor were return-to-provision reconciliations consistently performed as non-U.S. subsidiary tax returns were filed. The errors were not material to any individual prior fiscal year; however, the correction of these errors would have been material to the 2014 financial statements. Consequently, the Company revised ending retained earnings, goodwill, deferred income taxes and uncertain tax positions as of October 31, 2011, and revised the Company’s financial statements as of and for the years ended October 31, 2012 and October 31, 2013 from the amounts previously reported.

The actions that have been implemented to remediate the above identified material weakness include the improvement of internal controls for the Company’s non-U.S. subsidiaries related to the timely and accurate calculation and reconciliation of the income tax accounts and the completion and review of return-to-provision reconciliations. Management believes the steps taken to date have improved the effectiveness of our internal control over financial reporting. Moreover, the Company has hired additional personnel and engaged external tax advisors for the income tax accounting function in connection with remediating this material weakness.

Table of Contents

However, the material weakness will not be considered remediated until the applicable internal controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Accordingly, the material weakness in our internal controls over financial reporting related to accounting for income taxes, including deferred income taxes and uncertain tax positions, had not been remediated as of July 31, 2016.

In the course of completing our assessment of internal control over financial reporting as of October 31, 2014, management identified a number of deficiencies related to the design and operating effectiveness of information technology general controls for certain of our information systems that are relevant to the preparation of the Company's condensed consolidated financial statements and system of internal control over financial reporting (i.e., the "affected IT systems"). In particular, these deficiencies related to logical access controls and program change management controls that are intended to ensure that access to financial applications and data is adequately restricted to appropriate personnel and that all changes affecting the financial applications and underlying account records are identified, authorized, tested and implemented appropriately. Additionally, as a result of the deficiencies identified, there is a possibility that the effectiveness of business process controls that are dependent on the affected IT systems or data and financial reports generated from the affected IT systems may be adversely affected.

Management has been actively engaged in developing and implementing a remediation plan to address the material weakness in the Company's IT systems noted above. The remediation actions that are expected to be taken include the following:

- Improvement of the design and operation of control activities and procedures associated with user and administrator access to the affected IT systems, including both preventive and detective control activities.
- Implementation of appropriate program change management control activities, including implementation of change management control setting configurations across the affected IT systems, as well as tracking of access and history of changes.
- Implementation of business process controls that directly and precisely address the risks related to accuracy and completeness of the financial reports and data generated from the affected IT systems and used in the performance of underlying business process controls.

In addition, the continued implementation of our global ERP platform will positively impact the remediation plan as many of the affected IT systems with deficiencies are expected to be removed from operation.

Management believes the foregoing efforts will effectively remediate the above identified material weakness. Because the reliability of the internal control process requires repeatable execution, the successful remediation of this material weakness will require review and evidence of effectiveness prior to management concluding that the controls are effective and there is no assurance that additional remediation steps will not be necessary. While progress has been made related to the remediation activities noted above, deficiencies in access and change management controls in several key systems and reliance on data generated from those IT systems have not yet been proven to be remediated. Accordingly, the material weakness in our internal controls over financial reporting related to information technology general controls in the areas of user access, change management and key reports had not been remediated as of July 31, 2016.

As part of the process of remediating our material weaknesses discussed above, management continues to evaluate resources, change and expand roles and responsibilities of key personnel and make changes to certain processes related to financial close, systems and financial reporting. We continue to consolidate some of our transaction processing and general accounting activities onto a common, company-wide management information and accounting system, including the conversion of several of our U.S. plants and our U.S. based shared services during the quarter. We have also continued implementation of a global account reconciliation and monitoring tool. These changes are intended to further enhance our internal control over financial reporting and our operating efficiencies. No other changes occurred in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Notwithstanding the identified material weaknesses, management believes the condensed consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Except as noted in the preceding paragraphs, there has been no change in our internal control over financial reporting that occurred during the most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

Table of Contents

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

- Information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission;
- Information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure; and
- Because of a material weakness in internal controls over financial reporting related to accounting for international income taxes, including deferred income taxes and uncertain tax positions, and a material weakness over financial reporting related to information technology general controls in the areas of user access and change management, our disclosure controls and procedures and internal controls over financial reporting were not effective.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in the 2015 Form 10-K under Part I, Item 1A — Risk Factors.

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

Issuer Purchases of Class A Common Stock

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs (1)
November 2015	—		—	815,728
December 2015	—		—	815,728
January 2016	—		—	815,728
February 2016	—		—	815,728
March 2016	—		—	815,728
April 2016	—		—	705,487
May 2016	—		—	705,487
June 2016	—		—	705,487
July 2016	—		—	705,487

Issuer Purchases of Class B Common Stock

Table of Contents

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs (1)
November 2015	—		—	815,728
December 2015	—		—	815,728
January 2016	—		—	815,728
February 2016	—		—	815,728
March 2016	—		—	815,728
April 2016	110,241	$ 47.62	110,241	705,487
May 2016	—		—	705,487
June 2016	—		—	705,487
July 2016	—		—	705,487

(1) Our Board of Directors has authorized a stock repurchase program which permits us to purchase up to 4.0 million shares of our Class A Common Stock or Class B Common Stock, or any combination thereof. As of July 31, 2016, the maximum number of shares that may yet be purchased was 705,487 shares, which may be any combination of Class A Common Stock or Class B Common Stock.

ITEM 6. EXHIBITS

(a.) Exhibits

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a — 14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Vice President and Chief Financial Officer Pursuant to Rule 13a — 14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer required by Rule 13a —14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification of Vice President and Chief Financial Officer required by Rule 13a — 14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended July 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income and Comprehensive Income (Loss), (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flow and (iv) Notes to Condensed Consolidated Financial Statements.

Table of Contents

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, Inc.
(Registrant)

Date: September 2, 2016

/s/ Lawrence A. Hilsheimer
Lawrence A. Hilsheimer,
Executive Vice President and Chief Financial Officer