

OWENS ILLINOIS INC /DE/  
Form 10-Q  
October 27, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D. C. 20549

**FORM 10-Q**

(Mark one)

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

**For the quarterly period ended**

**September 30, 2011**

**or**

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

**For the transition period from      to**

**Commission file number 1-9576**

# OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**22-2781933**  
(IRS Employer  
Identification No.)

**One Michael Owens Way, Perrysburg, Ohio**  
(Address of principal executive offices)

**43551**  
(Zip Code)

Registrant's telephone number, including area code: **(567) 336-5000**

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of common stock, par value \$.01, of Owens-Illinois, Inc. outstanding as of September 30, 2011 was 164,245,252.

Part I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the Company ) presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	<b>Three months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net sales	\$ 1,862	\$ 1,689
Manufacturing, shipping, and delivery expense	(1,475)	(1,329)
Gross profit	387	360
Selling and administrative expense	(138)	(124)
Research, development, and engineering expense	(18)	(14)
Interest expense	(70)	(61)
Interest income	2	2
Equity earnings	19	20
Royalties and net technical assistance	4	4
Other income	2	7
Other expense	(40)	(6)
Earnings from continuing operations before income taxes	148	188
Provision for income taxes	(25)	(53)
Earnings from continuing operations	123	135
Earnings (loss) from discontinued operations	(3)	16
Net earnings	120	151
Net earnings attributable to noncontrolling interests	(4)	(12)
Net earnings attributable to the Company	\$ 116	\$ 139
Amounts attributable to the Company:		
Earnings from continuing operations	\$ 119	\$ 127
Earnings (loss) from discontinued operations	(3)	12
Net earnings	\$ 116	\$ 139
Amounts attributable to noncontrolling interests:		
Earnings from continuing operations	\$ 4	\$ 8
Earnings from discontinued operations	4	4
Net earnings	\$ 4	\$ 12
Basic earnings per share:		
Earnings from continuing operations	\$ 0.73	\$ 0.78
Earnings (loss) from discontinued operations	(0.02)	0.07
Net earnings	\$ 0.71	\$ 0.85
Weighted average shares outstanding (thousands)	163,812	163,079
Diluted earnings per share:		
Earnings from continuing operations	\$ 0.72	\$ 0.77
Earnings (loss) from discontinued operations	(0.02)	0.07
Net earnings	\$ 0.70	\$ 0.84
Weighted average diluted shares outstanding (thousands)	165,695	165,591
Comprehensive income, net of tax:		

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Net earnings	\$	120	\$	151
Foreign currency translation adjustments		(358)		276
Pension and other postretirement benefit adjustments		39		11
Change in fair value of derivative instruments		(2)		(4)
Total comprehensive income (loss)		(201)		434
Comprehensive income attributable to noncontrolling interests		2		(22)
Comprehensive income (loss) attributable to the Company	\$	(199)	\$	412

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Nine months ended September 30,	
	2011	2010
Net sales	\$ 5,540	\$ 4,905
Manufacturing, shipping, and delivery expense	(4,465)	(3,863)
Gross profit	1,075	1,042
Selling and administrative expense	(426)	(367)
Research, development, and engineering expense	(52)	(43)
Interest expense	(246)	(177)
Interest income	8	10
Equity earnings	52	46
Royalties and net technical assistance	12	12
Other income	6	10
Other expense	(66)	(28)
Earnings from continuing operations before income taxes	363	505
Provision for income taxes	(85)	(136)
Earnings from continuing operations	278	369
Earnings (loss) from discontinued operations	(2)	31
Net earnings	276	400
Net earnings attributable to noncontrolling interests	(15)	(35)
Net earnings attributable to the Company	\$ 261	\$ 365
Amounts attributable to the Company:		
Earnings from continuing operations	\$ 263	\$ 341
Earnings (loss) from discontinued operations	(2)	24
Net earnings	\$ 261	\$ 365
Amounts attributable to noncontrolling interests:		
Earnings from continuing operations	\$ 15	\$ 28
Earnings from discontinued operations	7	7
Net earnings	\$ 15	\$ 35
Basic earnings per share:		
Earnings from continuing operations	\$ 1.60	\$ 2.07
Earnings (loss) from discontinued operations	(0.01)	0.14
Net earnings	\$ 1.59	\$ 2.21
Weighted average shares outstanding (thousands)	163,602	164,638
Diluted earnings per share:		
Earnings from continuing operations	\$ 1.58	\$ 2.04
Earnings (loss) from discontinued operations	(0.01)	0.14
Net earnings	\$ 1.57	\$ 2.18
Weighted average diluted shares outstanding (thousands)	166,017	167,558
Comprehensive income, net of tax:		

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Net earnings	\$	276	\$	400
Foreign currency translation adjustments		(162)		84
Pension and other postretirement benefit adjustments		85		68
Change in fair value of derivative instruments		(1)		(5)
Total comprehensive income		198		547
Comprehensive income attributable to noncontrolling interests		(18)		(43)
Comprehensive income attributable to the Company	\$	180	\$	504

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	September 30, 2011	December 31, 2010	September 30, 2010
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 256	\$ 640	\$ 657
Short-term investments, at cost which approximates market	1		1
Receivables, less allowances for losses and discounts (\$38 at September 30, 2011, \$40 at December 31, 2010, and \$43 at September 30, 2010)	1,218	1,075	1,165
Inventories	1,052	946	986
Prepaid expenses	112	77	64
Assets of discontinued operations			93
<b>Total current assets</b>	<b>2,639</b>	<b>2,738</b>	<b>2,966</b>
<b>Investments and other assets:</b>			
Equity investments	312	299	287
Repair parts inventories	163	147	141
Pension assets	60	54	45
Other assets	685	588	623
Goodwill	2,762	2,821	2,744
Assets of discontinued operations			35
<b>Total other assets</b>	<b>3,982</b>	<b>3,909</b>	<b>3,875</b>
Property, plant, and equipment, at cost	6,998	7,016	6,975
Less accumulated depreciation	4,067	3,909	3,933
<b>Net property, plant, and equipment</b>	<b>2,931</b>	<b>3,107</b>	<b>3,042</b>
<b>Total assets</b>	<b>\$ 9,552</b>	<b>\$ 9,754</b>	<b>\$ 9,883</b>



## CONDENSED CONSOLIDATED BALANCE SHEETS Continued

	September 30, 2011	December 31, 2010	September 30, 2010
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 345	\$ 354	\$ 339
Current portion of asbestos-related liabilities	170	170	175
Accounts payable	935	878	838
Other liabilities	663	677	779
Liabilities of discontinued operations			25
<b>Total current liabilities</b>	<b>2,113</b>	<b>2,079</b>	<b>2,156</b>
Long-term debt	3,743	3,924	4,006
Deferred taxes	204	203	229
Pension benefits	530	576	547
Nonpension postretirement benefits	252	259	265
Other liabilities	412	381	313
Asbestos-related liabilities	204	306	196
Liabilities of discontinued operations			15
Commitments and contingencies			
Share owners' equity:			
Share owners' equity of the Company:			
Common stock, par value \$.01 per share, 250,000,000 shares authorized, 181,151,747, 180,808,992, and 180,778,613 shares issued (including treasury shares), respectively	2	2	2
Capital in excess of par value	2,990	3,040	3,034
Treasury stock, at cost, 16,906,495, 17,093,509, and 17,142,981 shares, respectively	(408)	(412)	(413)
Retained earnings	343	82	494
Accumulated other comprehensive loss	(987)	(897)	(1,179)
Total share owners' equity of the Company	1,940	1,815	1,938
Noncontrolling interests	154	211	218
Total share owners' equity	2,094	2,026	2,156
Total liabilities and share owners' equity	\$ 9,552	\$ 9,754	\$ 9,883

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net earnings	\$ 276	\$ 400
(Earnings) loss from discontinued operations	2	(31)
Non-cash charges (credits):		
Depreciation	308	267
Amortization of intangibles and other deferred items	13	18
Amortization of finance fees and debt discount	24	16
Deferred tax benefit	(22)	(7)
Restructuring and asset impairment	41	8
Charge for acquisition-related fair value inventory adjustments		5
Other	123	78
Asbestos-related payments	(102)	(114)
Cash paid for restructuring activities	(27)	(49)
Change in non-current operating assets	(72)	(32)
Change in non-current liabilities	(58)	(44)
Change in components of working capital	(225)	(145)
Cash provided by continuing operating activities	281	370
Cash provided by (utilized in) discontinued operating activities	(1)	35
Total cash provided by operating activities	280	405
Cash flows from investing activities:		
Additions to property, plant, and equipment - continuing	(204)	(389)
Additions to property, plant, and equipment - discontinued		(3)
Acquisitions, net of cash acquired	(148)	(754)
Change in short-term investments	(1)	
Net cash proceeds related to sale of assets and other	2	1
Cash utilized in investing activities	(351)	(1,145)
Cash flows from financing activities:		
Additions to long-term debt	1,560	1,370
Repayments of long-term debt	(1,849)	(495)
Increase (decrease) in short-term loans - continuing	40	(28)
Decrease in short-term loans - discontinued		(2)
Net receipts (payments) for hedging activity	(22)	34
Payment of finance fees	(18)	(33)
Dividends paid to noncontrolling interests	(32)	(23)
Treasury shares purchased		(199)
Issuance of common stock and other	5	4
Cash provided by (utilized in) financing activities	(316)	628
Effect of exchange rate fluctuations on cash	3	
Decrease in cash	(384)	(112)
Cash at beginning of period	640	812
Cash at end of period	256	700
Cash - discontinued operations		43
Cash - continuing operations	\$ 256	\$ 657

See accompanying notes.



## OWENS-ILLINOIS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions,  
except share and per share amounts

**1. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

	<b>Three months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Numerator:</b>		
Net earnings attributable to the Company	\$ 116	\$ 139
<b>Denominator (in thousands):</b>		
Denominator for basic earnings per share - weighted average shares outstanding	163,812	163,079
<b>Effect of dilutive securities:</b>		
Stock options and other	1,883	2,512
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	165,695	165,591
<b>Basic earnings per share:</b>		
Earnings from continuing operations	\$ 0.73	\$ 0.78
Earnings (loss) from discontinued operations	(0.02)	0.07
Net earnings	\$ 0.71	\$ 0.85
<b>Diluted earnings per share:</b>		
Earnings from continuing operations	\$ 0.72	\$ 0.77
Earnings (loss) from discontinued operations	(0.02)	0.07
Net earnings	\$ 0.70	\$ 0.84

Options to purchase 1,621,239 and 838,535 weighted average shares of common stock which were outstanding during the three months ended September 30, 2011 and 2010, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

	Nine months ended September 30,	
	2011	2010
<b>Numerator:</b>		
Net earnings attributable to the Company	\$ 261	\$ 365
Net earnings attributable to participating securities		(1)
<b>Numerator for basic earnings per share - income available to common share owners</b>	<b>\$ 261</b>	<b>\$ 364</b>
<b>Denominator (in thousands):</b>		
Denominator for basic earnings per share - weighted average shares outstanding	163,602	164,638
<b>Effect of dilutive securities:</b>		
Stock options and other	2,415	2,920
<b>Denominator for diluted earnings per share - adjusted weighted average shares outstanding</b>	<b>166,017</b>	<b>167,558</b>
<b>Basic earnings per share:</b>		
Earnings from continuing operations	\$ 1.60	\$ 2.07
Earnings (loss) from discontinued operations	(0.01)	0.14
Net earnings	\$ 1.59	\$ 2.21
<b>Diluted earnings per share:</b>		
Earnings from continuing operations	\$ 1.58	\$ 2.04
Earnings (loss) from discontinued operations	(0.01)	0.14
Net earnings	\$ 1.57	\$ 2.18

Options to purchase 895,539 and 640,294 weighted average shares of common stock which were outstanding during the nine months ended September 30, 2011 and 2010, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

The 2015 Exchangeable Notes have a dilutive effect only in those periods in which the Company's average stock price exceeds the exchange price of \$47.47 per share. For the three and nine months ended September 30, 2011, the Company's average stock price did not exceed the exchange price. Therefore, the potentially issuable shares resulting from the settlement of the 2015 Exchangeable Notes were not included in the calculation of diluted earnings per share.

