

OWENS ILLINOIS INC /DE/
Form 10-Q
October 25, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended

September 30, 2012

or

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

For the transition period from to

Commission file number 1-9576

OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2781933
(IRS Employer
Identification No.)

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

43551
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of common stock, par value \$.01, of Owens-Illinois, Inc. outstanding as of September 30, 2012 was 164,529,874.

Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the Company) presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 1,747	\$ 1,862	\$ 5,252	\$ 5,540
Manufacturing, shipping and delivery expense	(1,405)	(1,475)	(4,156)	(4,455)
Gross profit	342	387	1,096	1,085
Selling and administrative expense	(131)	(138)	(410)	(426)
Research, development and engineering expense	(13)	(18)	(45)	(52)
Interest expense	(61)	(70)	(187)	(246)
Interest income	2	2	7	8
Equity earnings	16	19	47	52
Royalties and net technical assistance	4	4	13	12
Other income	4	2	10	6
Other expense	(36)	(40)	(55)	(66)
Earnings from continuing operations before income taxes	127	148	476	373
Provision for income taxes	(28)	(25)	(113)	(85)
Earnings from continuing operations	99	123	363	288
Loss from discontinued operations	(2)	(3)	(4)	(2)
Net earnings	97	120	359	286
Net earnings attributable to noncontrolling interests	(7)	(4)	(15)	(15)
Net earnings attributable to the Company	\$ 90	\$ 116	\$ 344	\$ 271
Amounts attributable to the Company:				
Earnings from continuing operations	\$ 92	\$ 119	\$ 348	\$ 273
Loss from discontinued operations	(2)	(3)	(4)	(2)
Net earnings	\$ 90	\$ 116	\$ 344	\$ 271
Basic earnings per share:				
Earnings from continuing operations	\$ 0.55	\$ 0.73	\$ 2.11	\$ 1.66
Loss from discontinued operations	(0.01)	(0.02)	(0.03)	(0.01)
Net earnings	\$ 0.54	\$ 0.71	\$ 2.08	\$ 1.65
Weighted average shares outstanding (thousands)	164,800	163,812	164,614	163,602
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.55	\$ 0.72	\$ 2.10	\$ 1.64
Loss from discontinued operations	(0.01)	(0.02)	(0.03)	(0.01)
Net earnings	\$ 0.54	\$ 0.70	\$ 2.07	\$ 1.63
Weighted average diluted shares outstanding (thousands)	165,765	165,695	165,964	166,017

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended September 30,				Nine months ended September 30,			
	2012		2011		2012		2011	
Net earnings	\$	97	\$	120	\$	359	\$	286
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments		86		(358)		(22)		(162)
Pension and other postretirement benefit adjustments		16		39		73		85
Change in fair value of derivative instruments		3		(2)		6		(1)
Other comprehensive income (loss)		105		(321)		57		(78)
Total comprehensive income (loss)		202		(201)		416		208
Comprehensive income attributable to noncontrolling interests		(9)		2		(21)		(18)
Comprehensive income (loss) attributable to the Company	\$	193	\$	(199)	\$	395	\$	190

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	September 30, 2012	December 31, 2011	September 30, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 336	\$ 400	\$ 256
Short-term investment, at cost which approximates market			1
Receivables, less allowances for losses and discounts (\$42 at September 30, 2012, \$38 at December 31, 2011, and \$38 at September 30, 2011)	1,133	1,158	1,218
Inventories	1,228	1,061	1,101
Prepaid expenses	91	124	112
Total current assets	2,788	2,743	2,688
Investments and other assets:			
Equity investments	300	315	312
Repair parts inventories	148	155	163
Pension assets	120	116	60
Other assets	715	687	685
Goodwill	2,065	2,082	2,762
Total other assets	3,348	3,355	3,982
Property, plant and equipment, at cost	6,837	6,899	6,998
Less accumulated depreciation	4,102	4,022	4,067
Net property, plant and equipment	2,735	2,877	2,931
Total assets	\$ 8,871	\$ 8,975	\$ 9,601

CONDENSED CONSOLIDATED BALANCE SHEETS Continued

	September 30, 2012	December 31, 2011	September 30, 2011
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 356	\$ 406	\$ 345
Current portion of asbestos-related liabilities	165	165	170
Accounts payable	853	1,038	935
Other liabilities	664	636	663
Total current liabilities	2,038	2,245	2,113
Long-term debt			
Long-term debt	3,537	3,627	3,743
Deferred taxes	209	212	204
Pension benefits	792	871	530
Nonpension postretirement benefits	269	269	252
Other liabilities	370	404	412
Asbestos-related liabilities	220	306	204
Commitments and contingencies			
Share owners' equity:			
Share owners' equity of the Company:			
Common stock, par value \$.01 per share, 250,000,000 shares authorized, 181,804,174, 181,174,050, and 181,151,747 shares issued (including treasury shares), respectively	2	2	2
Capital in excess of par value	3,002	2,991	2,990
Treasury stock, at cost, 17,274,300, 16,799,903 and 16,906,495 shares, respectively	(413)	(405)	(408)
Retained earnings (loss)	(35)	(379)	392
Accumulated other comprehensive loss	(1,270)	(1,321)	(987)
Total share owners' equity of the Company	1,286	888	1,989
Noncontrolling interests	150	153	154
Total share owners' equity	1,436	1,041	2,143
Total liabilities and share owners' equity	\$ 8,871	\$ 8,975	\$ 9,601

