

OWENS ILLINOIS INC /DE/
Form 10-Q
May 13, 2016

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

March 31, 2016

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	22-2781933
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Michael Owens Way, Perrysburg, Ohio	43551
(Address of principal executive offices)	(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 the 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	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

The number of shares of common stock, par value \$.01, of Owens-Illinois, Inc. outstanding as of March 31, 2016 was 161,918,797.

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/A for the year ended December 31, 2015.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended March 31,	
	2016	2015
Net sales	\$ 1,588	\$ 1,421
Cost of goods sold	(1,269)	(1,153)
Gross profit	319	268
Selling and administrative expense	(129)	(124)
Research, development and engineering expense	(15)	(15)
Interest expense, net	(66)	(47)
Equity earnings	14	15
Other income (expense), net	(22)	3
Earnings from continuing operations before income taxes	101	100
Provision for income taxes	(27)	(25)
Earnings from continuing operations	74	75
Loss from discontinued operations	(1)	
Net earnings	73	75
Net (earnings) attributable to noncontrolling interests	(6)	(4)
Net earnings attributable to the Company	\$ 67	\$ 71
Amounts attributable to the Company:		
Earnings from continuing operations	\$ 68	\$ 71
Loss from discontinued operations	(1)	
Net earnings	\$ 67	\$ 71
Basic earnings per share:		
Earnings from continuing operations	\$ 0.42	\$ 0.44
Loss from discontinued operations	(0.01)	
Net earnings	\$ 0.41	\$ 0.44
Weighted averages shares outstanding (thousands)	161,204	162,146
Diluted earnings per share:		
Earnings from continuing operations	\$ 0.42	\$ 0.44
Loss from discontinued operations	(0.01)	
Net earnings	\$ 0.41	\$ 0.44
Weighted average diluted shares outstanding (thousands)	161,793	163,287

See accompanying notes.

2

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended March 31,	
	2016	2015
Net earnings	\$ 73	\$ 75
Other comprehensive income (loss):		
Foreign currency translation adjustments	94	(257)
Pension and other postretirement benefit adjustments, net of tax	(42)	37
Change in fair value of derivative instruments, net of tax	(2)	
Other comprehensive income (loss)	50	(220)
Total comprehensive income (loss)	123	(145)
Comprehensive income attributable to noncontrolling interests	(9)	
Comprehensive income (loss) attributable to the Company	\$ 114	\$ (145)

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	March 31, 2016	December 31, 2015	March 31, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 239	\$ 399	\$ 257
Trade receivables, net of allowance of \$31 million, \$29 million, and \$31 million at March 31, 2016, December 31, 2015 and March 31, 2015	771	562	667
Inventories	1,107	1,007	1,007
Prepaid expenses and other current assets	359	366	268
Total current assets	2,476	2,334	2,199
Property, plant and equipment, net	2,996	2,961	2,337
Goodwill	2,532	2,489	1,752
Intangibles	587	597	
Other assets	1,097	1,040	1,024
Total assets	\$ 9,688	\$ 9,421	\$ 7,312
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 239	\$ 228	\$ 635
Current portion of asbestos-related liabilities	130	130	143
Accounts payable	1,050	1,212	919
Other liabilities	467	552	417
Total current liabilities	1,886	2,122	2,114
Long-term debt	5,662	5,345	2,972
Asbestos-related liabilities	676	687	782
Other long-term liabilities	1,048	988	920
Share owners' equity	416	279	524
Total liabilities and share owners' equity	\$ 9,688	\$ 9,421	\$ 7,312

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Three months ended	
	March 31, 2016	2015
Cash flows from operating activities:		
Net earnings	\$ 73	\$ 75
Loss from discontinued operations	1	
Non-cash charges		
Depreciation and amortization	125	95
Pension expense	6	7
Restructuring, asset impairment and related charges	19	
Cash payments		
Pension contributions	(4)	(4)
Asbestos-related payments	(11)	(15)
Cash paid for restructuring activities	(13)	(10)
Change in components of working capital	(488)	(429)
Other, net (a)	(9)	3
Cash utilized in continuing operating activities	(301)	(278)
Cash utilized in discontinued operating activities	(1)	
Total cash utilized in operating activities	(302)	(278)
Cash flows from investing activities:		
Additions to property, plant and equipment	(117)	(106)
Acquisitions, net of cash acquired	(22)	(52)
Other, net	6	1
Cash utilized in investing activities	(133)	(157)
Cash flows from financing activities:		
Changes in borrowings, net	274	308
Issuance of common stock	5	
Treasury shares purchased		(100)
Payment of finance fees	(3)	(1)
Cash provided by financing activities	276	207
Effect of exchange rate fluctuations on cash	(1)	(27)
Decrease in cash	(160)	(255)
Cash at beginning of period	399	512
Cash at end of period	\$ 239	\$ 257

(a) Other, net includes other non-cash charges plus other changes in non-current assets and liabilities.

See accompanying notes.

OWENS-ILLINOIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

1. Segment Information

The Company has four reportable segments based on its geographic locations: Europe, North America, Latin America and Asia Pacific. In connection with the Company's acquisition (the "Vitro Acquisition") of the food and beverage glass container business of Vitro S.A.B. de C.V. and its subsidiaries as conducted in the United States, Mexico and Bolivia (the "Vitro Business") on September 1, 2015 (see Note 15), the Company has renamed the former South America segment to the Latin America segment. This change in segment name was made to reflect the addition of the Mexican and Bolivian operations from the Vitro Acquisition into the former South America segment. The acquired Vitro food and beverage glass container distribution business located in the United States is included in the North American operating segment. 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 certain 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 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.

Financial information for the three months ended March 31, 2016 and 2015 regarding the Company's reportable segments is as follows:

	2016	2015
Net sales:		
Europe	\$ 563	\$ 567
North America	532	470
Latin America	312	205
Asia Pacific	159	163
Reportable segment totals	1,566	1,405

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

Other	22	16
Net sales	\$ 1,588	\$ 1,421

	2016	2015
Segment operating profit:		
Europe	\$ 55	\$ 49
North America	76	71
Latin America	63	30
Asia Pacific	17	18
Reportable segment totals	211	168
Items excluded from segment operating profit:		
Retained corporate costs and other	(32)	(21)
Restructuring, asset impairment and other	(12)	
Interest expense, net	(66)	(47)
Earnings from continuing operations before income taxes	\$ 101	\$ 100

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

	March 31, 2016	December 31, 2015	March 31, 2015
Total assets:			
Europe	\$ 3,047	\$ 2,902	\$ 2,926
North America	2,550	2,500	2,033
Latin America	2,855	2,807	1,097
Asia Pacific	933	917	942
Reportable segment totals	9,385	9,126	6,998
Other	303	295	314
Consolidated totals	\$ 9,688	\$ 9,421	\$ 7,312

2. Inventories

Major classes of inventory at March 31, 2016, December 31, 2015 and March 31, 2015 are as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Finished goods	\$ 954	\$ 858	\$ 858
Raw materials	116	113	109
Operating supplies	37	36	40
	\$ 1,107	\$ 1,007	\$ 1,007

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at March 31, 2016, December 31, 2015 and March 31, 2015 are as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Prepaid expenses	\$ 52	\$ 52	\$ 37
Value added taxes	192	195	44

Other	115	119	187
	\$ 359	\$ 366	\$ 268

In conjunction with the Vitro Acquisition, part of the total consideration paid by the Company relates to a value added tax receivable of approximately \$143 million. This amount is included in “Value added taxes” above and is expected to be refunded to the Company before the end of 2016.

4. Derivative Instruments

The Company has certain derivative assets and liabilities which consist of natural gas forwards and foreign exchange option and forward contracts. The Company uses an income approach to value these contracts. 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.

Commodity Forward Contracts Designated as Cash Flow Hedges

In several regions, the Company enters into commodity forward 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. In North America, the majority of its customer contracts contain provisions that

pass the price of natural gas to its customers. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. To limit the effects of fluctuations in cash flows resulting from these customer contracts, the Company enters into commodity forward contracts related to forecasted natural gas requirements. In Asia Pacific, the Company implemented a hedging program in the first quarter of 2016, which included the execution of commodity forward contracts for certain contracted natural gas requirements. At March 31, 2016 and 2015, the Company had entered into commodity forward contracts covering approximately 12,600,000 MM BTUs and 5,400,000 MM BTUs, respectively.

The Company accounts for the above forward contracts as cash flow hedges at March 31, 2016 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. An unrecognized loss of \$4 million and an unrecognized loss of less than \$1 million at March 31, 2016 and 2015, respectively, related to the commodity forward contracts was included in Accumulated OCI, and will be reclassified into earnings in the period when the commodity forward contracts expire. 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 months ended March 31, 2016 and 2015 was not material.