## 2. Debt

The following table summarizes the long-term debt of the Company:

	September 30, 2011	December 31, 2010	September 30, 2010
<b>Secured Credit Agreement:</b>			
<b>Revolving Credit Facility:</b>			
Revolving Loans	\$ 30	\$	\$
<b>Term Loans:</b>			
Term Loan A (170 million AUD at September 30, 2011)	166		
Term Loan B	600		
Term Loan C (116 million CAD at September 30, 2011)	112		
Term Loan D ( 141 million at September 30, 2011)	191		
<b>Fourth Amended and Restated Secured Credit Agreement:</b>			
<b>Term Loans:</b>			
Term Loan A		92	155
Term Loan B		190	190
Term Loan C		111	107
Term Loan D		253	258
<b>Senior Notes:</b>			
6.75%, due 2014		400	400
6.75%, due 2014 ( 225 million)		300	306
3.00%, Exchangeable, due 2015	620	607	603
7.375%, due 2016	587	585	584
6.875%, due 2017 ( 300 million)	406	401	408
6.75%, due 2020 ( 500 million)	677	668	680
<b>Senior Debentures:</b>			
7.80%, due 2018	250	250	250
Other	154	164	131
<b>Total long-term debt</b>	<b>3,793</b>	<b>4,021</b>	<b>4,072</b>
Less amounts due within one year	50	97	66
<b>Long-term debt</b>	<b>\$ 3,743</b>	<b>\$ 3,924</b>	<b>\$ 4,006</b>

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). The proceeds from the Agreement were used to repay all outstanding amounts under the previous credit agreement and the U.S. dollar-denominated 6.75% senior notes due 2014. On June 7, 2011, the Company also redeemed the euro-denominated 6.75% senior notes due 2014. The Company recorded \$25 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.

At September 30, 2011, the Agreement included a \$900 million revolving credit facility, a 170 million Australian dollar term loan, a \$600 million term loan, a 116 million Canadian dollar term loan, and a 141 million term loan, each of which has a final maturity date of May 19, 2016. At September 30, 2011, the Company's subsidiary borrowers had unused credit of \$767 million available under the Agreement.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted junior payments, make certain asset sales within guidelines and limits, make capital expenditures beyond a certain threshold, engage in material transactions with shareholders and affiliates, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain outstanding debt obligations.

The Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company to not exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated Adjusted EBITDA, as defined in the Agreement. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default or event of default under the Agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement. These rates include a margin linked to the Leverage Ratio. The margins range from 1.25% to 2.00% for Eurocurrency Rate loans and from 0.25% to 1.00% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.25% to 0.50% per annum linked to the Leverage Ratio. The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2011 was 2.93%. As of September 30, 2011, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

Borrowings under the Agreement are secured by substantially all of the assets, excluding real estate, of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

The Company has a 280 million European accounts receivable securitization program, which extends through September 2016, subject to annual renewal of backup credit lines. Information related to the Company's accounts receivable securitization program is as follows:

	September 30, 2011	December 31, 2010	September 30, 2010
Balance (included in short-term loans)	\$ 233	\$ 247	\$ 243
Weighted average interest rate	1.87%	2.40%	2.49%

The carrying amounts reported for the accounts receivable securitization programs, and certain long-term debt obligations subject to frequently redetermined interest rates, approximate fair value. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

Fair values at September 30, 2011 of the Company's significant fixed rate debt obligations are as follows:

	Principal Amount (millions of dollars)	Indicated Market Price	Fair Value (millions of dollars)
<b>Senior Notes:</b>			
3.00%, Exchangeable, due 2015	\$ 690	89.95	\$ 621
7.375%, due 2016	600	105.25	632
6.875%, due 2017 ( 300 million)	406	95.46	388
6.75%, due 2020 ( 500 million)	677	92.81	628
<b>Senior Debentures:</b>			
7.80%, due 2018	250	106.00	265

### 3. Supplemental Cash Flow Information

	Nine months ended September 30, 2011	September 30, 2010
Interest paid in cash	\$ 217	\$ 163
<b>Income taxes paid in cash:</b>		
U.S. - continuing	\$	\$ 2
Non-U.S. - continuing	91	61
Non-U.S. - discontinued operations		7
Total income taxes paid in cash	\$ 91	\$ 70

Cash interest for 2011 includes note repurchase premiums of \$16 million related to the second quarter 2011 redemption of the Company's 6.75% senior notes due 2014. Cash interest for





Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

2010 included note repurchase premiums of \$6 million related to the second quarter 2010 redemption of the Company's 8.25% senior notes due 2013.

**4. Share Owners' Equity**

The activity in share owners' equity for the three months ended September 30, 2011 and 2010 is as follows:

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2011	\$ 2	\$ 2,986	\$ (410)	\$ 227	\$ (672)	\$ 157	\$ 2,290
Issuance of common stock (0.1 million shares)		2					2
Reissuance of common stock (0.1 million shares)		(1)	2				1
Stock compensation		3					3
Comprehensive income (loss):							
Net earnings				116		4	120
Foreign currency translation adjustments					(352)	(6)	(358)
Pension and other postretirement benefit adjustments, net of tax					39		39
Change in fair value of derivative instruments, net of tax					(2)		(2)
Dividends paid to noncontrolling interests on subsidiary common stock						(1)	(1)
Balance on September 30, 2011	\$ 2	\$ 2,990	\$ (408)	\$ 343	\$ (987)	\$ 154	\$ 2,094

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2010	\$ 2	\$ 3,047	\$ (414)	\$ 355	\$ (1,452)	\$ 205	\$ 1,743
Reissuance of common stock (0.1 million shares)			1				1

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Stock compensation			(3)							(3)				
Comprehensive income:														
Net earnings				139					12	151				
Foreign currency translation adjustments						266			10	276				
Pension and other postretirement benefit adjustments, net of tax								11		11				
Change in fair value of derivative instruments, net of tax								(4)		(4)				
Acquisition of noncontrolling interest				(10)					(8)	(18)				
Dividends paid to noncontrolling interests on subsidiary common stock									(1)	(1)				
Balance on September 30, 2010	\$	2	\$	3,034	\$	(413)	\$	494	\$	(1,179)	\$	218	\$	2,156

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

The activity in share owners equity for the nine months ended September 30, 2011 and 2010 is as follows:

	Share Owners Equity of the Company				Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Share Owners Equity
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings			
Balance on January 1, 2011	\$ 2	\$ 3,040	\$ (412)	\$ 82	\$ (897)	\$ 211	\$ 2,026
Issuance of common stock (0.3 million shares)		5					5
Reissuance of common stock (0.2 million shares)			4				4
Stock compensation		(1)					(1)
Comprehensive income:							
Net earnings				261		15	276
Foreign currency translation adjustments					(165)	3	(162)
Pension and other postretirement benefit adjustments, net of tax					85		85
Change in fair value of derivative instruments, net of tax					(1)		(1)
Acquisition of noncontrolling interest		(54)			(9)	(43)	(106)
Dividends paid to noncontrolling interests on subsidiary common stock						(32)	(32)
Balance on September 30, 2011	\$ 2	\$ 2,990	\$ (408)	\$ 343	\$ (987)	\$ 154	\$ 2,094

	Share Owners Equity of the Company				Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Share Owners Equity
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings			
Balance on January 1, 2010	\$ 2	\$ 2,942	\$ (217)	\$ 129	\$ (1,318)	\$ 198	\$ 1,736
Issuance of common stock (0.9 million shares)		4					4
Reissuance of common stock (0.2 million shares)		1	3				4
Treasury shares purchased (6.0 million shares)			(199)				(199)
Stock compensation		6					6
		91					91

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Issuance of exchangeable notes														
Comprehensive income:														
Net earnings				365				35		400				
Foreign currency translation adjustments						76		8		84				
Pension and other postretirement benefit adjustments, net of tax						68				68				
Change in fair value of derivative instruments, net of tax						(5)				(5)				
Acquisition of noncontrolling interest			(10)					(8)		(18)				
Noncontrolling interests share of acquisition								8		8				
Dividends paid to noncontrolling interests on subsidiary common stock								(23)		(23)				
Balance on September 30, 2010	\$	2	\$	3,034	\$	(413)	\$	494	\$	(1,179)	\$	218	\$	2,156

The acquisition of noncontrolling interests for the nine months ended September 30, 2011 was related to the Company purchasing the noncontrolling interest in its southern Brazil operations.

## 5. Inventories

Major classes of inventory are as follows:

	September 30, 2011		December 31, 2010		September 30, 2010
Finished goods	\$ 885	\$	786	\$	818
Raw materials	113		106		111
Operating supplies	54		54		57
	\$ 1,052	\$	946	\$	986

## 6. Contingencies

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos dust. From 1948 to 1958, one of the Company's former business units commercially produced and sold approximately \$40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The typical asbestos personal injury lawsuit alleges various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as asbestos claims).

As of September 30, 2011, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 5,300 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2010, approximately 76% of plaintiffs either do not specify the monetary damages sought, or in the case of court filings, claim an amount sufficient to invoke the jurisdictional minimum of the trial court. Approximately 22% of plaintiffs specifically plead damages of \$15 million or less, and 2% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages \$100 million or greater but less than \$122 million.

As indicated by the foregoing summary, current pleading practice permits considerable variation in the assertion of monetary damages. The Company's experience resolving hundreds of thousands of asbestos claims and lawsuits over an extended period demonstrates that the monetary relief that may be alleged in a complaint bears little relevance to a claim's merits or disposition value. Rather, the amount potentially recoverable is determined by such factors as the severity of the plaintiff's asbestos disease, the product identification evidence against the Company and other defendants, the defenses available to the Company and other defendants, the specific jurisdiction in which the claim is made, and the plaintiff's medical history and exposure to other disease-causing agents.

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of September 30, 2011 there are approximately 500 claims against other



defendants which are likely to be asserted some time in the future against the Company. These claims are not included in the pending lawsuits and claims totals set forth above.

The Company is also a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company as of September 30, 2011, has disposed of the asbestos claims of approximately 385,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$7,900. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$14 million at September 30, 2011 (\$26 million at December 31, 2010) and are included in the foregoing average indemnity payment per claim. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Failure of claimants to meet certain medical and product exposure criteria in the Company's administrative claims handling agreements has generally reduced the number of marginal or suspect claims that would otherwise have been received. In addition, certain courts and legislatures have reduced or eliminated the number of marginal or suspect claims that the Company otherwise would have received. These developments generally have had the effect of increasing the Company's per-claim average indemnity payment.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot reasonably be estimated. Beginning with the initial liability of \$975 million established in 1993, the Company has accrued a total of approximately \$3.82 billion through 2010, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by, among other factors, the volatility of asbestos-related litigation in the United States, the significant number of co-defendants that have filed for bankruptcy, the magnitude and timing of co-defendant bankruptcy trust payments, the inherent uncertainty of future disease incidence and claiming patterns, the expanding list of non-traditional defendants that have been sued in this litigation, and the use of mass litigation screenings to generate large numbers of claims by parties who allege exposure to asbestos dust but have no present physical asbestos impairment.

The Company has continued to monitor trends that may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. The material components of the Company's accrued liability are based on amounts determined by the Company in connection with its annual comprehensive review and consist of the following estimates, to the extent it is probable that such liabilities have been incurred and can be reasonably estimated: (i) the liability for asbestos claims already asserted against the Company; (ii) the liability for preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel; (iii) the liability for asbestos claims not yet asserted against the Company, but which the Company believes will be asserted in the next several years; and (iv) the legal defense costs likely to be incurred in connection with the foregoing types of claims.