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	\$ 359	\$ 286
Loss from discontinued operations	4	2
Non-cash charges (credits):		
Depreciation	287	308
Amortization of intangibles and other deferred items	25	13
Amortization of finance fees and debt discount	24	24
Pension expense	69	69
Restructuring and asset impairment	33	41
Other	23	32
Pension contributions	(76)	(43)
Asbestos-related payments	(86)	(102)
Cash paid for restructuring activities	(47)	(27)
Change in non-current assets and liabilities	(59)	(87)
Change in components of working capital	(325)	(235)
Cash provided by continuing operating activities	231	281
Cash utilized in discontinued operating activities	(4)	(1)
Total cash provided by operating activities	227	280
Cash flows from investing activities:		
Additions to property, plant and equipment	(178)	(204)
Acquisitions, net of cash acquired	(5)	(148)
Net cash proceeds related to sale of assets and other	49	1
Proceeds from collection of minority partner loan	9	
Cash utilized in investing activities	(125)	(351)
Cash flows from financing activities:		
Additions to long-term debt	119	1,560
Repayments of long-term debt	(275)	(1,849)
Increase (decrease) in short-term loans	(11)	40
Net receipts (payments) for hedging activity	25	(22)
Payment of finance fees		(18)
Dividends paid to noncontrolling interests	(24)	(32)
Treasury shares purchased	(14)	
Issuance of common stock and other	1	5
Cash utilized in financing activities	(179)	(316)
Effect of exchange rate fluctuations on cash	13	3
Decrease in cash	(64)	(384)
Cash at beginning of period	400	640
Cash at end of period	\$ 336	\$ 256

See accompanying notes.

OWENS-ILLINOIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

1. Change in Accounting Method

Effective January 1, 2012, the Company elected to change the method of valuing U.S. inventories to the average cost method, while in prior years these inventories were valued using the last-in, first-out (LIFO) method. The Company believes the average cost method is preferable as it conforms the inventory costing methods globally, improves comparability with industry peers and better reflects the current value of inventory on the consolidated balance sheets. All prior periods presented have been adjusted to apply the new method retrospectively.

There was no effect of the change on the condensed consolidated results of operations for the three months ended September 30, 2011. The effect of the change for the nine months ended September 30, 2011 is as follows:

	As originally reported under LIFO	Effect of Change	As Adjusted
Manufacturing, shipping and delivery expense	\$ (4,465)	\$ 10	\$ (4,455)
Amounts attributable to the Company:			
Net earnings from continuing operations	263	10	273
Basic earnings per share from continuing operations	1.60	0.06	1.66
Diluted earnings per share from continuing operations	1.58	0.06	1.64

The effect of the change on the condensed consolidated balance sheets as of December 31, 2011 and September 30, 2011 is as follows:

	As originally reported under LIFO	Effect of Change	As Adjusted
December 31, 2011			
Assets:			
Inventories	\$ 1,012	\$ 49	\$ 1,061
Share owners' equity:			
Retained earnings (loss)	(428)	49	(379)
September 30, 2011			
Assets:			
Inventories	\$ 1,052	\$ 49	\$ 1,101
Share owners' equity:			
Retained earnings	343	49	392

The effect of the change on the consolidated share owners equity as of January 1, 2011 is as follows:

	As originally reported under LIFO		Effect of Change		As Adjusted
Retained earnings	\$ 82	\$	39	\$	121

The effect of the change on the condensed consolidated cash flows for the nine months ended September 30, 2011 is as follows:

	As originally reported under LIFO		Effect of Change		As Adjusted
Net earnings	\$ 276	\$	10	\$	286
Change in components of working capital	(225)		(10)		(235)

Had the Company not made this change in accounting method, manufacturing, shipping and delivery expense for the three months and nine months ended September 30, 2012 would have been lower by \$3 million and \$2 million, respectively, and net earnings attributable to the Company would have been higher by \$3 million and \$2 million, respectively, than reported in the condensed consolidated results of operations. In addition, both basic and diluted earnings per share would have been higher by \$0.02 and \$0.01 for the three months and nine months ended September 30, 2012, respectively.