The effect of the commodity forward contracts on the results of operations for the three months ended March 31, 2016 and 2015 is as follows:

Amount of Gain (Loss) Recognized in OCI on Commodity Forward Contracts (Effective Portion)		Amount of Gain (Loss) Reclassified from	
		Accumulated OCI into Income (reported in cost of goods sold) (Effective Portion)	
2016	2015	2016	2015
\$ (4)	\$ —	\$ 2	\$ —

Foreign Exchange Derivative Contracts and not Designated as Hedging Instruments

The Company 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. The Company may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables, payables, and loans, 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 March 31, 2016 and 2015, the Company had outstanding foreign exchange and option agreements denominated in various currencies covering the equivalent of approximately \$660 million and \$532 million, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange derivative contracts on the results of operations for the three months ended March 31, 2016 and 2015 is as follows:

Location of Gain (Loss)	Amount of Gain (Loss) Recognized in Income on Foreign Exchange	
	Contracts	
Recognized in Income on Foreign Exchange Contracts	2016	2015
Other expense	\$ 5	\$ 11

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

8

other assets if the instrument has a positive fair value and maturity after one year, and (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year.

The following table shows the amount and classification (as noted above) of the Company's derivatives at March 31, 2016, December 31, 2015 and March 31, 2015:

	Fair Value Balance Sheet Location	March	December	March
		31, 2016	31, 2015	31, 2015
Asset derivatives:				
Derivatives not designated as hedging instruments:				
Forward exchange derivative contracts	a	\$ 15	\$ 14	\$ 21
Total asset derivatives		\$ 15	\$ 14	\$ 21
Liability derivatives:				
Derivatives designated as hedging instruments:				
Commodity futures contracts	c	\$ 4	\$ 3	\$ —
Derivatives not designated as hedging instruments:				
Forward exchange derivative contracts	c	2	2	2
Total liability derivatives		\$ 6	\$ 5	\$ 2

5. Restructuring Accruals

Selected information related to the restructuring accruals for the three months ended March 31, 2016 and 2015 is as follows:

	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2016	\$ 7	\$ 36	\$ 43
Charges	1	18	19
Write-down of assets to net realizable value		(7)	(7)
Net cash paid, principally severance and related benefits	(1)	(12)	(13)
Other, including foreign exchange translation	(1)	(1)	(2)
Balance at March 31, 2016	\$ 6	\$ 34	\$ 40

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2015	\$ 12	\$ 12	\$ 36	\$ 60
Net cash paid, principally severance and related benefits		(1)	(9)	(10)
Other, including foreign exchange translation	(1)	(1)	(2)	(4)
Balance at March 31, 2015	\$ 11	\$ 10	\$ 25	\$ 46

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.

Asia Pacific Restructuring

During the three months ended March 31, 2016, the Company recorded charges of \$1 million. These charges primarily represented other exit costs as part of the Company's Asia Pacific Restructuring program. The Company has recorded total cumulative charges of \$221 million under this program.

Other Restructuring Actions

During the three months ended March 31, 2016, the Company recorded charges of \$18 million. These charges primarily represented employee costs, write-down of assets, and other exit costs of \$14 million for a plant closure in the first quarter of 2016 in Latin America, \$3 million related to a previous plant closure in North America and \$1 million related to other restructuring actions.

6. Pension Benefit Plans

The components of the net periodic pension cost for the three months ended March 31, 2016 and 2015 are as follows:

	U.S.		Non-U.S.	
	2016	2015	2016	2015
Service cost	\$ 4	\$ 6	\$ 4	\$ 4
Interest cost	24	24	13	12
Expected asset return	(38)	(42)	(21)	(21)
Amortization:				
Actuarial loss	15	19	5	5
Net periodic pension cost	\$ 5	\$ 7	\$ 1	\$ —

In March 2016, the Company remeasured the liability related to its hourly plan in the U.S. to reflect certain changes in future benefits. The remeasurement resulted in an increase to its pension liability of approximately \$60 million and has been reflected in other comprehensive income.

7. 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.

8. Debt

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

	March 31, 2016	December 31, 2015	March 31, 2015
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$ 288	\$ —	\$ —
Term Loans:			
Term Loan A	1,534	1,546	
Term Loan A (€279 million at March 31, 2016)	309	301	
Term Loan B	558	563	
Previous Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans			264
Term Loans:			
Term Loan B (USD tranche)			389
Term Loan C (CAD tranche)			59
Term Loan D (EUR tranche)			91
Senior Notes:			
3.00%, Exchangeable, due 2015			18
7.375%, due 2016			595
6.75%, due 2020 (€500 million)	561	542	534
4.875%, due 2021 (€330 million)	370	357	352

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

5.00%, due 2022	494	494	493
5.875%, due 2023	680	680	
5.375%, due 2025	296	296	296
6.375%, due 2025	294	293	
Senior Debentures:			
7.80%, due 2018	250	250	249
Capital Leases	58	62	66
Other	32	29	24
Total long-term debt	5,724	5,413	3,430
Less amounts due within one year	62	68	458
Long-term debt	\$ 5,662	\$ 5,345	\$ 2,972

On April 22, 2015, certain of the Company's subsidiaries entered into a Senior Secured Credit Facility (the "Agreement"), which amended and restated the previous credit agreement (the "Previous Agreement"). The proceeds from the Agreement were used to repay all outstanding amounts under the Previous Agreement and the 7.375% senior notes due 2016.

In connection with the closing of the Vitro Acquisition on September 1, 2015 (see Note 15), the Company entered into Amendment No. 2 ("Amendment No. 2") to the Agreement, which provided for additional incremental availability under the incremental dollar cap in the Agreement of up to \$1,250 million. In addition, in connection with the closing of the Vitro Acquisition, on September 1, 2015, the Company entered into the First Incremental Amendment to the Agreement (the "Incremental Amendment") pursuant to which the Company incurred \$1,250 million of senior secured incremental term loan facilities, comprised of (i) a \$675 million term loan A facility (the "incremental term loan A facility") on substantially the same terms and conditions (including as to maturity) as the term loan A facility in the Agreement and (ii) a \$575 million term loan B facility (the "incremental term loan B facility") maturing seven years after the closing of the Vitro Acquisition using its incremental capacity under the Agreement.

On February 3, 2016, the Company entered into Amendment No. 4 ("Amendment No. 4") to the Agreement which provided for an increase in the maximum Total Leverage Ratio (which is calculated by dividing consolidated total debt, less cash and cash equivalents, by consolidated EBITDA, as defined in the Agreement) for purposes of the financial covenant in the Agreement to 5.0x for the fiscal quarters ending March 31, 2016, June 30, 2016 and September 30, 2016, 4.5x for the fiscal quarters ending December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, and stepping down to 4.0x for the fiscal quarter ending December 31, 2017 and each fiscal quarter thereafter.

At March 31, 2016, the Agreement, as amended through Amendment No. 4 (the "Amended Agreement"), includes a \$300 million revolving credit facility, a \$600 million multicurrency revolving credit facility, a \$1,575 million term loan A facility (\$1,534 million net of debt issuance costs), and a €279 million term loan A facility (\$309 million net of debt issuance costs), each of which has a final maturity date of April 22, 2020. The Amended Agreement also includes a \$575 million term loan B facility (\$558 million net of debt issuance costs) with a final maturity date of September 1, 2022. At March 31, 2016, the Company had unused credit of \$586 million available under the Amended Agreement. The weighted average interest rate on borrowings outstanding under the Amended Agreement at March 31, 2016 was 2.53%.

The Amended 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 payments, make certain asset sales within guidelines and limits, engage in certain affiliate transactions, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain subordinated debt obligations.

The Amended Agreement also contains one financial maintenance covenant, a Total Leverage Ratio, that requires the Company as of the last day of a fiscal quarter not to exceed the maximum levels set forth in Amendment No. 4 (as more particularly described above). The Total 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 Total Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and restrictions could result in an event of default under the Amended Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Amended Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Amended Agreement and the lenders cause all of the outstanding debt obligations under the Amended 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. As of March 31, 2016, the Company was in compliance with all covenants and restrictions in the Amended

Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Amended Agreement will not be adversely affected by the covenants and restrictions.