The significant assumptions underlying the material components of the Company's accrual are:

- a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;
- b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the extent of decrease or increase in the incidence of serious disease cases and claiming patterns for such cases;
- d) the extent to which the Company is able to defend itself successfully at trial;
- e) the extent to which courts and legislatures eliminate, reduce or permit the diversion of financial resources for unimpaired claimants;
- f) the number and timing of additional co-defendant bankruptcies;
- g) the extent to which bankruptcy trusts direct resources to resolve claims that are also presented to the Company and the timing of the payments made by the bankruptcy trusts; and
- h) the extent to which co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

As noted above, the Company conducts a comprehensive review of its asbestos-related liabilities and costs annually in connection with finalizing and reporting its annual results of operations, unless significant changes in trends or new developments warrant an earlier review. If the results of an annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability. The Company believes that a reasonable estimation of the probable amount of the liability for claims not yet asserted against the Company is not possible beyond a period of several years. Therefore, while the results of future annual comprehensive reviews cannot be determined, the Company expects the addition of one year to the estimation period will result in an annual charge.

On March 11, 2011, the Company received a verdict in an asbestos case in which conspiracy claims had been asserted against the Company. Of the total nearly \$90 million awarded by the jury against the four defendants in the case, almost \$10 million in compensatory damages were assessed against all four defendants, and \$40 million in punitive damages were assessed against the Company.

The Company continues to deny the conspiracy allegations in this case and will vigorously challenge this verdict, if necessary, in the appellate courts, and, therefore, has made no change to its asbestos-related liability as of September 30, 2011. While the Company cannot predict the ultimate outcome of this lawsuit, the Company and other conspiracy defendants have successfully challenged jury verdicts in similar cases.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are non-routine and involve compensatory, punitive or treble damage claims as well as other types

of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events.

The ultimate legal and financial liability of the Company with respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot reasonably be estimated. The Company's reported results of operations for 2010 were materially affected by the \$170 million (pretax and after tax) fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and may continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

## 7. Segment Information

The Company has four reportable segments based on its four geographic locations: (1) Europe; (2) North America; (3) South America; (4) Asia Pacific. These four segments are aligned with the Company's internal approach to managing, reporting, and evaluating performance of its global glass operations. Certain assets and activities not directly related to one of the regions or to glass manufacturing are reported with Retained corporate costs and other. These include licensing, equipment manufacturing, global engineering, and non-glass equity investments. Retained corporate costs and other also includes certain headquarters administrative and facilities costs and certain incentive compensation and other benefit plan costs that are global in nature and are not allocable to the reportable segments.

The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses Segment Operating Profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment Operating Profit for reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Financial information for the three-month periods ended September 30, 2011 and 2010 regarding the Company's reportable segments is as follows:

	2011		2010
Net sales:			
Europe	\$ 770	\$	702
North America	497		483
South America	310		243
Asia Pacific	270		251
Reportable segment totals	1,847		1,679
Other	15		10
Net sales	\$ 1,862	\$	1,689

	2011		2010
Segment Operating Profit:			
Europe	\$ 106	\$	114
North America	73		72
South America	67		56
Asia Pacific	23		37
Reportable segment totals	269		279
Items excluded from Segment Operating Profit:			
Retained corporate costs and other	(24)		(21)
Restructuring and asset impairment	(29)		
Acquisition-related fair value inventory adjustments and restructuring, transaction and financing costs			(11)
Interest income	2		2
Interest expense	(70)		(61)
Earnings from continuing operations before income taxes	\$ 148	\$	188

Financial information for the nine-month periods ended September 30, 2011 and 2010 regarding the Company's reportable segments is as follows:

	2011		2010
Net sales:			
Europe	\$ 2,355	\$	2,086
North America	1,466		1,443
South America	881		625
Asia Pacific	778		724
Reportable segment totals	5,480		4,878
Other	60		27
Net sales	\$ 5,540	\$	4,905

	2011		2010
<b>Segment Operating Profit:</b>			
Europe	\$ 284	\$	274
North America	188		222
South America	165		142
Asia Pacific	56		105
Reportable segment totals	693		743
<b>Items excluded from Segment Operating Profit:</b>			
Retained corporate costs and other	(51)		(52)
Restructuring and asset impairment	(41)		(8)
Acquisition-related fair value inventory adjustments and restructuring, transaction and financing costs			(11)
Interest income	8		10
Interest expense	(246)		(177)
Earnings from continuing operations before income taxes	\$ 363	\$	505

Financial information regarding the Company's total assets is as follows:

	September 30, 2011		December 31, 2010		September 30, 2010
<b>Total assets:</b>					
Europe	\$ 3,693	\$	3,618	\$	3,659
North America	1,953		1,961		2,002
South America	1,649		1,680		1,639
Asia Pacific	1,974		2,047		1,898
Reportable segment totals	9,269		9,306		9,198
Other	283		448		685
Consolidated totals	\$ 9,552	\$	9,754	\$	9,883

## 8. Other Expense

Other expense for the three months and nine months ended September 30, 2011, includes charges totaling \$23 million and \$35 million, respectively, for restructuring and asset impairment in the Company's Asia Pacific segment. Other expense for the three months and nine months ended September 30, 2011, also includes \$6 million for restructuring charges related to headcount reductions, primarily in the Company's South America segment. See Note 9 for additional information.

During the three months ended September 30, 2010, the Company recorded charges of \$6 million for acquisition transaction costs. These charges represent legal, accounting and other outside consultants expenses directly related to acquisitions.

During the nine months ended September 30, 2010, the Company recorded charges totaling \$8 million for restructuring and asset impairment related to the Company's strategic review of its global manufacturing footprint. See Note 9 for additional information.



## 9. Restructuring Accruals

Beginning in 2007, the Company commenced a strategic review of its global profitability and manufacturing footprint. The Company concluded its global review as of December 31, 2009, with the final actions implemented in the first half of 2010. Amounts recorded by the Company do not include any future gains that may be realized upon the ultimate sale or disposition of closed facilities.

The Company is currently formulating and implementing a restructuring plan in its Asia Pacific segment to align its supply base with lower demand in Australia. As part of this plan, the Company closed one machine line in the second quarter of 2011, and recorded \$4 million of restructuring charges for related employee costs. During the third quarter of 2011, the Company recorded charges of \$22 million for employee costs and asset impairments as it closed one furnace in Australia during the quarter and plans to close one additional furnace in early 2012. Further restructuring activities in Australia will depend on 2012 supply and demand trends and the outcome of contract negotiations.

The Company continually reviews its manufacturing footprint and may close various operations due to plant efficiencies, integration of acquisitions, and other market factors. These restructuring actions taken by the Company are not related to the strategic review of manufacturing operations or the Australian restructuring plan discussed above. As part of this continuing review of its manufacturing footprint, the Company recorded restructuring charges of \$8 million in the first quarter of 2011 for employee costs related to a plant closing and the related relocation of business to other facilities in its Asia Pacific segment. In addition, the Company recorded restructuring charges of \$6 million in the third quarter of 2011 related to headcount reductions, primarily in the South America segment.

The Company acquired VDL in the third quarter of 2011 (see Note 13). As part of this acquisition, the Company assumed the severance liability of VDL related to a headcount reduction program initiated prior to the acquisition.

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Selected information related to the restructuring accruals for the first nine months of 2011 and 2010 is as follows:

	Strategic Footprint Review			Australia Restructuring	Other Restructuring Actions	Total Restructuring
	Employee Costs	Other	Total			
Balance at January 1, 2011	\$ 27	\$ 25	\$ 52	\$	\$ 27	\$ 79
First quarter 2011 charges					8	8
Net cash paid, principally severance and related benefits	(2)	(2)	(4)			(4)
Other, including foreign exchange translation	2		2			2
Balance at March 31, 2011	27	23	50		35	85
Second quarter 2011 charges				4		4
Net cash paid, principally severance and related benefits	(2)		(2)		(7)	(9)
Other, including foreign exchange translation					(2)	(2)
Balance at June 30, 2011	25	23	48	4	26	78
Third quarter 2011 charges				22	7	29
Write-down of assets to net realizable value				(10)		(10)
Net cash paid, principally severance and related benefits	(1)	(1)	(2)	(10)	(2)	(14)
Acquisition					11	11
Other, including foreign exchange translation	(1)		(1)		(2)	(3)
Balance at September 30, 2011	\$ 23	\$ 22	\$ 45	\$ 6	\$ 40	\$ 91
Balance at January 1, 2010	\$ 93	\$ 26	\$ 119	\$	\$ 27	\$ 146
Net cash paid, principally severance and related benefits	(18)	(1)	(19)			(19)
Other, including foreign exchange translation	(1)		(1)			(1)
Balance at March 31, 2010	74	25	99		27	126
Second quarter 2010 charges	(2)	10	8			8
Write-down of assets to net realizable value		(1)	(1)			(1)
Net cash paid, principally severance and related benefits	(9)	(3)	(12)			(12)
Other, including foreign exchange translation	(3)	(1)	(4)			(4)
Balance at June 30, 2010	60	30	90		27	117
Net cash paid, principally severance and related benefits	(12)	(6)	(18)			(18)
Other, including foreign exchange translation	2	1	3			3
Balance at September 30, 2010	\$ 50	\$ 25	\$ 75	\$	\$ 27	\$ 102

The Company's decisions to curtail selected production capacity have resulted in write downs of certain long-lived assets to the extent their carrying amounts exceeded fair value or fair value less cost to sell. The Company classified the significant assumptions used to determine the fair value of the impaired assets, which was not material, as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.



The Company also recorded liabilities for certain employee separation costs to be paid under contractual arrangements and other exit costs.

#### **10. Derivative Instruments**

The Company has certain derivative assets and liabilities which consist of interest rate swaps, natural gas forwards, and foreign exchange option and forward contracts. The Company uses an income approach to valuing these contracts. Interest rate yield curves, natural gas forward rates, and foreign exchange rates are the significant inputs into the valuation models. These inputs are observable in active markets over the terms of the instruments the Company holds,

and accordingly, the Company classifies its derivative assets and liabilities as Level 2 in the hierarchy. The Company also evaluates counterparty risk in determining fair values.

*Interest Rate Swaps Designated as Fair Value Hedges*

In the fourth quarter of 2003 and the first quarter of 2004, the Company entered into a series of interest rate swap agreements with a total notional amount of \$700 million that were to mature in 2010 and 2013. The swaps were executed in order to: (i) convert a portion of the senior notes and senior debentures fixed-rate debt into floating-rate debt; (ii) maintain a capital structure containing appropriate amounts of fixed and floating-rate debt; and (iii) reduce net interest payments and expense in the near-term.

The Company's fixed-to-floating interest rate swaps were accounted for as fair value hedges. Because the relevant terms of the swap agreements matched the corresponding terms of the notes, there was no hedge ineffectiveness. Accordingly, the Company recorded the net of the fair market values of the swaps as a long-term asset (liability) along with a corresponding net increase (decrease) in the carrying value of the hedged debt.

For derivative instruments that are designated and qualify as fair value hedges, the change in the fair value of the derivative instrument related to the future cash flows (gain or loss on the derivative) as well as the offsetting change in the fair value of the hedged item attributable to the hedged risk are recognized in current earnings. The Company includes the gain or loss on the hedged items (i.e. long-term debt) in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps.

During the second quarter of 2009, the Company completed a tender offer for its \$250 million senior debentures due 2010. As a result of the tender offer, the Company extinguished \$222 million of the senior debentures and terminated the related interest rate swap agreements for proceeds of \$5 million. The Company recognized \$4 million of the proceeds as a reduction to interest expense upon the termination of the interest rate swap agreements, while the remaining proceeds were recognized as a reduction to interest expense over the remaining life of the outstanding senior debentures, which matured in May 2010.

During the second quarter of 2009, the Company's interest rate swaps related to the \$450 million senior notes due 2013 were terminated. The Company received proceeds of \$12 million which were recorded as an adjustment to debt and were to be recognized as a reduction to interest expense over the remaining life of the senior notes due 2013. During the second quarter of 2010, a subsidiary of the Company redeemed the senior notes due 2013. Accordingly, the remaining unamortized proceeds from the terminated interest rate swaps were recognized in the second quarter as a reduction to interest expense.

The amortization of the proceeds from the terminated interest rate swaps reduced interest expense \$11 million for the nine months ended September 30, 2010.