The interest rates on borrowings under the Amended Agreement are, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Amended Agreement, plus an applicable margin. The applicable margin for the term loan A facility and the revolving credit facility is linked to the Company's Total Leverage Ratio and ranges from 1.25% to 1.75% for Eurocurrency Rate loans and from 0.25% to 0.75% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Total

Leverage Ratio. The applicable margin for the term loan B facility is 2.75% for Eurocurrency Rate loans and 1.75% for Base Rate loans. The incremental term loan B facility is subject to a LIBOR floor of 0.75%.

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

Also, in connection with the Vitro Acquisition, during August 2015, the Company issued senior notes with a face value of \$700 million that bear interest at 5.875% and are due August 15, 2023 (the "Senior Notes due 2023") and senior notes with a face value of \$300 million that bear interest at 6.375% and are due August 15, 2025 (together with the Senior Notes due 2023, the "2015 Senior Notes"). The 2015 Senior Notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds from the 2015 Senior Notes, after deducting the debt discount and debt issuance costs, totaled approximately \$972 million and were used to finance, in part, the Vitro Acquisition.

The Company has a €185 million European accounts receivable securitization program, which extends through March 2019, subject to periodic renewal of backup credit lines.

Information related to the Company's accounts receivable securitization program is as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Balance (included in short-term loans)	\$ 157	\$ 158	\$ 171
Weighted average interest rate	1.03%	1.21%	1.36%

The carrying amounts reported for the accounts receivable securitization program, 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 based on published market quotations, and are classified as Level 1 in the fair value hierarchy.

Fair values at March 31, 2016 of the Company's significant fixed rate debt obligations are as follows:

	Principal Amount	Indicated Market Price	Fair Value
Senior Notes:			
6.75%, due 2020 (€500 million)	\$ 566	\$ 117.13	\$ 663
4.875%, due 2021 (€330 million)	374	109.69	410
5.00%, due 2022	500	101.25	506
5.875%, due 2023	700	104.38	731
5.375%, due 2025	300	100.13	300
6.375%, due 2025	300	105.13	315
Senior Debentures:			
7.80%, due 2018	250	110.45	276

9. Contingencies

Asbestos

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos. 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 insulation material containing asbestos. The Company sold its insulation business unit at the end of April 1958. The typical asbestos personal injury lawsuit alleges various theories of liability, including negligence, gross negligence and strict liability and seeks compensatory and, in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of March 31, 2016, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 2,000 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2015, approximately 82% 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 11% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, \$15 million or less, and 7% of plaintiffs specifically plead damages greater than \$15 million but less than or equal to \$100 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 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 type and severity of the plaintiff's asbestos disease, the plaintiff's medical history and exposure to other disease-causing agents, the product identification evidence against the Company and other co-defendants, the defenses available to the Company and other co-defendants, the specific jurisdiction in which the claim is made, and the plaintiff's firm representing the claimant.

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.

The Company has also been 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 March 31, 2016, has disposed of the asbestos claims of approximately 396,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$9,200. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. Asbestos-related cash payments for 2015, 2014 and 2013 were \$138 million, \$148 million, and \$158 million, respectively. The Company's cash payments per claim disposed (inclusive of legal costs) were approximately \$95,000, \$81,000 and \$93,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

As discussed above, 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 claims that would

otherwise have been received by the Company in the tort system. In addition, certain court orders and legislative acts have reduced or eliminated the number of claims that the Company otherwise would have received by the Company in the tort system. These developments generally have had the effect of increasing the Company's per-claim average indemnity payment over time.

Beginning with the initial liability of \$975 million established in 1993, the Company has accrued a total of approximately \$4.9 billion through 2015, before insurance recoveries, for its asbestos-related liability. The Company's estimates of its liability have 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 inherent uncertainty of future disease incidence and claiming patterns against the Company, the significant expansion of the

defendants that are now sued in this litigation, and the continuing changes in the extent to which these defendants participate in the resolution of cases in which the Company is also a defendant.

The Company continues to monitor trends that may affect its ultimate liability and analyze the developments and variables likely to affect the resolution of pending and future asbestos claims against the Company. The material components of the Company's accrued liability are determined by the Company in connection with its annual comprehensive legal 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 asbestos claims not yet asserted against the Company; and (iii) the legal defense costs estimated to be incurred in connection with the claims already asserted and those claims the Company believes will be asserted.

As noted above, the Company conducts a comprehensive legal 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. As part of its annual comprehensive legal review, the Company provides historical claims filing data to a third party with expertise in determining the impact of disease incidence and mortality on future filing trends to develop information to assist the Company in estimating the total number of future claims to be filed. The Company uses this estimate of total future claims, along with an estimation of disposition costs and related legal costs as inputs to develop its best estimate of probable liability. If the results of the annual comprehensive legal review indicate that the existing amount of the accrued liability is lower (higher) than its reasonably estimable asbestos-related costs, then the Company will record an appropriate charge (credit) to the Company's results of operations to increase (decrease) the accrued liability.

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

- a) settlements will continue to be limited almost exclusively to claimants who were exposed to the Company's asbestos containing insulation prior to its exit from that business in 1958;
- b) claims will continue to be resolved primarily under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the incidence of serious asbestos related disease cases and claiming patterns against the Company for such cases do not change materially;
- d) the Company is substantially able to defend itself successfully at trial and on appeal;
- e) the number and timing of additional co defendant bankruptcies do not change significantly the assets available to participate in the resolution of cases in which the Company is a defendant; and
- f) co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

The Company revised its method for estimating its asbestos-related liabilities in connection with finalizing and reporting its restated results of operations for the year ended December 31, 2015 and 2014 and concluded that an accrual in the amount of \$817 million and \$939 million as of December 31, 2015 and 2014, respectively was required. These amounts have not been discounted for the time value of money. The application of the revised method also resulted in charges of \$16 million, \$46 million and \$12 million for the years ending December 31, 2015, 2014 and 2013, respectively.

The Company believes it is reasonably possible that it will incur a loss for its asbestos-related liabilities in excess of the amount currently recognized, which is \$817 million as of December 31, 2015. The Company estimates that reasonably possible losses could be as high as \$950 million. This estimate of additional reasonably possible loss reflects a legal judgment about the number and cost of potential future claims and legal costs. The Company believes this estimate is consistent with the level of variability it has experienced when comparing actual results to recent near-term projections. However, it is also possible that the ultimate asbestos-related liability could be above this estimate.

The Company expects a significant majority of the total number of claims to be received in the next ten years. This timeframe appropriately reflects the mortality of current and expected claimants in light of the Company's sale of its insulation business unit in 1958.

As noted above, the Company's asbestos-related liability is based on a projection of new claims that will eventually be filed against the Company and the estimated average disposition cost of these claims and related legal costs. Changes in the significant assumptions noted above have the potential to impact these key factors, which are critical to the estimation of the Company's asbestos-related liability significantly.

Other Matters

The Company conducted an internal investigation into conduct in certain of its overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (the "FCPA"), the FCPA's books and records and internal controls provisions, the Company's own internal policies, and various local laws. In October 2012, the Company voluntarily disclosed these matters to the U.S. Department of Justice (the "DOJ") and the Securities and Exchange Commission (the "SEC").

On July 18, 2013, the Company received a letter from the DOJ indicating that it presently did not intend to take any enforcement action and is closing its inquiry into the matter.

As disclosed in previous periods, the Company is presently unable to predict the duration, scope or result of an investigation by the SEC, if any, or whether the SEC will commence any legal action. The SEC has a broad range of civil sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, penalties, and modifications to business practices. The Company could also be subject to investigation and sanctions outside the United States. While the Company is currently unable to quantify the impact of any potential sanctions or remedial measures, it does not expect such actions will have a material adverse effect on the Company's liquidity, results of operations or financial condition.

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.