*Commodity Futures Contracts Designated as Cash Flow Hedges*

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

In North America, the Company enters into commodity futures contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements. The majority

of the sales volume in North America is tied to customer contracts that contain provisions that pass the price of natural gas to the customer. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. At September 30, 2011 and 2010, the Company had entered into commodity futures contracts covering approximately 5,100,000 MM BTUs and 8,100,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above futures contracts as cash flow hedges at September 30, 2011 and recognizes them on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in the Accumulated Other Comprehensive Income component of share owners' equity (OCI) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. At September 30, 2011 and 2010, an unrecognized loss of \$4 million and \$6 million, respectively, related to the commodity futures contracts was included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and nine months ended September 30, 2011 and 2010 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended September 30, 2011 and 2010 is as follows:

Amount of Loss Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Loss Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping, and delivery) (Effective Portion)	
		2011	2010
2011	2010	2011	2010
\$ (3)	\$ (6)	\$ (1)	\$ (2)

The effect of the commodity futures contracts on the results of operations for the nine months ended September 30, 2011 and 2010 is as follows:

Amount of Loss Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Loss Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping, and delivery) (Effective Portion)	
		2011	2010
2011	2010	2011	2010
\$ (5)	\$ (12)	\$ (4)	\$ (7)

*Senior Notes Designated as Net Investment Hedge*

During December 2004, a U.S. subsidiary of the Company issued senior notes totaling 225 million. These notes were designated by the Company's subsidiary as a hedge of a portion of its net investment in a non-U.S. subsidiary with a Euro functional currency. Because the amount of the senior notes matched the hedged portion of the net investment, there was no hedge ineffectiveness. Accordingly, the Company recorded the impact of changes in the foreign currency exchange rate on the Euro-denominated notes in OCI. During the second quarter of 2011, the senior notes designated as the net investment hedge were redeemed by a subsidiary of the Company. The amount recorded in OCI related to this net investment hedge will be reclassified into earnings when the Company sells or liquidates its net investment in the non-U.S. subsidiary.

The effect of the net investment hedge on the results of operations for the three and nine months ended September 30, 2011 and 2010 is as follows:

		<b>Amount of Gain (Loss) Recognized in OCI</b>	
<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
\$	\$ (32)	\$ (25)	\$ 19

*Forward Exchange Contracts not Designated as Hedging Instruments*

The Company's subsidiaries may enter into short-term forward exchange or option agreements to purchase foreign currencies at set rates in the future. These agreements are used to limit exposure to fluctuations in foreign currency exchange rates for significant planned purchases of fixed assets or commodities that are denominated in currencies other than the subsidiaries' functional currency. Subsidiaries may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables and payables, not denominated in, or indexed to, their functional currencies. The Company records these short-term forward exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At September 30, 2011 and 2010, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$740 million and \$1.7 billion, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange contracts on the results of operations for the three months ended September 30, 2011 and 2010 is as follows:

<b>Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts</b>	<b>Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts</b>	
	<b>2011</b>	<b>2010</b>
Other expense	\$ 10	\$ 8



The effect of the forward exchange contracts on the results of operations for the nine months ended September 30, 2011 and 2010 is as follows:

Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts	
	2011	2010
Other expense	\$ (14)	\$ 49

*Balance Sheet Classification*

The Company records the fair values of derivative financial instruments on the balance sheet as follows: (a) receivables if the instrument has a positive fair value and maturity within one year, (b) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year, and (d) other liabilities if the instrument has a negative fair value and maturity after one year. The following table shows the amount and classification (as noted above) of the Company's derivatives:

	Balance Sheet Location	September 30, 2011	Fair Value December 31, 2010	September 30, 2010
<b>Asset Derivatives:</b>				
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	a	\$ 19	\$ 5	\$ 32
Foreign exchange contracts	b		2	
Foreign exchange contracts	c	3	1	
Total derivatives not designated as hedging instruments		22	8	32
Total asset derivatives		\$ 22	\$ 8	\$ 32
<b>Liability Derivatives:</b>				
Derivatives designated as hedging instruments:				
Commodity futures contracts	c	\$ 4	\$ 3	\$ 6
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	c	8	21	18
Foreign exchange contracts	d			6
Total derivatives not designated as hedging instruments		8	21	24
Total liability derivatives		\$ 12	\$ 24	\$ 30

**11. Pensions Benefit Plans and Other Postretirement Benefits**

The components of the net periodic pension cost for the three months ended September 30, 2011 and 2010 are as follows:

	U.S.		Non-U.S.	
	2011	2010	2011	2010
Service cost	\$ 6	\$ 6	\$ 6	\$ 6
Interest cost	31	32	24	23
Expected asset return	(46)	(47)	(23)	(24)
<b>Amortization:</b>				
Prior service credit			(1)	
Actuarial loss	21	18	6	6
Net amortization	21	18	5	6
Net periodic pension cost	\$ 12	\$ 9	\$ 12	\$ 11

The components of the net periodic pension cost for the nine months ended September 30, 2011 and 2010 are as follows:

	U.S.		Non-U.S.	
	2011	2010	2011	2010
Service cost	\$ 19	\$ 19	\$ 18	\$ 16
Interest cost	93	98	66	61
Expected asset return	(140)	(143)	(67)	(63)
<b>Amortization:</b>				
Prior service credit			(1)	
Actuarial loss	63	53	18	16
Net amortization	63	53	17	16
Net periodic pension cost	\$ 35	\$ 27	\$ 34	\$ 30

The components of the net postretirement benefit cost for the three months ended September 30, 2011 and 2010 are as follows:

	U.S.		Non-U.S.	
	2011	2010	2011	2010
Service cost	\$ 1	\$ 1	\$	\$
Interest cost	2	2	1	2
<b>Amortization:</b>				
Prior service credit	(1)	(1)		
Actuarial loss	1	1		
Net amortization				



Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Net postretirement benefit cost	\$	3	\$	3	\$	1	\$	2
---------------------------------	----	---	----	---	----	---	----	---

27

---

The components of the net postretirement benefit cost for the nine months ended September 30, 2011 and 2010 are as follows:

	U.S.		Non-U.S.	
	2011	2010	2011	2010
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	7	8	3	4
Amortization:				
Prior service credit	(3)	(3)		
Actuarial loss	4	4		
Net amortization	1	1		
Net postretirement benefit cost	\$ 9	\$ 10	\$ 4	\$ 5

## 12. Income Taxes

The Company performs a quarterly review of the annual effective tax rate and makes changes if necessary based on new information or events. The estimated annual effective tax rate is forecasted quarterly using actual historical information and forward-looking estimates. The estimated annual effective tax rate may fluctuate due to changes in forecasted annual operating income; changes in the forecasted mix of earnings by country; changes to the valuation allowance for deferred tax assets (such changes would be recorded discretely in the quarter in which they occur); changes to actual or forecasted permanent book to tax differences (non-deductible expenses); impacts from future tax settlements with state, federal or foreign tax authorities (such changes would be recorded discretely in the quarter in which they occur); or impacts from tax law changes. To the extent such changes impact deferred tax assets/liabilities, these changes would generally be recorded discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily because of valuation allowances in some jurisdictions and varying non-U.S. tax rates.

The Company records a liability for unrecognized tax benefits related to uncertain tax positions. The Company recorded an increase of \$18 million to the estimated liability associated with uncertain tax positions in the nine months ended September 30, 2011. The Company believes that it is reasonably possible that unrecognized tax benefits could decrease up to \$25 million within the next 12 months. This is primarily the result of audit settlements or statute expirations in several taxing jurisdictions.

## 13. Business Combinations

On August 1, 2011, the Company completed the acquisition of Verrerie du Languedoc SAS ( VDL ), a single-furnace glass container plant in Vergeze, France. The Vergeze plant is located near the Nestlé Waters Perrier bottling facility and has a long-standing supply relationship with Nestlé Waters. The acquisition did not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

## 14. Discontinued Operations

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

On October 26, 2010, the Venezuelan government, through Presidential Decree No. 7.751, expropriated the assets of Owens-Illinois de Venezuela and Fabrica de Vidrios Los Andes, C.A., two of the Company's subsidiaries in that country, which in effect constituted a taking of the going concerns of those companies. Shortly after the issuance of the decree, the Venezuelan government installed temporary administrative boards to control the expropriated assets.

Since the issuance of the decree, the Company has cooperated with the Venezuelan government, as it is compelled to do under Venezuelan law, to provide for an orderly transition while ensuring the safety and well-being of the employees and the integrity of the production facilities. The Company has been engaged in negotiations with the Venezuelan government in relation to certain aspects of the expropriation, including the compensation payable by the government as a result of its expropriation. On September 26, 2011, the Company, having been unable to reach an agreement with the Venezuelan government regarding fair compensation, commenced an arbitration against Venezuela through the World Bank International Centre for Settlement of Investment Disputes. The Company is unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive.

The Company considered the disposal of these assets to be complete as of December 31, 2010. As a result, and in accordance with generally accepted accounting principles, the Company has presented the results of operations for its Venezuelan subsidiaries in the Consolidated Results of Operations for the three and nine months ended September 30, 2010, as discontinued operations. At September 30, 2010, the assets and liabilities of the Venezuelan operations are presented in the Consolidated Balance Sheets as the assets and liabilities of discontinued operations.

The following summarizes the revenues and expenses of the Venezuelan operations reported as discontinued operations in the Consolidated Results of Operations for the periods indicated:

	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2010</b>
Net sales	\$ 52	\$ 129
Manufacturing, shipping, and delivery	(34)	(86)
Gross profit	18	43
Selling and administrative expense	(2)	(5)
Other expense	4	3
Earnings from discontinued operations before income taxes	20	41
Provision for income taxes	(4)	(10)
Net earnings from discontinued operations	16	31
Net earnings from discontinued operations attributable to noncontrolling interests	(4)	(7)
Net earnings from discontinued operations attributable to the Company	\$ 12	\$ 24

The net assets of the Company's Venezuelan operations were written-off as of December 31, 2010 as a result of the deconsolidation of the subsidiaries due to the loss of control. The type or amount of compensation the Company may receive from the Venezuelan government is uncertain and thus, will be recorded as a gain from discontinued operations when received. The

cumulative currency translation losses relate to the devaluation of the Venezuelan bolivar in prior years and were written-off because the expropriation was a substantially complete liquidation of the Company's operations in Venezuela.

The condensed consolidated balance sheet at September 30, 2010 included the following assets and liabilities related to the discontinued operations of the Company's Venezuelan subsidiaries:

<b>Assets:</b>		
Cash	\$	43
Accounts receivable		21
Inventories		26
Prepaid expenses		3
<b>Total current assets</b>		<b>93</b>
<b>Other long-term assets</b>		
Net property, plant, and equipment		30
<b>Total assets</b>	<b>\$</b>	<b>128</b>
<b>Liabilities:</b>		
Accounts payable and other current liabilities	\$	25
Other long-term liabilities		15
<b>Total liabilities</b>	<b>\$</b>	<b>40</b>

## 15. New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ( FASB ) issued guidance related to the financial statement presentation of other comprehensive income ( OCI ). The guidance requires that OCI be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is effective for fiscal years, and interim periods, beginning after December 15, 2011. Adoption of this guidance only impacts presentation and disclosure of OCI, with no impact on the Company's results of operations, financial position or cash flows.

In September 2011, the FASB issued guidance related to testing goodwill for impairment. The guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the annual quantitative test of goodwill impairment. This new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Adoption of this guidance only impacts the goodwill impairment process, with no impact on the Company's results of operations, financial position or cash flows.

## 16. Financial Information for Subsidiary Guarantors and Non-Guarantors

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of senior debentures (the Parent ); (2) the two subsidiaries which have guaranteed the senior debentures on a subordinated basis (the Guarantor Subsidiaries ); and (3) all other subsidiaries (the Non-Guarantor Subsidiaries ). The Guarantor Subsidiaries are 100% owned direct and indirect

subsidiaries of the Company

and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

100% owned subsidiaries are presented on the equity basis of accounting. Certain reclassifications have been made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminations relate to investments in subsidiaries and intercompany balances and transactions.

Balance Sheet	September 30, 2011					Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations		
<b>Current assets:</b>						
Accounts receivable	\$	\$	\$	1,218	\$	\$ 1,218
Inventories				1,052		1,052
Other current assets				369		369
Total current assets				2,639		2,639
Investments in and advances to subsidiaries	2,564	2,314			(4,878)	
Goodwill				2,762		2,762
Other non-current assets				1,220		1,220
Total other assets	2,564	2,314	3,982		(4,878)	3,982
Property, plant and equipment, net				2,931		2,931
Total assets	\$ 2,564	\$ 2,314	\$ 9,552	\$ (4,878)	\$	\$ 9,552
<b>Current liabilities :</b>						
Accounts payable and accrued liabilities	\$	\$	\$	1,598	\$	\$ 1,598
Current portion of asbestos liability	170					170
Short-term loans and long-term debt due within one year				345		345
Total current liabilities	170			1,943		2,113
Long-term debt	250			3,743	(250)	3,743
Asbestos-related liabilities	204					204
Other non-current liabilities				1,398		1,398
Total share owners equity of the Company	1,940	2,314	2,314		(4,628)	1,940
Noncontrolling interests				154		154
Total liabilities and share owners equity	\$ 2,564	\$ 2,314	\$ 9,552	\$ (4,878)	\$	\$ 9,552

Balance Sheet	December 31, 2010					Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations		
<b>Current assets:</b>						
Accounts receivable	\$	\$	\$	1,075	\$	\$ 1,075
Inventories				946		946
Other current assets				717		717
<b>Total current assets</b>				<b>2,738</b>		<b>2,738</b>
Investments in and advances to subsidiaries	2,541	2,291			(4,832)	
Goodwill				2,821		2,821
Other non-current assets				1,088		1,088
<b>Total other assets</b>	<b>2,541</b>	<b>2,291</b>		<b>3,909</b>	<b>(4,832)</b>	<b>3,909</b>
Property, plant and equipment, net				3,107		3,107
<b>Total assets</b>	<b>\$ 2,541</b>	<b>\$ 2,291</b>	<b>\$ 9,754</b>	<b>\$ (4,832)</b>	<b>\$</b>	<b>\$ 9,754</b>
<b>Current liabilities :</b>						
Accounts payable and accrued liabilities	\$	\$	\$	1,555	\$	\$ 1,555
Current portion of asbestos liability	170					170
Short-term loans and long-term debt due within one year				354		354
<b>Total current liabilities</b>	<b>170</b>			<b>1,909</b>		<b>2,079</b>
Long-term debt	250			3,924	(250)	3,924
Asbestos-related liabilities	306					306
Other non-current liabilities				1,419		1,419
Total share owners equity of the Company	1,815	2,291	2,291		(4,582)	1,815
Noncontrolling interests				211		211
<b>Total liabilities and share owners equity</b>	<b>\$ 2,541</b>	<b>\$ 2,291</b>	<b>\$ 9,754</b>	<b>\$ (4,832)</b>	<b>\$</b>	<b>\$ 9,754</b>



Balance Sheet	September 30, 2010					Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations		
<b>Current assets:</b>						
Accounts receivable	\$	\$	\$	1,165	\$	\$ 1,165
Inventories				986		986
Other current assets				722		722
Assets of discontinued operations				93		93
<b>Total current assets</b>				<b>2,966</b>		<b>2,966</b>
Investments in and advances to subsidiaries	2,559	2,309			(4,868)	
Goodwill				2,744		2,744
Other non-current assets				1,096		1,096
Assets of discontinued operations				35		35
<b>Total other assets</b>	<b>2,559</b>	<b>2,309</b>		<b>3,875</b>	<b>(4,868)</b>	<b>3,875</b>
Property, plant and equipment, net				3,042		3,042
<b>Total assets</b>	<b>\$ 2,559</b>	<b>\$ 2,309</b>	<b>\$ 9,883</b>	<b>\$ (4,868)</b>	<b>\$ 9,883</b>	
<b>Current liabilities :</b>						
Accounts payable and accrued liabilities	\$	\$	\$	1,617	\$	\$ 1,617
Current portion of asbestos liability	175					175
Short-term loans and long-term debt due within one year				339		339
Liabilities of discontinued operations				25		25
<b>Total current liabilities</b>	<b>175</b>			<b>1,981</b>		<b>2,156</b>
Liabilities of discontinued operations				15		15
Long-term debt	250			4,006	(250)	4,006
Asbestos-related liabilities	196					196
Other non-current liabilities				1,354		1,354
Total share owners equity of the Company	1,938	2,309	2,309		(4,618)	1,938
Noncontrolling interests				218		218
<b>Total liabilities and share owners equity</b>	<b>\$ 2,559</b>	<b>\$ 2,309</b>	<b>\$ 9,883</b>	<b>\$ (4,868)</b>	<b>\$ 9,883</b>	

## Three months ended September 30, 2011

Results of Operations	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$	\$ 1,862	\$	\$ 1,862
Manufacturing, shipping, and delivery			(1,475)		(1,475)
Gross profit			387		387
Research, engineering, selling, administrative, and other			(196)		(196)
Net intercompany interest	5		(5)		
Interest expense	(5)		(65)		(70)
Interest income			2		2
Equity earnings from subsidiaries	116	116		(232)	
Other equity earnings			19		19
Other income			6		6
Earnings before income taxes	116	116	148	(232)	148
Provision for income taxes			(25)		(25)
Earnings from continuing operations	116	116	123	(232)	123
Loss from discontinued operations			(3)		(3)
Net earnings	116	116	120	(232)	120
Net earnings attributable to noncontrolling interest			(4)		(4)
Net earnings attributable to the Company	\$ 116	\$ 116	\$ 116	\$ (232)	\$ 116

## Three months ended September 30, 2010

Results of Operations	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$	\$ 1,689	\$	\$ 1,689
Manufacturing, shipping, and delivery			(1,329)		(1,329)
Gross profit			360		360
Research, engineering, selling, administrative, and other			(144)		(144)
Net intercompany interest	5		(5)		
Interest expense	(5)		(56)		(61)
Interest income			2		2
Equity earnings from subsidiaries	139	139		(278)	
Other equity earnings			20		20
Other income			11		11
Earnings from continuing operations before income taxes	139	139	188	(278)	188
Provision for income taxes			(53)		(53)
Earnings from continuing operations	139	139	135	(278)	135
Earnings from discontinued operations			16		16
Net earnings	139	139	151	(278)	151
Net earnings attributable to noncontrolling interest			(12)		(12)
Net earnings attributable to the Company	\$ 139	\$ 139	\$ 139	\$ (278)	\$ 139

## Nine months ended September 30, 2011

Results of Operations	Non-					Consolidated
	Parent	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations		
Net sales	\$	\$	\$	5,540	\$	\$ 5,540
Manufacturing, shipping, and delivery				(4,465)		(4,465)
Gross profit				1,075		1,075
Research, engineering, selling, administrative, and other				(544)		(544)
Net intercompany interest	15			(15)		
Interest expense	(15)			(231)		(246)
Interest income				8		8
Equity earnings from subsidiaries	261	261			(522)	
Other equity earnings				52		52
Other income				18		18
Earnings from continuing operations before income taxes	261	261		363	(522)	363
Provision for income taxes				(85)		(85)
Earnings from continuing operations	261	261		278	(522)	278
Loss from discontinued operations				(2)		(2)
Net earnings	261	261		276	(522)	276
Net earnings attributable to noncontrolling interest				(15)		(15)
Net earnings attributable to the Company	\$ 261	\$ 261	\$ 261	\$ 261	\$ (522)	\$ 261

## Nine months ended September 30, 2010

Results of Operations	Non-					Consolidated
	Parent	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations		
Net sales	\$	\$	\$	4,905	\$	\$ 4,905
Manufacturing, shipping, and delivery				(3,863)		(3,863)
Gross profit				1,042		1,042
Research, engineering, selling, administrative, and other				(438)		(438)
Net intercompany interest	16			(16)		
Interest expense	(16)			(161)		(177)
Interest income				10		10
Equity earnings from subsidiaries	365	365			(730)	
Other equity earnings				46		46
Other income				22		22
Earnings from continuing operations before income taxes	365	365		505	(730)	505
Provision for income taxes				(136)		(136)
Earnings from continuing operations	365	365		369	(730)	369
Earnings from discontinued operations				31		31
Net earnings	365	365		400	(730)	400
Net earnings attributable to noncontrolling interest				(35)		(35)
Net earnings attributable to the Company	\$ 365	\$ 365	\$ 365	\$ (730)	\$	\$ 365

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Nine months ended September 30, 2011

Cash Flows	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (102)	\$	\$ 382	\$	\$ 280
Cash used in investing activities			(351)		(351)
Cash provided by (used in) financing activities	102		(418)		(316)
Effect of exchange rate change on cash			3		3
Net change in cash			(384)		(384)
Cash at beginning of period			640		640
Cash at end of period	\$	\$	\$ 256	\$	\$ 256

Nine months ended September 30, 2010

Cash Flows	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (114)	\$	\$ 519	\$	\$ 405
Cash used in investing activities			(1,145)		(1,145)
Cash provided by financing activities	114		514		628
Effect of exchange rate change on cash					
Net change in cash			(112)		(112)
Cash at beginning of period			812		812
Cash at end of period	\$	\$	\$ 700	\$	\$ 700

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following are the Company's net sales by segment and Segment Operating Profit for the three and nine months ended September 30, 2011 and 2010 (dollars in millions). The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The segment data presented below is prepared in accordance with general accounting principles for segment reporting. The line titled reportable segment totals, however, is a non-GAAP measure when presented outside of the financial statement footnotes. Management has included reportable segment totals below to facilitate the discussion and analysis of financial condition and results of operations. The Company's management uses Segment Operating Profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net Sales:				
Europe	\$ 770	\$ 702	\$ 2,355	\$ 2,086
North America	497	483	1,466	1,443
South America	310	243	881	625
Asia Pacific	270	251	778	724
Reportable segment totals	1,847	1,679	5,480	4,878
Other	15	10	60	27
Net Sales	\$ 1,862	\$ 1,689	\$ 5,540	\$ 4,905

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>Segment Operating Profit:</b>				
Europe	\$ 106	\$ 114	\$ 284	\$ 274
North America	73	72	188	222
South America	67	56	165	142
Asia Pacific	23	37	56	105
Reportable segment totals	269	279	693	743
<b>Items excluded from Segment Operating Profit:</b>				
Retained corporate costs and other	(24)	(21)	(51)	(52)
Restructuring and asset impairment	(29)		(41)	(8)
Acquisition-related fair value inventory adjustments and restructuring, transaction and financing costs		(11)		(11)
Interest income	2	2	8	10
Interest expense	(70)	(61)	(246)	(177)
Earnings from continuing operations before income taxes	148	188	363	505
Provision for income taxes	(25)	(53)	(85)	(136)
Earnings from continuing operations	123	135	278	369
Earnings (loss) from discontinued operations	(3)	16	(2)	31
Net earnings	120	151	276	400
Net earnings attributable to noncontrolling interests	(4)	(12)	(15)	(35)
Net earnings attributable to the Company	\$ 116	\$ 139	\$ 261	\$ 365
<b>Amounts attributable to the Company:</b>				
Earnings from continuing operations	\$ 119	\$ 127	\$ 263	\$ 341
Earnings (loss) from discontinued operations	(3)	12	(2)	24
Net earnings	\$ 116	\$ 139	\$ 261	\$ 365

Note: All amounts excluded from reportable segment totals are discussed in the following applicable sections.

**Executive Overview** *Quarters ended September 30, 2011 and 2010*

*Third Quarter 2011 Highlights*

- Net sales increased as 2010 acquisitions and organic growth drove a 4% increase in tonnes shipped
- Lower Segment Operating Profit due to higher cost inflation, partially offset by higher sales volume and improved pricing
- Two previously idled furnaces in North America restarted; operating performance of North America improved during the quarter



Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Net sales were \$173 million higher than the prior year, primarily due to higher sales volumes driven by recent acquisitions and organic growth, improved pricing and the favorable effect of changes in foreign currency exchange rates.

Segment Operating Profit for reportable segments was \$10 million lower than the prior year. The decrease was mainly attributable to additional cost inflation and higher operating expenses, partially offset by higher sales volume and improved pricing.