10. Share Owners' Equity

The activity in share owners' equity for the three months ended March 31, 2016 and 2015 is as follows:

	Share Owners' Equity of the Company				Accumulated	Non-	Total
	Common Stock	Excess of Par Value	Treasury Stock	Retained Loss	Other Comprehensive Loss	controlling Interests	
Balance on January 1, 2016	\$ 2	\$ 3,064	\$ (573)	\$ (305)	\$ (2,017)	\$ 108	\$ 279

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

Issuance of common stock (503,410 shares)								
								5
Reissuance of common stock (134,602 shares)								4
								4
Stock compensation								5
								5
Net earnings								73
								67
Other comprehensive income								50
								46
Balance on March 31, 2016	\$ 2	\$ 3,074	\$ (569)	\$ (238)	\$ (1,971)	\$ 118	\$ 416	
								4

Share Owners' Equity of the Company

	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Loss	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Share Owners' Equity
Balance on January 1, 2015	\$ 2	\$ 3,066	\$ (480)	\$ (440)	\$ (1,494)	\$ 117	\$ 771
Issuance of common stock (32,179 shares)							—
Reissuance of common stock (57,459 shares)			2				2
Treasury shares purchased (3,509,496 shares)			(100)				(100)
Stock compensation		8					8
Net earnings				71		4	75
Other comprehensive loss					(216)	(4)	(220)
Acquisitions of noncontrolling interests		(18)				6	(12)
Balance on March 31, 2015	\$ 2	\$ 3,056	\$ (578)	\$ (369)	\$ (1,710)	\$ 123	\$ 524

On February 4, 2015, the Company entered into an accelerated share repurchase agreement (“ASR”) with J.P. Morgan Securities LLC (the “ASR Counterparty”) to repurchase \$100 million of its common stock. The Company advanced \$100 million to the ASR Counterparty on February 5, 2015, and received 3,509,496 shares, which represented eighty five percent of the total shares as calculated using the closing price on February 4, 2015. The remaining share settlement was received from the ASR Counterparty in the amount of 599,760 shares and was completed on May 26, 2015 based on the daily volume-weighted average price of the Company’s common stock during the term of the ASR. Under the terms of the ASR program, the ASR Counterparty was permitted, in accordance with the applicable requirements of the federal securities laws, to separately trade in the Company’s shares.

The Company has 250,000,000 shares of common stock authorized with a par value of \$.01 per share. Shares outstanding are as follows:

	Shares Outstanding (in thousands)		
	March 31, 2016	December 31, 2015	March 31, 2015
Shares of common stock issued (including treasury shares)	185,303	184,481	184,421
Treasury shares	23,384	23,519	23,170

11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended March 31, 2016 and 2015 is as follows:

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on January 1, 2016	(568)	(17)	(1,432)	\$ (2,017)
Change before reclassifications	90			90
Amounts reclassified from accumulated other comprehensive income		(2)	(43)	(45)
Translation effect		(a)	(b) 1	1
Other comprehensive income (loss) attributable to the Company	90	(2)	(42)	46
Balance on March 31, 2016	\$ (478)	\$ (19)	\$ (1,474)	\$ (1,971)

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on January 1, 2015	\$ (55)	\$ (11)	\$ (1,428)	\$ (1,494)
Change before reclassifications	(253)			(253)
Amounts reclassified from accumulated other comprehensive income			21	21
Translation effect			15	15
Tax effect			1	1
Other comprehensive income (loss) attributable to the Company	(253)	—	37	(216)
Balance on March 31, 2015	\$ (308)	\$ (11)	\$ (1,391)	\$ (1,710)

(a) Amount is included in Cost of goods sold on the Condensed Consolidated Results of Operations (see Note 4 for additional information).

(b) Amount is included in the computation of net periodic pension cost (see Note 6 for additional information) and net postretirement benefit cost.

12. Other Expense (Income), net

Other expense (income), net for the three months ended March 31, 2016 and 2015 included the following:

	Three months ended March 31,	
	2016	2015
Restructuring, asset impairment and related charges	\$ 19	\$ —
Gain on sale of land in China	(7)	
Foreign currency exchange loss (gain)	3	(5)
Other expense (income)	7	2
	\$ 22	\$ (3)

13. Earnings Per Share

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

	Three months ended March 31,	
	2016	2015
Numerator:		
Net earnings attributable to the Company	\$ 67	\$ 71
Denominator (in thousands):		
Denominator for basic earnings per share-weighted average shares outstanding	161,204	162,146
Effect of dilutive securities:		
Stock options and other	589	1,141
Denominator for diluted earnings per share-adjusted weighted average shares outstanding	161,793	163,287
Basic earnings per share:		
Earnings from continuing operations	\$ 0.42	\$ 0.44
Loss from discontinued operations	(0.01)	
Net earnings	\$ 0.41	\$ 0.44
Diluted earnings per share:		
Earnings from continuing operations	\$ 0.42	\$ 0.44
Loss from discontinued operations	(0.01)	
Net earnings	\$ 0.41	\$ 0.44

Options to purchase 2,970,687 and 1,798,933 weighted average shares of common stock which were outstanding during the three months ended March 31, 2016 and 2015, 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.

14. Supplemental Cash Flow Information

Financial information regarding the Company's supplemental cash flow information is as follows:

	Three months ended March 31,	
	2016	2015
Interest paid in cash	\$ 84	\$ 59
Income taxes paid in cash (all non-U.S.)	37	32

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. At March 31, 2016 and 2015, the amount of receivables sold by the Company was \$268 million and \$219 million, respectively. Any continuing involvement with the sold receivables is immaterial.

15. Business Combinations

On September 1, 2015, the Company completed the Vitro Acquisition in a cash transaction valued at approximately \$2.297 billion in cash, subject to a working capital adjustment and certain other adjustments. The Vitro Business in Mexico is the largest supplier of glass containers in that country, manufacturing glass containers across multiple end uses, including food, soft drinks, beer, wine and spirits. The Vitro Acquisition included five food and beverage glass container plants in Mexico, a plant in Bolivia and a North American distribution business, and provided the Company with a competitive position in the glass packaging market in Mexico. The results of the Vitro Business have been included in the Company's consolidated financial statements since September 1, 2015 and contributed approximately \$210 million of net sales and \$42 million of segment operating profit in the first quarter of 2016. Vitro's food and beverage glass container operations in Mexico and Bolivia are included in the Latin American operating segment while its distribution business is included in the North American operating segment.

The Company financed the Vitro Acquisition with the proceeds from a senior notes offering, cash on hand and the incremental term loan facilities (see Note 8).

The total purchase price will be allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The purchase agreement contains customary provisions for working capital adjustments, which the Company resolved with the seller in the first quarter of 2016. The purchase price allocation has not been finalized as of March 31, 2016, because the Company has not yet completed its review of the asset and liability values and related amortization and depreciation periods. The Company expects that the purchase price allocation process will be completed no later than the third quarter of 2016. The following table summarizes the preliminary estimates of fair value of the assets and liabilities assumed on September 1, 2015 and subsequent adjustments identified through the ongoing purchase price allocation process and recorded through the measurement period:

	September 1, 2015	Measurement Period Adjustments	March 31, 2016
Cash	\$ 17	\$ —	\$ 17
Other current assets	344	(2)	342
Goodwill	1,073	(292)	781
Customer list intangibles	406	229	635
Net property, plant and equipment	597	56	653
Total assets	2,437	(9)	2,428
Current liabilities	93	10	103
Long-term debt	11		11
Long-term liabilities	36	(19)	17
Net assets acquired	\$ 2,297	\$ —	\$ 2,297

The fair value of the tangible assets was estimated utilizing income and market approaches, considering remaining useful life. The customer list intangible asset includes the Company's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. The value assigned to customer list intangibles is based on the present value of future earnings attributable to the asset group after recognition of required returns to other contributory assets.

Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition. The Vitro Acquisition goodwill is not deductible for tax purposes.

The provisional balance sheet adjustments identified above did not result in any significant adjustments to the previous period's income statement.

16. Pro Forma Information – Vitro Acquisition

Had the Vitro Acquisition, described in Note 15 and the related financing described in Note 8, occurred at the beginning of the period, unaudited pro forma consolidated net sales, earnings from continuing operations and earnings from continuing operations per share of common stock (diluted) would have been as follows:

	Three Months Ended March 31, 2015			Pro Forma As Adjusted
	As Reported	Acquisition Adjustments	Financing Adjustments	
Net sales	\$ 1,421	\$ 207	\$ —	\$ 1,628
Earnings from continuing operations attributable to the Company	\$ 71	\$ 23	\$ (17)	\$ 77
Diluted earnings per share from continuing operations	0.44			\$ 0.47

17. Discontinued Operations

On April 4, 2016, the annulment committee formed by the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") ruled that a subsidiary of the Company is free to pursue the enforcement of a prior arbitration award against Venezuela. That award amounts to more than \$485 million after including interest from the date of the expropriation by Venezuela (October 26, 2010). Venezuela's application to annul the award is still pending and can take up to several years to complete. The Company intends to take appropriate steps to vigorously enforce and collect the award, which is enforceable in approximately 150 member states that are party to the ICSID Convention. However, even with the lifting of the stay of enforcement, the Company recognizes that the collection of the award may present significant practical challenges. Because the award has yet to be satisfied and the annulment proceeding is pending, the Company is unable at this stage to reasonably predict the efforts that will be necessary to successfully enforce collection of the award, the amount of the award or the timing of any such collection efforts. Therefore, the Company has not recognized this award in its financial statements.

A separate arbitration is pending with ICSID to obtain compensation primarily for third-party minority shareholders' lost interests in the two expropriated plants.

The loss from discontinued operations of \$1 million and less than \$1 million for the three months ended March 31, 2016 and 2015 relates to ongoing costs for the Venezuelan expropriation.

18. New Accounting Pronouncement

Revenue from Contracts with Customers - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers", which delayed by one year the effective date of the new revenue recognition standard, which will be effective for the Company on January 1, 2018. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method and is in the process of determining the effect of the standard on its ongoing financial reporting.

Leases - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases", which will require an entity to recognize lease-related assets and liabilities on their balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

19. 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.

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.

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

Balance Sheet	March 31, 2016				Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 239	\$ —	\$ 239
Trade receivables, net			771		771
Inventories			1,107		1,107
Prepaid expenses and other current assets			359		359
Total current assets	—	—	2,476	—	2,476
Investments in and advances to subsidiaries	1,362	1,105		(2,467)	
Property, plant and equipment, net			2,996		2,996
Goodwill			2,532		2,532
Intangibles			587		587
Other assets			1,097		1,097
Total assets	\$ 1,362	\$ 1,105	\$ 9,688	\$ (2,467)	\$ 9,688
Current liabilities :					
Short-term loans and long-term debt due within one year	\$ —	\$ —	\$ 239	\$ —	\$ 239
Current portion of asbestos liability	130				130
Accounts payable			1,050		1,050
Other liabilities	7		467	(7)	467
Total current liabilities	137	—	1,756	(7)	1,886
Long-term debt	250		5,662	(250)	5,662
Asbestos-related liabilities	676				676
Other long-term liabilities			1,048		1,048
Share owners' equity	299	1,105	1,105	(2,210)	299
Noncontrolling interests			117		117
Total liabilities and share owners' equity	\$ 1,362	\$ 1,105	\$ 9,688	\$ (2,467)	\$ 9,688

Balance Sheet	December 31, 2015				Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 399	\$ —	\$ 399
Trade receivables, net			562		562
Inventories			1,007		1,007
Prepaid expenses and other current assets			366		366
Total current assets	—	—	2,334	—	2,334
Investments in and advances to subsidiaries	1,240	988		(2,228)	—
Property, plant and equipment, net			2,961		2,961
Goodwill			2,489		2,489
Intangibles			597		597
Other assets			1,040		1,040
Total assets	\$ 1,240	\$ 988	\$ 9,421	\$ (2,228)	\$ 9,421
Current liabilities :					
Short-term loans and long-term debt due within one year	\$ —	\$ —	\$ 228	\$ —	\$ 228
Current portion of asbestos liability	130				130
Accounts payable			1,212		1,212
Other liabilities	2		552	(2)	552
Total current liabilities	132	—	1,992	(2)	2,122
Long-term debt	250		5,345	(250)	5,345
Asbestos-related liabilities	687				687
Other long-term liabilities			988		988
Share owners' equity	171	988	988	(1,976)	171
Noncontrolling interests			108		108
Total liabilities and share owners' equity	\$ 1,240	\$ 988	\$ 9,421	\$ (2,228)	\$ 9,421

	March 31, 2015				
Balance Sheet	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 257	\$ —	\$ 257
Trade receivables, net			667		667
Inventories			1,007		1,007
Prepaid expenses and other current assets			268		268
Total current assets	—	—	2,199	—	2,199
Investments in and advances to subsidiaries	1,583	1,326		(2,909)	—
Property, plant and equipment, net			2,337		2,337
Goodwill			1,752		1,752
Other assets			1,024		1,024
Total assets	\$ 1,583	\$ 1,326	\$ 7,312	\$ (2,909)	\$ 7,312
Current liabilities :					
Short-term loans and long-term debt due within one year	\$ —	\$ —	\$ 635	\$ —	\$ 635
Current portion of asbestos liability	143				143
Accounts payable			919		919
Other liabilities	7		417	(7)	417
Total current liabilities	150	—	1,971	(7)	2,114
Long-term debt	250		2,972	(250)	2,972
Asbestos-related liabilities	782				782
Other long-term liabilities			920		920
Share owners' equity	401	1,326	1,326	(2,652)	401
Noncontrolling interests			123		123
Total liabilities and share owners' equity	\$ 1,583	\$ 1,326	\$ 7,312	\$ (2,909)	\$ 7,312

	Three months ended March 31, 2016				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	\$ —	\$ —	\$ 1,588	\$ —	\$ 1,588
Cost of goods sold			(1,269)		(1,269)
Gross profit	—	—	319	—	319
Selling and administrative expense			(129)		(129)
Research, development and engineering expense			(15)		(15)
Net intercompany interest	5		(5)		—
Interest expense, net	(5)		(61)		(66)
Equity earnings from subsidiaries	67	67		(134)	—
Other equity earnings			14		14
Other expense, net			(22)		(22)
Earnings before income taxes	67	67	101	(134)	101
Provision for income taxes			(27)		(27)
Earnings from continuing operations	67	67	74	(134)	74
Loss from discontinued operations			(1)		(1)
Net earnings	67	67	73	(134)	73
Net (earnings) attributable to noncontrolling interests			(6)		(6)
Net earnings attributable to the Company	\$ 67	\$ 67	\$ 67	\$ (134)	\$ 67

	Three months ended March 31, 2016				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Comprehensive Income					
Net earnings	\$ 67	\$ 67	\$ 73	\$ (134)	\$ 73
Other comprehensive income, net	50	50	50	(100)	50
Total comprehensive loss	117	117	123	(234)	123
Comprehensive income attributable to noncontrolling interests			(9)		(9)
Comprehensive loss attributable to the Company	\$ 117	\$ 117	\$ 114	\$ (234)	\$ 114

Results of Operations	Three months ended March 31, 2015				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 1,421	\$ —	\$ 1,421
Cost of goods sold			(1,153)		(1,153)
Gross profit	—	—	268	—	268
Selling and administrative expense			(124)		(124)
Research, development and engineering expense			(15)		(15)
Net intercompany interest	7		(7)		—
Interest expense, net	(7)		(40)		(47)
Equity earnings from subsidiaries	71	71		(142)	—
Other equity earnings			15		15
Other expense, net			3		3
Earnings before income taxes	71	71	100	(142)	100
Provision for income taxes			(25)		(25)
Earnings from continuing operations	71	71	75	(142)	75
Loss from discontinued operations					—
Net earnings	71	71	75	(142)	75
Net (earnings) attributable to noncontrolling interests			(4)		(4)
Net earnings attributable to the Company	\$ 71	\$ 71	\$ 71	\$ (142)	\$ 71

Comprehensive Income	Three months ended March 31, 2015				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings	\$ 71	\$ 71	\$ 75	\$ (142)	\$ 75
Other comprehensive income, net	(216)	(216)	(220)	432	(220)
Total comprehensive loss	(145)	(145)	(145)	290	(145)
Comprehensive income attributable to noncontrolling interests					—
Comprehensive loss attributable to the Company	\$ (145)	\$ (145)	\$ (145)	\$ 290	\$ (145)

Cash Flows	Three months ended March 31, 2016				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (utilized in) operating activities	\$ 123	\$ —	\$ (425)	\$ —	\$ (302)
Cash utilized in investing activities			(133)		(133)
Cash provided by (utilized in) financing activities	(123)		399		276
Effect of exchange rate change on cash			(1)		(1)
Net change in cash	—	—	(160)	—	(160)
Cash at beginning of period			399		399
Cash at end of period	\$ —	\$ —	\$ 239	\$ —	\$ 239

Cash Flows	Three months ended March 31, 2015				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (utilized in) operating activities	\$ (15)	\$ —	\$ (263)	\$ —	\$ (278)
Cash utilized in investing activities			(157)		(157)
Cash provided by financing activities	15		192		207
Effect of exchange rate change on cash			(27)		(27)
Net change in cash	—	—	(255)	—	(255)
Cash at beginning of period			512		512
Cash at end of period	\$ —	\$ —	\$ 257	\$ —	\$ 257

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

In connection with the Company's acquisition of the food and beverage glass container business of Vitro S.A.B. de C.V. and its subsidiaries as conducted in the United States, Mexico and Bolivia on September 1, 2015 (see Note 15 to the Condensed Consolidated Financial Statements), the Company has renamed the former South America segment to the Latin America segment. This change in segment name was made to reflect the addition of the Mexican and Bolivian operations from the Vitro Acquisition into the former South America segment. The acquired Vitro food and beverage glass container distribution business located in the United States is included in the North American operating segment.

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.