Interest expense for the third quarter of 2011 increased \$9 million over the third quarter of 2010. The increase was principally due to additional interest related to debt issued in 2010 to fund acquisitions.

Net earnings from continuing operations attributable to the Company for the third quarter of 2011 was \$119 million, or \$0.72 per share (diluted), compared with \$127 million, or \$0.77 per share (diluted), for the third quarter of 2010. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased net earnings attributable to the Company in 2011 by \$20 million, or \$0.12 per share, and decreased net earnings attributable to the Company in 2010 by \$9 million, or \$0.06 per share.

**Results of Operations Third Quarter of 2011 compared with Third Quarter of 2010**

*Net Sales*

The Company's net sales in the third quarter of 2011 were \$1,862 million compared with \$1,689 million for the third quarter of 2010, an increase of \$173 million, or 10%. The increase in net sales was primarily due to higher glass container shipments, improved pricing and the favorable effects of changes in foreign currency exchange rates. Glass container shipments, in tonnes, were up 4% in the third quarter of 2011 compared to the third quarter of 2010. Sales volumes were up in all regions, with the acquisitions in Brazil and China in 2010 representing 3% of the 4% volume growth. The remaining increase in volume was due to organic growth as favorable demand in all regions more than offset lower volume in Australia. Average selling prices improved in the third quarter of 2011 over the prior year, due in part to surcharges implemented in Europe to partially offset incremental energy inflation. Foreign currency exchange rate changes increased net sales in the third quarter of 2011 compared to the prior year, primarily due to a stronger Euro and Australian dollar in relation to the U.S. dollar.

The change in net sales of reportable segments can be summarized as follows (dollars in millions):

Net sales - 2010		\$	1,679
Sales volume	\$	64	
Price			
Price		25	
Product mix		(8)	
Cost pass-through provisions		1	
Effects of changing foreign currency rates		86	
Total effect on net sales			168
Net sales - 2011		\$	1,847

Cost pass-through provisions include monthly or quarterly contractual provisions to customers, primarily in North America.

*Europe:* Net sales in Europe in the third quarter of 2011 were \$770 million compared with \$702 million for the third quarter of 2010, an increase of \$68 million, or 10%. Glass container shipment levels increased slightly as demand grew across several key end-use categories. Average selling prices in the region improved over the prior year, primarily due to surcharges implemented in the quarter to partially offset energy inflation. The remaining increase in net sales was due to the favorable effects of foreign currency exchange rate changes, as the Euro strengthened in relation to the U.S. dollar.

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

*North America:* Net sales in North America in the third quarter of 2011 were \$497 million compared with \$483 million for the third quarter of 2010, an increase of \$14 million, or 3%. The

increase in net sales was primarily due to higher glass container shipments in the current quarter, particularly in the wine, spirits and craft beer categories. The remaining increase in net sales was due to the favorable effects of foreign currency exchange rate changes due to a stronger Canadian dollar in relation to the U.S. dollar.

*South America:* Net sales in South America in the third quarter of 2011 were \$310 million compared with \$243 million for the third quarter of 2010, an increase of \$67 million, or 28%. The increase in net sales was primarily due to higher sales volumes in the current quarter. Glass container shipments were up more than 24% in the third quarter of 2011 compared to the prior year. The acquisition in Brazil in 2010 accounted for approximately one-third of this volume increase. The remaining volume increase was due to strong growth in the region, primarily in Brazil and Argentina. Net sales also increased due to higher selling prices and the favorable effects of foreign currency exchange rate changes.

*Asia Pacific:* Net sales in Asia Pacific in the third quarter of 2011 were \$270 million compared with \$251 million for the third quarter of 2010, an increase of \$19 million, or 8%. Glass container shipment levels increased slightly, with all the increase attributable to the acquisitions in China in 2010. Glass container shipments of wine and beer bottles in Australia were down nearly 15% in the current quarter compared to the prior year. The decrease in shipments of wine bottles was primarily due to the strong Australian dollar, which negatively impacted wine exports from the country. In addition, beer consumption decreased as high interest rates in Australia lowered consumers' disposable income. The favorable effects of foreign currency exchange rate changes also contributed to the increase in net sales in the third quarter of 2011, primarily due to the strengthening of the Australian dollar in relation to the U.S. dollar.

#### *Segment Operating Profit*

Operating Profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

Segment Operating Profit of reportable segments in the third quarter of 2011 was \$269 million compared to \$279 million for the third quarter of 2010, a decrease of \$10 million, or 4%. The decrease in Segment Operating Profit was primarily due to higher manufacturing and delivery costs, principally due to \$55 million of cost inflation, partially offset by \$18 million of capacity utilization and other cost savings. The cost inflation in the third quarter of 2011 was driven by higher raw material, labor and energy prices. The higher raw material prices were mainly due to the increased cost of soda ash in all regions. The energy inflation was primarily due to the rapid rise in European energy prices, and will likely result in higher energy costs for the remainder of 2011. Operating expenses were also higher in the third quarter of 2011 due to higher spending to support sales and marketing initiatives, the phased implementation of a global Enterprise Resource Planning ( ERP ) system and higher corporate cross charges. Partially offsetting the higher manufacturing and delivery costs and operating expenses were the benefits of the higher sales volume, improved pricing and favorable effects of foreign currency exchange rate changes.

## Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

The change in Segment Operating Profit of reportable segments can be summarized as follows (dollars in millions):

Segment Operating Profit - 2010		\$	279
Sales volume	\$	16	
Price		25	
Manufacturing and delivery		(37)	
Operating expenses and other		(21)	
Effects of changing foreign currency rates		7	
Total net effect on Segment Operating Profit			(10)
Segment Operating Profit - 2011		\$	269

*Europe:* Segment operating profit in Europe in the third quarter of 2011 was \$106 million compared with \$114 million in the third quarter of 2010, a decrease of \$8 million, or 7%. The benefits of higher sales volumes and prices and the favorable effects of a stronger Euro in relation to the U.S. dollar were offset by continued high cost inflation, primarily driven by higher energy prices. In response to the rise in energy prices, the Company initiated an energy surcharge in Europe in the third quarter.

*North America:* Segment operating profit in North America in the third quarter of 2011 was \$73 million compared with \$72 million in the third quarter of 2010, an increase of \$1 million, or 1%. Segment operating profit benefited from higher sales volumes in the quarter, as well as lower manufacturing and delivery costs. The segment restarted two previously idled furnaces and ran at high operating rates, improving customer service levels and reducing the supply chain issues experienced in the second quarter. Offsetting these increases to segment operating profit were higher cost inflation and additional expenses incurred related to building sales and marketing capabilities and to the phased implementation of a global ERP system.

*South America:* Segment operating profit in South America in the third quarter of 2011 was \$67 million compared with \$56 million in the third quarter of 2010, an increase of \$11 million, or 20%. Higher sales and production volumes, primarily due to the acquisition in Brazil in 2010, were the main reasons for the increased operating profit. Higher cost inflation continued to impact this region during the third quarter, but was partially offset by higher selling prices.

*Asia Pacific:* Segment operating profit in Asia Pacific in the third quarter of 2011 was \$23 million compared with \$37 million in the third quarter of 2010, a decrease of \$14 million, or 38%. The decrease in operating profit was primarily due to two macroeconomic conditions in Australia, which were the strong currency and high interest rates, that resulted in lower wine and beer bottle sales and also led to temporary production curtailments, resulting in unabsorbed manufacturing costs. In response to the lower wine and beer bottle shipments in Australia, the Company permanently closed one furnace during the quarter, and plans to close one additional furnace in early 2012. Further restructuring activities in Australia will depend on 2012 supply and demand trends and the outcome of contract negotiations.

### *Interest Expense*

Interest expense for the third quarter of 2011 was \$70 million compared with \$61 million for the third quarter of 2010. The increase is principally due to additional debt issued in 2010 to fund acquisitions.



*Net Earnings Attributable to Noncontrolling Interests*

Net earnings attributable to noncontrolling interests in the third quarter of 2011 were \$4 million compared with \$12 million in the third quarter of 2010. The amount for 2010 includes \$4 million classified as discontinued operations related to the Company's Venezuelan operations. The remaining decrease in the current quarter was primarily a result of the Company buying-out the noncontrolling interest in its southern Brazil operations in the second quarter of 2011.

*Earnings from Continuing Operations Attributable to the Company*

For the third quarter of 2011 the Company recorded earnings from continuing operations attributable to the Company of \$119 million, or \$0.72 per share (diluted), compared to \$127 million, or \$0.77 per share (diluted), in the third quarter of 2010. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2011 by \$20 million, or \$0.12 per share, and decreased net earnings attributable to the Company in 2010 by \$9 million, or \$0.06 per share.

***Executive Overview*** *Nine Months ended September 30, 2011 and 2010*

*2011 Highlights*

- Net sales increased as 2010 acquisitions and improving market conditions drove a 6% increase in tonnes shipped
- Lower Segment Operating Profit due to higher cost inflation and manufacturing costs
- Completed new \$2 billion bank credit agreement and redeemed \$400 million and 225 million senior notes due 2014

Net sales were \$635 million higher than the prior year, primarily due to higher sales volumes driven by recent acquisitions and the favorable effect of changes in foreign currency exchange rates.

Segment Operating Profit for reportable segments was \$50 million lower than the prior year. The decrease was mainly attributable to additional cost inflation, production and supply chain issues in North America during the second quarter of 2011, and the impact of flooding in Australia, partially offset by higher capacity utilization.

Interest expense for the first nine months of 2011 increased \$69 million over the first nine months of 2010. The increase was principally due to note repurchase premiums and the write-off of finance fees related to debt redeemed in the second quarter of 2011, as well as additional interest related to debt issued in 2010 to fund acquisitions.

For the first nine months of 2011 the Company recorded earnings from continuing operations attributable to the Company of \$263 million, or \$1.58 per share (diluted), compared to \$341 million, or \$2.04 per share (diluted), in the first nine months of 2010. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2011 by \$52 million, or \$0.32 per share, and decreased net earnings attributable to the Company in 2010 by \$17 million, or \$0.11 per share.



**Results of Operations** First nine months of 2011 compared with first nine months of 2010*Net Sales*

The Company's net sales in the first nine months of 2011 were \$5,540 million compared with \$4,905 million for the first nine months of 2010, an increase of \$635 million, or 13%. The increase in net sales was primarily due to higher glass container shipments and the favorable effects of changes in foreign currency exchange rates. Glass container shipments, in tonnes, were up nearly 6% in 2011 compared to 2010. Sales volumes were up in all end-use categories, with the acquisitions in Argentina, Brazil and China in 2010 representing approximately 5% of the 6% volume growth. The remaining increase in volume was due to improving market conditions, as favorable demand in Europe and South America more than offset lower volume in Australia. Foreign currency exchange rate changes increased net sales in the first nine months of 2011 compared to the prior year, primarily due to a stronger Euro, Australian dollar and Brazilian real in relation to the U.S. dollar.

The change in net sales of reportable segments can be summarized as follows (dollars in millions):

Net sales - 2010		\$	4,878
Sales volume	\$	256	
Price			
Price		49	
Product mix		(34)	
Cost pass-through provisions		(1)	
Effects of changing foreign currency rates		332	
Total effect on net sales			602
Net sales - 2011		\$	5,480

Cost pass-through provisions include monthly or quarterly contractual provisions as well as the transfer of certain third-party costs, such as shipping, to customers, primarily in North America.

*Europe:* Net sales in Europe in the first nine months of 2011 were \$2,355 million compared with \$2,086 million for the first nine months of 2010, an increase of \$269 million, or 13%. Glass container shipment levels increased mid-single digits as demand grew across all key end-use categories, particularly in the wine and beer segments. Net sales also improved in 2011 due to energy surcharges implemented in the third quarter to help offset the high energy cost inflation in the region. The remaining increase in net sales was due to the favorable effects of foreign currency exchange rate changes, as the Euro strengthened in relation to the U.S. dollar.