Financial information for the three months ended March 31, 2016 and 2015 regarding the Company's reportable segments is as follows (dollars in millions):

	Three months ended March 31,	
	2016	2015
Net Sales:		
Europe	\$ 563	\$ 567
North America	532	470
Latin America	312	205
Asia Pacific	159	163
Reportable segment totals	1,566	1,405
Other	22	16
Net Sales	\$ 1,588	\$ 1,421

Three months ended March 31,	
2016	2015

Segment operating profit:		
Europe	\$ 55	\$ 49
North America	76	71
Latin America	63	30
Asia Pacific	17	18
Reportable segment totals	211	168
Items excluded from segment operating profit:		
Retained corporate costs and other	(32)	(21)
Restructuring, asset impairment and other	(12)	
Interest expense, net	(66)	(47)
Earnings from continuing operations before income taxes	101	100
Provision for income taxes	(27)	(25)
Earnings from continuing operations	74	75
Loss from discontinued operations	(1)	
Net earnings	73	75
Net earnings attributable to noncontrolling interests	(6)	(4)
Net earnings attributable to the Company	\$ 67	\$ 71

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

Executive Overview — Quarters ended March 31, 2016 and 2015

First Quarter 2016 Highlights

- The September 1, 2015 Vitro Acquisition increased net sales by \$210 million and segment operating profit by \$42 million compared to the prior year quarter
- The unfavorable effect of foreign currency exchange rates reduced net sales by 4% and segment operating profit by 7% compared to the prior year quarter
- Excluding the impact of foreign currency exchange rates, the first quarter of 2016 was favorably impacted by strong results in Latin America and Europe, as well as global spending controls

Net sales for the first quarter of 2016 were \$167 million higher than the first quarter of the prior year primarily due to approximately \$210 million of net sales from the acquired Vitro Business.

Segment operating profit for reportable segments for the first quarter of 2016 was \$43 million higher than the first quarter of the prior year. The increase was largely attributable to approximately \$42 million of segment operating profit from the acquired Vitro Business. Partially offsetting this was the unfavorable effect of changes in foreign currency exchange rates and higher operating costs due to cost inflation.

Net interest expense for the first quarter of 2016 increased \$19 million compared to the first quarter of 2015. The increase was primarily due to higher debt levels from the Vitro Acquisition.

For the first quarter of 2016, the Company recorded earnings from continuing operations attributable to the Company of \$68 million, or \$0.42 per share (diluted), compared to \$71 million, or \$0.44 per share (diluted), in the first quarter of 2015. Earnings in the first quarter of 2016 included items that management considered not representative of ongoing operations. These items decreased net earnings attributable to the Company by \$10 million, or \$0.06 per share in the first quarter of 2016.

Results of Operations — First Quarter of 2016 compared with First Quarter of 2015

Net Sales

The Company's net sales in the first quarter of 2016 were \$1,588 million compared with \$1,421 million for the first quarter of 2015, an increase of \$167 million, or 12%. Driven by incremental shipments related to the Vitro Acquisition, total glass container shipments, in tonnes, were up approximately 14% in the first quarter of 2016 compared to the prior year quarter. This resulted in approximately \$210 million of additional sales. Excluding the impact of the Vitro Acquisition, shipments were comparable for the first quarters of 2016 and 2015, however, an unfavorable sales mix resulted in slightly lower net sales in the first quarter of 2016. Unfavorable foreign currency exchange rates, primarily due to a weaker Euro, Brazilian real, Colombian peso, Canadian dollar and Australian dollar, impacted sales by \$62 million in the first quarter of 2016 compared to the first quarter of 2015. Slightly higher selling prices benefited net sales by \$19 million in the quarter.

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

Net sales— 2015		\$ 1,405
Price	\$ 19	
Sales volume (excluding acquisition)	(6)	
Effects of changing foreign currency rates	(62)	
Vitro Acquisition	210	
Total effect on net sales		161
Net sales— 2016		\$ 1,566

Europe: Net sales in Europe in the first quarter of 2016 were \$563 million compared with \$567 million for the first quarter of 2015, a decrease of \$4 million, or 1%. The primary reason for the decline in net sales in Europe in the first quarter of 2016 was a \$5 million impact due to foreign currency exchange rate changes, as the Euro weakened in relation to the U.S. dollar. Glass container shipments in the first quarter of 2016 were up 1% compared to the first quarter of 2015 and were primarily driven by higher shipments to beer and non-alcoholic beverage customers. This increased net sales by \$1 million compared to the prior year quarter. Selling prices in Europe were comparable in the first quarter to the same period in the prior year, but are expected to trend lower for the remainder of 2016.

North America: Net sales in North America in the first quarter of 2016 were \$532 million compared with \$470 million for the first quarter of 2015, an increase of \$62 million, or 13%. Net sales from the acquired Vitro food and beverage business in the U.S. increased the region's net sales by \$68 million in the quarter. Total glass container shipments in the region were up 9% in the first quarter of 2016 compared to the same quarter in the prior year. Excluding the impact of the newly acquired Vitro food and beverage business in the U.S., glass container shipments were comparable to the prior year quarter, however, an unfavorable sales mix reduced net sales by \$5 million in the first quarter of 2016. This impact to sales mix was due to several customers converting a portion of their glass shipments from carton packaging to bulk shipments. Slightly higher selling prices increased net sales by \$1 million in the first quarter of 2016. Unfavorable foreign currency exchange rate changes decreased net sales by \$2 million, as the Canadian dollar weakened in relation to the U.S. dollar.

Latin America: Net sales in Latin America in the first quarter of 2016 were \$312 million compared with \$205 million for the first quarter of 2015, an increase of \$107 million, or 52%. Net sales from the newly acquired Vitro food and beverage business in Mexico and Bolivia increased the region's net sales by \$142 million in the quarter. Total glass container shipments in the region were up 85% in the first quarter of 2016 compared to the same quarter in the prior year. Excluding the impact of the newly acquired Vitro food and beverage business in the region, shipments in the region were down nearly 5% in the quarter compared to the same quarter in the prior year and this decreased sales by \$6 million. This impact was due to a general economic slowdown in Brazil. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$45 million in the first quarter of 2016 compared to 2015, principally due to a decline in the Brazilian real and Colombian peso in relation to the U.S. dollar. Higher pricing increased net sales by \$16 million in the current quarter.

Asia Pacific: Net sales in Asia Pacific in the first quarter of 2016 were \$159 million compared with \$163 million for the first quarter of 2015, a decrease of \$4 million, or 2%. The unfavorable effects of foreign currency exchange rate changes during the first quarter of 2016, primarily due to the weakening of the Australian dollar in relation to the U.S. dollar, decreased net sales by \$10 million. Glass container shipments were up 1% in the first quarter of 2016 compared to the same period in the prior year, primarily due to higher shipments of wine, and this resulted in \$4 million of higher sales in the quarter. Slightly higher selling prices also increased net sales by \$2 million in the current quarter.

Segment Operating Profit

Operating profit of the reportable segments includes an allocation of some corporate expenses based on 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 1 to the Condensed Consolidated Financial Statements.

Segment operating profit of reportable segments in the first quarter of 2016 was \$211 million compared to \$168 million for the first quarter of 2015, an increase of \$43 million, or 26%. The increase was largely attributable to approximately \$42 million of segment operating profit from the acquired Vitro Business. Partially offsetting this was the unfavorable effect of changes in foreign currency exchange rates and higher operating costs due to cost inflation.

The change in segment operating profit of reportable segments can be summarized as follows (dollars in millions):

Segment operating profit - 2015		\$ 168
Price	\$ 19	
Operating costs	(7)	
Effects of changing foreign currency rates	(11)	
Vitro Acquisition	42	
Total net effect on segment operating profit		43
Segment operating profit - 2016		\$ 211

Europe: Segment operating profit in Europe in the first quarter of 2016 was \$55 million compared with \$49 million in the first quarter of 2015, an increase of \$6 million, or 12%. The increase in sales volume discussed above improved segment operating profit by \$1 million. Operating costs were \$5 million lower in the first quarter of 2016 than the prior year quarter due to energy deflation and improved operational performance. In the prior year quarter, production volumes were lower due to asset optimization projects that have now been completed.

North America: Segment operating profit in North America in the first quarter of 2016 was \$76 million compared with \$71 million in the first quarter of 2015, an increase of \$5 million, or 7%. Segment operating profit from the acquired Vitro food and beverage business in the region contributed \$5 million in the quarter. Selling prices were \$1 million higher in the current quarter compared to the prior year. The unfavorable sales mix discussed above reduced segment operating profit by \$1 million.

Latin America: Segment operating profit in Latin America in the first quarter of 2016 was \$63 million compared with \$30 million in the first quarter of 2015, an increase of \$33 million, or 110%. Segment operating profit from the newly acquired Vitro food and beverage business contributed approximately \$37 million to the region in the quarter. The unfavorable effects of foreign currency exchange rates, especially the Brazilian real and the Colombian peso, decreased segment operating profit by \$9 million in the current year quarter. Segment operating profit was also impacted by \$9 million of higher operating costs, primarily due to energy and soda ash inflation in Brazil. Partially offsetting these declines were higher selling prices that increased segment operating profit in the first quarter of 2016 by \$16 million. Excluding the impact of the acquired Vitro food and beverage business in the region, the decrease in sales volume discussed above impacted segment operating profit by \$2 million.

Asia Pacific: Segment operating profit in Asia Pacific in the first quarter of 2016 was \$17 million compared with \$18 million in the first quarter of 2015, a decrease of \$1 million, or 6%. The unfavorable effects of foreign currency exchange rates, especially the Australian dollar, decreased segment operating profit by \$2 million in the current year quarter. The increase in sales volume discussed above improved segment operating profit by \$2 million. Higher selling prices also increased segment operating profit in the first quarter of 2016 by \$2 million. However, cost inflation and higher production downtime due to furnace rebuild activity drove operating costs \$3 million higher in the first quarter of 2016 compared to the same quarter in the prior year.

Interest Expense, Net

Net interest expense for the first quarter of 2016 was \$66 million compared with \$47 million for the first quarter of 2015. The increase was primarily due to higher debt levels due to the Vitro Acquisition.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for the three months ended March 31, 2016 was 26.7% compared to 24.7% for the three months ended March 31, 2015. The effective tax rate for the first quarter of 2016 was higher than the first quarter of 2015 due to the geographic mix of earnings.

The Company expects that the full year effective tax rate for 2016 will range between 26% and 28% (excluding the tax on items that management considers not representative of ongoing operations).

Earnings from Continuing Operations Attributable to the Company

For the first quarter of 2016, the Company recorded earnings from continuing operations attributable to the Company of \$68 million, or \$0.42 per share (diluted), compared to \$71 million, or \$0.44 per share (diluted), in the first quarter of 2015. Earnings in the first quarter of 2016 included items that management considered not representative of ongoing operations. These items decreased net earnings attributable to the Company by \$10 million, or \$0.06 per share in the first quarter of 2016.

Items Excluded from Reportable Segment Totals

Retained Corporate Costs and Other

Retained corporate costs and other for the first quarter of 2016 were \$32 million compared with \$21 million for the first quarter of 2015. These costs are higher in the first quarter of 2016 than the same period in the prior year primarily due to the unfavorable year-over-year impact from currency hedges as well as higher management incentive accruals.

Restructuring, Asset Impairments and Other Charges

During the three months ended March 31, 2016, the Company recorded restructuring, asset impairment and other charges of \$19 million. These charges are primarily related to restructuring in the Latin America region. See Note 5 to the Condensed Consolidated Financial Statements for additional information.

Gain on China Land Compensation

During the first quarter of 2016, the Company recorded a gain of \$7 million related to compensation received for land that the Company was required to be returned to the Chinese government.

Discontinued Operations

On April 4, 2016, the annulment committee formed by the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") ruled that a subsidiary of the Company is free to pursue the enforcement of a prior

arbitration award against Venezuela. That award amounts to more than \$485 million after including interest from the date of the expropriation by Venezuela (October 26, 2010). Venezuela's application to annul the award is still pending and can take up to several years to complete. The Company intends to take appropriate steps to vigorously enforce and collect the award, which is enforceable in approximately 150 member states that are party to the ICSID Convention. However, even with the lifting of the stay of enforcement, the Company recognizes that the collection of the award may present significant practical challenges. Because the award has yet to be satisfied and the annulment proceeding is pending, the Company is unable at this stage to reasonably predict the efforts that will be necessary to successfully enforce collection of the award, the amount of the award or the timing of any such collection efforts. Therefore, the Company has not recognized this award in its financial statements.

A separate arbitration is pending with ICSID to obtain compensation primarily for third-party minority shareholders' lost interests in the two expropriated plants.

The loss from discontinued operations of \$1 million and less than \$1 million for the three months ended March 31, 2016 and 2015 is related to ongoing costs related to the Venezuela expropriation.

Acquisition of Vitro, S.A.B. de C.V.'s Food and Beverage Glass Container Business

On September 1, 2015, the Company completed the Vitro Acquisition in a cash transaction valued at approximately \$2.297 billion, subject to a working capital adjustment and certain other adjustments. The Vitro Business in Mexico is the largest supplier of glass containers in that country, manufacturing glass containers across multiple end uses, including food, soft drinks, beer, wine and spirits. The Vitro Acquisition included five food and beverage glass container plants in Mexico, a plant in Bolivia and a North American distribution business, and provided the Company with a

competitive position in the glass packaging market in Mexico. The results of the Vitro Business have been included in the Company's consolidated financial statements since September 1, 2015. Vitro's food and beverage glass container operations in Mexico and Bolivia are included in the Latin American operating segment while its distribution business is included in the North American operating segment.

The Company financed the Vitro Acquisition with the proceeds from senior notes offerings, cash on hand and the incremental term loan facilities (see Note 8 to the Condensed Consolidated Financial Statements).

Capital Resources and Liquidity

As of March 31, 2016, the Company had cash and total debt of \$239 million and \$5.9 billion, respectively, compared to \$257 million and \$3.6 billion, respectively, as of March 31, 2015. 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 March 31, 2016 was \$235 million.

Current and Long-Term Debt

On April 22, 2015, certain of the Company's subsidiaries entered into a Senior Secured Credit Facility (the "Agreement"), which amended and restated the previous credit agreement (the "Previous Agreement"). The proceeds from the Agreement were used to repay all outstanding amounts under the Previous Agreement and the 7.375% senior notes due 2016.

In connection with the closing of the Vitro Acquisition on September 1, 2015 (see Note 15), the Company entered into Amendment No. 2 ("Amendment No. 2") to the Agreement, which provided for additional incremental availability under the incremental dollar cap in the Agreement of up to \$1,250 million. In addition, in connection with the closing of the Vitro Acquisition, on September 1, 2015, the Company entered into the First Incremental Amendment to the Agreement (the "Incremental Amendment") pursuant to which the Company incurred \$1,250 million of senior secured incremental term loan facilities, comprised of (i) a \$675 million term loan A facility (the "incremental term loan A facility") on substantially the same terms and conditions (including as to maturity) as the term loan A facility in the Agreement and (ii) a \$575 million term loan B facility (the "incremental term loan B facility") maturing seven years after the closing of the Vitro Acquisition using its incremental capacity under the Agreement.

On February 3, 2016, the Company entered into Amendment No. 4 ("Amendment No. 4") to the Agreement which provided for an increase in the maximum Total Leverage Ratio (which is calculated by dividing consolidated total debt, less cash and cash equivalents, by consolidated EBITDA, as defined in the Agreement) for purposes of the financial covenant in the Agreement to 5.0x for the fiscal quarters ending March 31, 2016, June 30, 2016 and September 30, 2016, 4.5x for the fiscal quarters ending December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, and stepping down to 4.0x for the fiscal quarter ending December 31, 2017 and each fiscal quarter thereafter.

At March 31, 2016, the Agreement, as amended through Amendment No. 4 (the "Amended Agreement"), includes a \$300 million revolving credit facility, a \$600 million multicurrency revolving credit facility, a \$1,575 million term

loan A facility (\$1,534 million net of debt issuance costs), and a €279 million term loan A facility (\$309 million net of debt issuance costs), each of which has a final maturity date of April 22, 2020. The Amended Agreement also includes a \$575 million term loan B facility (\$558 million net of debt issuance costs) with a final maturity date of September 1, 2022. At March 31, 2016, the Company had unused credit of \$586 million available under the Amended Agreement. The weighted average interest rate on borrowings outstanding under the Amended Agreement at March 31, 2016 was 2.53%.

The Amended 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 payments, make certain asset sales within guidelines and limits, engage in certain affiliate transactions, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain subordinated debt obligations.

The Amended Agreement also contains one financial maintenance covenant, a Total Leverage Ratio, that requires the Company as of the last day of a fiscal quarter not to exceed the maximum levels set forth in Amendment No. 4 (as

more particularly described above). The Total 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 Total Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and restrictions could result in an event of default under the Amended Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Amended Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Amended Agreement and the lenders cause all of the outstanding debt obligations under the Amended 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. As of March 31, 2016, the Company was in compliance with all covenants and restrictions in the Amended Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Amended Agreement will not be adversely affected by the covenants and restrictions.