*North America:* Net sales in North America in the first nine months of 2011 were \$1,466 million compared with \$1,443 million for the first nine months of 2010, an increase of \$23 million, or 2%. The increase in net sales was primarily due to the favorable effects of foreign currency exchange rate changes, as the Canadian dollar strengthened in relation to the U.S. dollar. Glass container shipments and selling prices in the current year were up slightly over the prior year.

*South America:* Net sales in South America in the first nine months of 2011 were \$881 million compared with \$625 million for the first nine months of 2010, an increase of \$256 million, or

41%. Glass container shipments were up about 35% in the current year, with the acquisitions in Argentina and Brazil in 2010 accounting for approximately half of this volume increase. The remaining volume increase was due to strong growth in the region, primarily in Brazil, Peru and Argentina. The favorable effects of foreign currency exchange rate changes also contributed to the increase in net sales in 2011, primarily due to the strengthening of the Brazilian real in relation to the U.S. dollar.

*Asia Pacific:* Net sales in Asia Pacific in the first nine months of 2011 were \$778 million compared with \$724 million for the first nine months of 2010, an increase of \$54 million, or 7%. Glass container shipment levels increased mid-single digits, with all the increase attributable to the acquisitions in China in 2010. Glass container shipments in Australia were down more than 10% in 2011 compared to the prior year, primarily in the wine and beer end-use categories. The decrease in shipments of wine bottles was primarily due to the strong Australian dollar, which negatively impacted wine exports from the country. In addition, beer consumption decreased as high interest rates in Australia lowered consumers' disposable income. Severe flooding in Australia during the first quarter of 2011 also reduced shipments in the region. The favorable effects of foreign currency exchange rate changes increased net sales in the first nine months of 2011, primarily due to the strengthening of the Australian dollar in relation to the U.S. dollar.

#### *Segment Operating Profit*

Operating Profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

Segment Operating Profit of reportable segments in the first nine months of 2011 was \$693 million compared to \$743 million for the first nine months of 2010, a decrease of \$50 million, or 7%. The decrease in Segment Operating Profit was primarily due to higher manufacturing and delivery costs and operating expenses, partially offset by higher sales volumes and improved pricing in 2011 and the favorable effects of changes in foreign currency exchange rates. The higher manufacturing and delivery costs were principally due to \$164 million of cost inflation, \$26 million of production and supply chain issues in North America in the second quarter of 2011, and \$9 million of costs related to flooding in Australia, partially offset by \$52 million of higher capacity utilization and other cost savings. The cost inflation in the first nine months of 2011 was driven by higher raw material, labor and energy prices. The higher raw material prices were mainly due to the increased cost of soda ash in all regions. The energy inflation was primarily due to the rapid rise in European energy prices. Operating expenses were higher as the Company invested in building its sales and marketing capabilities and also incurred expenses related to the phased implementation of a global ERP software system.

The change in Segment Operating Profit of reportable segments can be summarized as follows (dollars in millions):

Segment Operating Profit - 2010		\$	743
Sales volume	\$	60	
Price		49	
Manufacturing and delivery		(147)	
Operating expenses and other		(37)	
Effects of changing foreign currency rates		25	
Total net effect on Segment Operating Profit			(50)
Segment Operating Profit - 2011		\$	693

*Europe:* Segment operating profit in Europe in the first nine months of 2011 was \$284 million compared with \$274 million in the first nine months of 2010, an increase of \$10 million, or 4%. Higher sales volume, improved pricing and the favorable effects of a stronger Euro in relation to the U.S. dollar contributed to the increased operating profit. Operating profit also increased due to higher production levels, which led to lower manufacturing costs on a per-ton basis. Partially offsetting these increases to operating profit was additional cost inflation, primarily driven by higher energy prices. In response to the rise in energy prices, the Company initiated an energy surcharge in Europe in the third quarter.

*North America:* Segment operating profit in North America in the first nine months of 2011 was \$188 million compared with \$222 million in the first nine months of 2010, a decrease of \$34 million, or 15%. The lower operating profit in this region was due to higher manufacturing and delivery costs, driven by cost inflation and production and supply chain issues, partially offset by footprint realignment savings. This segment also incurred expenses related to building its sales and marketing capabilities and to the phased implementation of a global ERP system.

The higher manufacturing and delivery costs in this region in 2011 were primarily due to production and supply chain issues experienced during the second quarter. The Company entered the seasonally strong second quarter with overall tight inventory levels in this region, and production issues during the second quarter led to inventory shortages at certain locations. During the second quarter, out-of-pattern production was required to meet customer expectations resulting in production inefficiencies, higher freight costs and product loss. The Company has restarted two previously idled furnaces in this region to reduce the out-of-pattern production and help meet customer demand. This region ran at high operating rates in the third quarter and stabilized its inventory levels.

*South America:* Segment operating profit in South America in the first nine months of 2011 was \$165 million compared with \$142 million in the first nine months of 2010, an increase of \$23 million, or 16%. Higher sales and production volumes, primarily due to the acquisitions in Argentina and Brazil in 2010, were the main reasons for the increased operating profit. In the first half of 2011, the region incurred increased transportation costs due to the region shipping glass containers into Brazil from other countries in the region to support the rapid growth in that country. The region incurred additional costs to realign machinery to increase capacity in Brazil during the second quarter of 2011. The region also experienced higher cost inflation in 2011, which was partially offset by higher selling prices.

*Asia Pacific:* Segment operating profit in Asia Pacific in the first nine months of 2011 was \$56 million compared with \$105 million in the first nine months of 2010, a decrease of \$49 million, or 47%. Lower sales volume as a result of two macroeconomic conditions in Australia, which were the strong currency and high interest rates,



were the primary reasons for the lower operating profit. In response to the lower wine and beer bottle shipments in Australia, the Company temporarily curtailed production in Asia Pacific, resulting in unabsorbed manufacturing costs. The Company also permanently closed one furnace in Australia during the third quarter, and plans to close one additional furnace in early 2012. Further restructuring activities in Australia will depend on 2012 supply and demand trends and the outcome of contract negotiations. Additionally, the segment had lower sales volumes and incurred \$9 million of additional costs related to the severe flooding in Australia in the first quarter of 2011.

#### *Interest Expense*

Interest expense for the first nine months of 2011 was \$246 million compared with \$177 million for the first nine months of 2010. The 2011 amount includes \$25 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees related to the cancellation of the Company's previous bank credit agreement and the redemption of the senior notes due 2014. Exclusive of these items, interest expense increased \$44 million. The increase is principally due to additional debt issued in 2010 to fund acquisitions.

#### *Provision for Income Taxes*

The Company's effective tax rate from continuing operations for the nine months ended September 30, 2011 was 23.4% compared with 26.9% for the first nine months of 2010. The 2011 effective tax rate included \$4 million of net discrete tax benefits related to tax planning strategies in Europe and South America.

Excluding the amounts related to items that management considers not representative of ongoing operations, the Company expects that the full year effective tax rate for 2011 will be 21.5% compared with 26.2% for 2010. The 2011 rate may change depending on the mix of earnings by country. The decrease in the expected effective tax rate for the full year 2011 is partly due to tax planning strategies implemented by the Company, and is also impacted by lower expected earnings in high tax jurisdictions.

#### *Net Earnings Attributable to Noncontrolling Interests*

Net earnings attributable to noncontrolling interests in the first nine months of 2011 were \$15 million compared with \$35 million in the first nine months of 2010. The amount for 2010 includes \$7 million classified as discontinued operations related to the Company's Venezuelan operations. The remaining decrease in 2011 was primarily a result of lower earnings in the Company's less than wholly-owned subsidiaries in its South America and Asia Pacific segments in 2011, and the Company buying-out the noncontrolling interest in its southern Brazil operations in the second quarter of 2011.

#### *Earnings from Continuing Operations Attributable to the Company*

For the first nine months of 2011 the Company recorded earnings from continuing operations attributable to the Company of \$263 million, or \$1.58 per share (diluted), compared to \$341 million, or \$2.04 per share (diluted), in the first nine months of 2010. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased earnings from continuing

operations attributable to the Company in 2011 by

\$52 million, or \$0.32 per share, and decreased net earnings attributable to the Company in 2010 by \$17 million, or \$0.11 per share.

### **Items Excluded from Reportable Segment Totals**

#### Retained Corporate Costs and Other

Retained corporate costs and other for the third quarter of 2011 was \$24 million compared with \$21 million for the third quarter of 2010, and \$51 million for the first nine months of 2011 compared to \$52 million for the first nine months of 2010. Retained corporate costs and other for the nine months ended September 30, 2011 reflect higher marketing and pension expense compared to the prior year, offset by a reduction of management incentive compensation expense of approximately \$12 million, approximately half of which was related to the impact of lower financial results in the current year and the other half related to the impact of changes in estimates on amounts expensed in previous periods. The first nine months of 2011 also benefited from higher equity earnings from the Company's ownership in a soda ash joint venture and higher earnings from the Company's global equipment sales business.

#### Restructuring

During the three months and nine months ended September 30, 2011, the Company recorded restructuring and asset impairment charges of \$23 million and \$35 million, respectively, related to the completed and planned closures of furnaces and machine lines in the Company's Asia Pacific segment. These restructuring charges include actions initiated in Australia in response to the lower wine and beer bottle shipments in 2011. These charges also include a plant closing and the related relocation of business to other facilities in the Company's Asia Pacific segment. This plant is located in the central business district of a large city, where property values have increased considerably. The Company is currently in the process of selling the related property.

During the three months and nine months ended September 30, 2011, the Company recorded restructuring charges totaling \$6 million for headcount reductions, primarily in the Company's South America segment.

During the nine months ended September 30, 2010, the Company recorded charges totaling \$8 million for restructuring and asset impairment related to the Company's strategic review of its global manufacturing footprint.

See Note 9 to the Condensed Consolidated Financial Statements for additional information.

#### Acquisition-related fair value inventory adjustments and restructuring, transaction and financing costs



Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

During the three and nine months ended September 30, 2010, the Company recorded charges of \$5 million for acquisition-related fair value inventory adjustments. This charge was due to the accounting rules requiring inventory purchased in a business combination to be marked up to fair value, and then recorded as an increase to cost of goods sold as the inventory is sold. Also during the three and nine months ended September 30, 2010, the Company recorded charges of \$6 million for acquisition-related restructuring, transaction and financing costs.

Discontinued Operations

On October 26, 2010, the Venezuelan government, through Presidential Decree No. 7.751, expropriated the assets of Owens-Illinois de Venezuela and Fabrica de Vidrios Los Andes, C.A., two of the Company's subsidiaries in that country, which in effect constituted a taking of the going concerns of those companies. Shortly after the issuance of the decree, the Venezuelan government installed temporary administrative boards to control the expropriated assets.

Since the issuance of the decree, the Company has cooperated with the Venezuelan government, as it is compelled to do under Venezuelan law, to provide for an orderly transition while ensuring the safety and well-being of the employees and the integrity of the production facilities. The Company has been engaged in negotiations with the Venezuelan government in relation to certain aspects of the expropriation, including the compensation payable by the government as a result of its expropriation. On September 26, 2011, the Company, having been unable to reach an agreement with the Venezuelan government regarding fair compensation, commenced an arbitration against Venezuela through the World Bank's International Centre for Settlement of Investment Disputes. The Company is unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive.

The Company considered the disposal of these assets to be complete as of December 31, 2010. As a result, and in accordance with generally accepted accounting principles, the Company has presented the results of operations for its Venezuelan subsidiaries in the Consolidated Results of Operations for the three and nine months ended September 30, 2010 as discontinued operations. At September 30, 2010, the assets and liabilities of the Venezuelan operations are presented in the Consolidated Balance Sheets as the assets and liabilities of discontinued operations.

The following summarizes the revenues and expenses of the Venezuelan operations reported as discontinued operations in the Consolidated Results of Operations for the periods indicated:

	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2010</b>
Net sales	\$ 52	\$ 129
Manufacturing, shipping, and delivery	(34)	(86)
Gross profit	18	43
Selling and administrative expense	(2)	(5)
Other expense	4	3
Earnings from discontinued operations before income taxes	20	41
Provision for income taxes	(4)	(10)
Net earnings from discontinued operations	16	31
Net earnings from discontinued operations attributable to noncontrolling interests	(4)	(7)
Net earnings from discontinued operations attributable to the Company	\$ 12	\$ 24

The net assets of the Company's Venezuelan operations were written-off as of December 31, 2010 as a result of the deconsolidation of the subsidiaries due to the loss of control. The type or amount of compensation the Company may receive from the Venezuelan government is uncertain and thus, will be recorded as a gain from discontinued operations when received. The cumulative currency translation losses relate to the devaluation of the Venezuelan bolivar in prior years and were written-off because the expropriation was a substantially complete liquidation of the Company's operations in Venezuela.