The interest rates on borrowings under the Amended Agreement are, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Amended Agreement, plus an applicable margin. The applicable margin for the term loan A facility and the revolving credit facility is linked to the Company's Total Leverage Ratio and ranges from 1.25% to 1.75% for Eurocurrency Rate loans and from 0.25% to 0.75% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Total Leverage Ratio. The applicable margin for the term loan B facility is 2.75% for Eurocurrency Rate loans and 1.75% for Base Rate loans. The incremental term loan B facility is subject to a LIBOR floor of 0.75%.

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

Also, in connection with the Vitro Acquisition, during August 2015, the Company issued senior notes with a face value of \$700 million that bear interest at 5.875% and are due August 15, 2023 (the "Senior Notes due 2023") and senior notes with a face value of \$300 million that bear interest at 6.375% and are due August 15, 2025 (together with the Senior Notes due 2023, the "2015 Senior Notes"). The 2015 Senior Notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds from the 2015 Senior Notes, after deducting the debt discount and debt issuance costs, totaled approximately \$972 million and were used to finance, in part, the Vitro Acquisition.

The Company has a €185 million European accounts receivable securitization program, which extends through March 2019, subject to periodic renewal of backup credit lines.

Information related to the Company's accounts receivable securitization program is as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Balance (included in short-term loans)	\$ 157	\$ 158	\$ 171
Weighted average interest rate	1.03%	1.21%	1.36%

Cash Flows

Free cash flow was \$(418) million for the first three months of 2016 compared to \$(384) million for the first three months of 2015. The Company defines free cash flow as cash provided by (utilized in) 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 three months ended March 31, 2016 and 2015 is calculated as follows (dollars in millions):

	2016	2015
Cash utilized by continuing operating activities	\$ (301)	\$ (278)
Additions to property, plant and equipment	(117)	(106)
Free cash flow	\$ (418)	\$ (384)

Operating activities: Cash utilized in continuing operating activities was \$301 million for the three months ended March 31, 2016, compared with \$278 million for the three months ended March 31, 2015. The increase in cash utilized in continuing operating activities in the first three months of 2016 was primarily due to an increase in working capital of \$488 in the first quarter of 2016 compared to an increase in working capital of \$429 million in the first quarter of 2015. The increase in working capital was mainly due to a decrease in accounts payable in the first quarter of 2016. Partially offsetting this were higher non-cash charges, such as depreciation and amortization, in the first quarter of 2016.

Investing activities: Cash utilized in investing activities was \$133 million for the three months ended March 31, 2016, compared to \$157 million for the three months ended March 31, 2015. Capital spending for property, plant and equipment was \$117 million during the first three months of 2016 and \$106 million in the same period in 2015. Acquisition activities in 2016 were \$22 million, primarily related to an additional contribution made to the Company's investment in a joint venture in Nava, Mexico. In the first quarter of 2015, acquisition activities included \$52 million paid for acquisitions, primarily related to the Company's acquisition of a glass container plant in North America.

Financing activities: Cash provided by financing activities was \$276 million for the three months ended March 31, 2016, compared to \$207 million for the three months ended March 31, 2015. The increase in cash provided by financing activities was primarily due to the Company not repurchasing any shares of its common stock in the first quarter of 2016 compared to \$100 million of repurchases in the same period in 2015.

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.

There have been no other material changes in critical accounting estimates at March 31, 2016 from those described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2015.

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," "intend," "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) the Company's ability to integrate the Vitro Business in a timely and cost effective manner, to maintain on existing terms the permits, licenses and other approvals required for the Vitro Business to operate as currently operated, and to realize the expected synergies from the Vitro Acquisition, (2) risks related to the impact of integration of the Vitro Acquisition on earnings and cash flow, (3) risks associated with the significant transaction costs and additional indebtedness that the Company incurred in financing the Vitro Acquisition, (4) the Company's ability to realize expected growth opportunities and cost savings from the Vitro Acquisition, (5) foreign currency fluctuations relative to the U.S. dollar, specifically the Euro, Brazilian real, Mexican peso, Colombian peso and Australian dollar, (6) changes in capital availability or cost, including interest rate fluctuations and the ability of the Company to refinance debt at favorable terms, (7) the general political, economic and competitive conditions in markets and countries where the Company has operations, including uncertainties related to economic and social conditions, disruptions in capital markets, disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (8) consumer preferences for alternative forms of packaging, (9) cost and availability of raw materials, labor, energy and transportation, (10) the Company's ability to manage its cost structure, including its success in implementing restructuring plans and achieving cost savings, (11) consolidation among competitors and customers, (12) the ability of the Company to acquire businesses and expand plants, integrate operations of acquired businesses and achieve expected synergies, (13) unanticipated expenditures with respect to environmental, safety and health laws, (14) the Company's ability to further develop its sales, marketing and product development capabilities, (15) 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, events related to asbestos-related claims, (16) the Company's ability to accurately estimate its total asbestos-related liability, and (17) the Company's ability to successfully remediate the material weakness in its internal control over financial reporting, and the other risk factors discussed in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2015 and any subsequently filed Quarterly Report on Form 10-Q. 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 March 31, 2016 from those described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2015.

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

36

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.

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act) as of March 31, 2016.

As a result of the material weakness described below, management has concluded that its disclosure controls and procedures were not effective as of March 31, 2016.

Notwithstanding the material weakness, the Chief Executive Officer and Chief Financial Officer concluded that the unaudited condensed consolidated financial statements included in this Form 10-Q present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles in the United States.

Changes in Internal Control Over Financial Reporting

As described in its 2015 10-K/A, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, and concluded that the matter described below was a material weakness in the Company's internal control over financial reporting and that the Company did not maintain effective internal control over financial reporting as of December 31, 2015.

Determination of asbestos-related liabilities - The Company identified a deficiency in the design of its control activities for the estimation of liabilities related to probable losses for unasserted asbestos claims. The Company did not have sufficient controls in place to provide reasonable assurance that a material error would be prevented or detected related to the application of ASC 450 to the estimation of probable losses from unasserted asbestos claims.

Planned remediation of material weakness - The Company is responsible for implementing changes and improvements to internal control over financial reporting to remediate the control deficiency described above.

To remediate the material weakness described above, the Company will establish policies and procedures for the review, approval and application of generally accepted accounting principles to, and disclosure with respect to, unasserted asbestos claims. In particular, the Company intends to complement its revised method of determining its asbestos-related liability (see Note 9 to the condensed Consolidated Financial Statements) with appropriate analytical and review controls to ensure that the Company's liability and related disclosures comply with generally accepted accounting principles.

As the Company continues to evaluate and improve the effectiveness of internal control over financial reporting, the Company may determine to take additional measures to address its material weakness or determine to modify the remediation efforts described above. Until the remediation efforts discussed above, including any additional remediation efforts that the Company identifies as necessary, are implemented, tested and deemed to be operating effectively, the material weakness described above will continue to exist. The Company currently expects that these activities will be completed as part of its annual comprehensive legal review of asbestos-related liabilities and costs (as described in Note 9 to the condensed Consolidated Financial Statements) to be completed in the fourth quarter 2016.

Other than the matter described above, there were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

For further information on legal proceedings, see Note 9 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 March 31, 2016 from those described in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not purchase any shares of its common stock for the three months ended March 31, 2016. The Company has \$380 million remaining for repurchases pursuant to authorization by its Board of Directors in October 2014 to purchase up to \$500 million of the Company’s common stock until December 31, 2017.

Item 6. Exhibits.

- Exhibit 4.1 Amendment No. 4, dated February 3, 2016, to the Amended and Restated Credit Agreement and Syndicated Facility Agreement, dated April 22, 2015, by and among the Borrowers named therein, Owens-Illinois General Inc., as Borrowers' Agent, Deutsche Bank AG, New York Branch, as Administrative Agent, and the other Agents, Arrangers and Lenders named therein (filed as Exhibit 4.1 to Owens-Illinois Inc.'s Form 8-K dated February 3, 2016, File No. 1-9576, and incorporated herein by reference).
- Exhibit 10.1 Letter Agreement dated March 7, 2016, between Owens-Illinois, Inc. and James W. Baehren (filed as Exhibit 10.1 to Owens-Illinois Inc.'s Form 8-K dated March 7, 2016, File No. 1-9576, and incorporated herein by reference).
- 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 March 31, 2016, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Cash Flows and (v) 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 May 13, 2016 By /s/ Jan A. Bertsch
Jan A. Bertsch
Senior Vice President and Chief Financial Officer