The condensed consolidated balance sheet at September 30, 2010 included the following assets and liabilities related to the discontinued operations of the Company's Venezuelan subsidiaries:

<b>Assets:</b>		
Cash	\$	43
Accounts receivable		21
Inventories		26
Prepaid expenses		3
<b>Total current assets</b>		<b>93</b>
<b>Other long-term assets</b>		
Net property, plant, and equipment		30
<b>Total assets</b>	<b>\$</b>	<b>128</b>
<b>Liabilities:</b>		
Accounts payable and other current liabilities	\$	25
Other long-term liabilities		15
<b>Total liabilities</b>	<b>\$</b>	<b>40</b>

### Capital Resources and Liquidity

As of September 30, 2011, the Company had cash and total debt of \$256 million and \$4.1 billion, respectively, compared to \$657 million and \$4.3 billion, respectively, as of September 30, 2010. A significant portion of the cash was held in mature, liquid markets where the Company has operations, such as the U.S., Europe and Australia, and is readily available to fund global liquidity requirements. The amount of cash held in non-U.S. locations as of September 30, 2011 was \$246 million.

#### *Current and Long-Term Debt*

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). The proceeds from the Agreement were used to repay all outstanding amounts under the previous credit agreement and the U.S. dollar-denominated 6.75% senior notes due 2014. On June 7, 2011, the Company also redeemed the euro-denominated 6.75% senior notes due 2014. The Company recorded \$25 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.

At September 30, 2011, the Agreement included a \$900 million revolving credit facility, a 170 million Australian dollar term loan, a \$600 million term loan, a 116 million Canadian dollar term loan, and a 141 million term loan, each of which has a final maturity date of May 19, 2016. At September 30, 2011, the Company's subsidiary borrowers had unused credit of \$767 million available under the Agreement.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted junior payments, make certain asset sales within guidelines and limits, make capital



expenditures beyond a certain threshold, engage in material transactions with shareholders and affiliates, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain outstanding debt obligations.

The Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company to not exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated Adjusted EBITDA, as defined in the Agreement. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default or event of default under the Agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement. These rates include a margin linked to the Leverage Ratio. The margins range from 1.25% to 2.00% for Eurocurrency Rate loans and from 0.25% to 1.00% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.25% to 0.50% per annum linked to the Leverage Ratio. The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2011 was 2.93%. As of September 30, 2011, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

Borrowings under the Agreement are secured by substantially all of the assets, excluding real estate, of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

The Company assesses its capital raising and refinancing needs on an ongoing basis and may enter into additional credit facilities and seek to issue equity and/or debt securities in the domestic and international capital markets if market conditions are favorable. Also, depending on market conditions, the Company may elect to repurchase portions of its debt securities in the open market.

The Company has a 280 million European accounts receivable securitization program, which extends through September 2016, subject to annual renewal of backup credit lines. Information related to the Company's accounts receivable securitization program is as follows:

	September 30, 2011	December 31, 2010	September 30, 2010
Balance (included in short-term loans)	\$ 233	\$ 247	\$ 243
Weighted average interest rate	1.87%	2.40%	2.49%

*Cash Flows*

Free cash flow was \$77 million for the first nine months of 2011 compared to \$(19) million for the first nine months of 2010. The Company defines free cash flow as cash provided by continuing operating activities less additions to property, plant, and equipment from continuing operations. Free cash flow does not conform to U.S. GAAP and should not be construed as an alternative to the cash flow measures reported in accordance with U.S. GAAP. The Company uses free cash flow for internal reporting, forecasting and budgeting and believes this information allows the board of directors, management, investors and analysts to better understand the Company's financial performance. Free cash flow for the nine months ended September 30, 2011 and 2010 is calculated as follows:

	2011	2010
Cash provided by continuing operating activities	\$ 281	\$ 370
Additions to property, plant, and equipment - continuing	(204)	(389)
Free cash flow	\$ 77	\$ (19)

*Operating activities:* Cash provided by continuing operating activities was \$281 million for the nine months ended September 30, 2011, compared with \$370 million for the nine months ended September 30, 2010. The decrease in cash flows from continuing operating activities was primarily due to lower earnings in the current year. The decrease in cash flows from continuing operating activities was also due to an increase in interest payments of \$54 million as a result of higher debt balances, an increase in income taxes paid of \$21 million and a decrease in dividends received from equity investments of \$13 million, partially offset by decreases in cash paid for restructuring activities of \$22 million and asbestos-related payments of \$12 million. The Company also contributed \$35 million more to its defined benefit pension plans in 2011 than it did in 2010, primarily due to the 2010 contributions being lower as a result of accelerated contributions made in 2009.

For the full-year 2011, the Company expects to contribute approximately \$60 million to its non-U.S. defined benefit pension plans. The Company is not required to make contributions in 2011 to its U.S. defined benefit pension plans. Based on current discount rates and asset returns, the Company expects that it will be required to make contributions to its U.S. plans in 2012, and that the contributions for all plans in 2012 will be approximately \$30 million to \$40 million higher than the 2011 contributions. The actual contribution requirements for 2012, which will be determined

as part of the annual actuarial valuations performed at year-end, may differ from this estimate based on future changes in discount rates and asset returns.

*Investing activities:* Cash utilized in investing activities was \$351 million for the nine months ended September 30, 2011 compared to \$1,145 million for the nine months ended September 30, 2010. Capital spending for property, plant and equipment from continuing operations during the nine months ended September 30, 2011 was \$204 million compared with \$389 million in the prior year. The decrease in capital spending was due to restructuring activities in North America and new furnace expansions in South America and Asia Pacific in 2010. Cash utilized in investing activities in 2011 included \$148 million for acquisitions, primarily related to the acquisition of the noncontrolling interest of the Company's southern Brazil operation. Investing activities in 2010 included \$754 million of cash paid to acquire glass manufacturing plants in Argentina and Brazil and to invest in a joint venture with operations in Malaysia, Vietnam and China.

*Financing activities:* Cash utilized in financing activities was \$316 million for the nine months ended September 30, 2011 compared to cash provided by financing activities of \$628 million for the nine months ended September 30, 2010. Financing activities in 2011 included additions to long-term debt of approximately \$1.6 billion, primarily related to borrowings under the Company's new bank credit agreement, and repayments of long-term debt of approximately \$1.8 billion, primarily related to the cancellation of the old bank credit agreement and the redemption of the senior notes due 2014. Financing activities in 2010 included the issuance of the exchangeable senior notes due 2015 and the 500 million senior notes due 2020. During 2010, the Company also repaid the senior notes due 2013 and repurchased shares of its common stock for \$199 million.

The Company anticipates that cash flows from its operations and from utilization of credit available under the Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations on a short-term (twelve-months) and long-term basis. Based on the Company's expectations regarding future payments for lawsuits and claims and also based on the Company's expected operating cash flow, the Company believes that the payment of any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

### **Critical Accounting Estimates**

The Company's analysis and discussion of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances at the time the financial statements are issued. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.



The impact of, and any associated risks related to, estimates and assumptions are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Condensed Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

*Goodwill* Goodwill at September 30, 2011 totaled \$2,762 million. The Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment. The Company conducts its evaluation as of October 1 of each year. Goodwill impairment testing is performed using the business enterprise value ( BEV ) of each reporting unit which is calculated as of a measurement date by determining the present value of debt-free, after-tax projected future cash flows, discounted at the weighted average cost of capital of a hypothetical third party buyer. This BEV is then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment of goodwill may exist.

The testing performed as of October 1, 2010, indicated a significant excess of BEV over book value for each unit. Based on operating results for the nine months ended September 30, 2011 and current forecasts for the remainder of the year, the Company believes that it is more likely than not that the BEV for every unit is greater than the book value, and that significant excesses remain for its Europe, North America and South America segments. The Company's Asia Pacific segment had BEV in excess of book value of 24% as of October 1, 2010. Given the current short-term outlook for the business, the Company believes the excess in Asia Pacific has decreased during the first nine months of 2011.

The Company is in the process of performing its annual impairment testing as of October 1, 2011. A number of projections and variables required for impairment testing are determined as part of the Company's annual budgeting and planning cycle, which has not yet been completed. Specifically, the Company is continuing to review its business plans for all segments, and is also assessing the impact of the previously discussed restructuring initiatives in the Asia Pacific segment. The finalization of the annual budgeting and planning cycle could result in a goodwill impairment. As of September 30, 2011, the Asia Pacific segment had goodwill of \$641 million.

There have been no other material changes in critical accounting estimates at September 30, 2011 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

## Forward Looking Statements

This document contains forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Forward looking statements reflect the Company's current expectations and projections about future events at the time, and thus involve uncertainty and risk. The words believe, expect, anticipate, will, could, would, should, may, plan, estimate, predict, potential, continue, and the negatives of these words and other similar expressions generally identify forward looking statements. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) foreign currency fluctuations relative to the U.S. dollar, specifically the Euro, Brazilian real and Australian dollar, (2) changes in capital availability or cost, including interest rate fluctuations, (3) the general political, economic and competitive conditions in markets and countries where the Company has operations, including uncertainties related to the economic conditions in Europe and Australia, the expropriation of the Company's operations in Venezuela, disruptions in capital markets, disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (4) consumer preferences for alternative forms of packaging, (5) fluctuations in raw material and labor costs, (6) availability of raw materials, (7) costs and availability of energy, including natural gas prices, (8) transportation costs, (9) the ability of the Company to raise selling prices commensurate with energy and other cost increases, (10) consolidation among competitors and customers, (11) the ability of the Company to acquire businesses and expand plants, integrate operations of acquired businesses and achieve expected synergies, (12) unanticipated expenditures with respect to environmental, safety and health laws, (13) the performance by customers of their obligations under purchase agreements, (14) the Company's ability to further develop its sales, marketing and product development capabilities, (15) the Company's ability to resolve its production and supply chain issues in North America, (16) the Company's success in implementing necessary restructuring plans and the impact of such restructuring plans on the carrying value of recorded goodwill, and (17) the timing and occurrence of events which are beyond the control of the Company, including any expropriation of the Company's operations, floods and other natural disasters, and events related to asbestos-related claims. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward looking statements contained in this document.

## Item 3. Quantitative and Qualitative Disclosure About Market Risk.

There have been no material changes in market risk at September 30, 2011 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 4. Controls and Procedures.**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those maintained with respect to its consolidated subsidiaries.

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2011.

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2010. As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company's internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company is undertaking the phased implementation of a global Enterprise Resource Planning software system and believes it is maintaining and monitoring appropriate internal controls during the implementation period. The Company believes that its internal control environment will be enhanced as a result of this implementation. The phased implementation was planned to be completed in the North America segment in 2011. During the second quarter of 2011, the Company made the decision to delay the implementation in North America until early 2012 to allow the Company to focus on resolving the operational issues in this segment.

PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

For further information on legal proceedings, see Note 6 to the Condensed Consolidated Financial Statements, Contingencies, that is included in Part I of this Report and is incorporated herein by reference.

**Item 1A. Risk Factors.**

There have been no material changes in risk factors at September 30, 2011 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 6. Exhibits.**

Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
Exhibit 32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
Exhibit 101	Financial statements from the quarterly report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended September 30, 2011, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.

---

\* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

OWENS-ILLINOIS, INC.

Date            October 27, 2011

By                /s/ Edward C. White  
Edward C. White  
Senior Vice President and Chief Financial  
Officer (Principal Financial Officer;  
Principal Accounting Officer)

INDEX TO EXHIBITS

**Exhibits**

12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
101	Financial statements from the quarterly report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended September 30, 2011, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.

---

\* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.