2. Earnings Per Share

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

	Three months ended September 30,	
	2012	2011
Numerator:		
Net earnings attributable to the Company	\$ 90	\$ 116
Denominator (in thousands):		
Denominator for basic earnings per share - weighted average shares outstanding	164,800	163,812
Effect of dilutive securities:		
Stock options and other	965	1,883
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	165,765	165,695
Basic earnings per share:		
Earnings from continuing operations	\$ 0.55	\$ 0.73
Loss from discontinued operations	(0.01)	(0.02)
Net earnings	\$ 0.54	\$ 0.71
Diluted earnings per share:		
Earnings from continuing operations	\$ 0.55	\$ 0.72
Loss from discontinued operations	(0.01)	(0.02)
Net earnings	\$ 0.54	\$ 0.70

Options to purchase 2,615,389 and 2,166,511 weighted average shares of common stock which were outstanding during the three months ended September 30, 2012 and 2011, 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.

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	Nine months ended September 30,	
	2012	2011
Numerator:		
Net earnings attributable to the Company	\$ 344	\$ 271
Denominator (in thousands):		
Denominator for basic earnings per share - weighted average shares outstanding	164,614	163,602
Effect of dilutive securities:		
Stock options and other	1,350	2,415
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	165,964	166,017
Basic earnings per share:		
Earnings from continuing operations	\$ 2.11	\$ 1.66
Loss from discontinued operations	(0.03)	(0.01)
Net earnings	\$ 2.08	\$ 1.65
Diluted earnings per share:		
Earnings from continuing operations	\$ 2.10	\$ 1.64
Loss from discontinued operations	(0.03)	(0.01)
Net earnings	\$ 2.07	\$ 1.63

Options to purchase 2,144,413 and 1,487,348 weighted average shares of common stock which were outstanding during the nine months ended September 30, 2012 and 2011, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

The 2015 Exchangeable Notes have a dilutive effect only in those periods in which the Company's average stock price exceeds the exchange price of \$47.47 per share. For the three and nine months ended September 30, 2012 and 2011, the Company's average stock price did not exceed the exchange price. Therefore, the potentially issuable shares resulting from the settlement of the 2015 Exchangeable Notes were not included in the calculation of diluted earnings per share.

3. Debt

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

	September 30, 2012	December 31, 2011	September 30, 2011
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$	\$	\$ 30
Term Loans:			
Term Loan A (119 million AUD at September 30, 2012)	125	173	166
Term Loan B	548	600	600
Term Loan C (110 million CAD at September 30, 2012)	113	114	112
Term Loan D (134 million at September 30, 2012)	173	182	191
Senior Notes:			
3.00%, Exchangeable, due 2015	637	624	620
7.375%, due 2016	590	588	587
6.875%, due 2017 (300 million)	388	388	406
6.75%, due 2020 (500 million)	647	647	677
Senior Debentures:			
7.80%, due 2018	250	250	250
Other	103	137	154
Total long-term debt	3,574	3,703	3,793
Less amounts due within one year	37	76	50
Long-term debt	\$ 3,537	\$ 3,627	\$ 3,743

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). At September 30, 2012, the Agreement included a \$900 million revolving credit facility, a 119 million Australian dollar term loan, a \$548 million term loan, a 110 million Canadian dollar term loan, and a 134 million term loan, each of which has a final maturity date of May 19, 2016. At September 30, 2012, the Company's subsidiary borrowers had unused credit of \$807 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2012 was 2.52%.

The Company has a 240 million European accounts receivable securitization program, which extends through September 2016, subject to annual renewal of backup credit lines. Information related to the Company's accounts receivable securitization program is as follows:

	September 30, 2012	December 31, 2011	September 30, 2011
Balance (included in short-term loans)	\$ 276	\$ 281	\$ 233
Weighted average interest rate	1.13%	2.41%	1.87%

The carrying amounts reported for the accounts receivable securitization programs, and certain long-term debt obligations subject to frequently redetermined interest rates, approximate fair value.

Fair values for the Company's significant fixed rate debt obligations are based on published market quotations, and are classified as Level 1 in the fair value hierarchy.

Fair values at September 30, 2012 of the Company's significant fixed rate debt obligations are as follows:

	Principal Amount	Indicated Market Price	Fair Value
Senior Notes:			
3.00%, Exchangeable, due 2015	\$ 690	98.36	\$ 679
7.375%, due 2016	600	114.63	688
6.875%, due 2017 (300 million)	388	103.00	400
6.75%, due 2020 (500 million)	647	111.38	721
Senior Debentures:			
7.80%, due 2018	250	115.63	289

4. Supplemental Cash Flow Information

	Nine months ended September 30,	
	2012	2011
Interest paid in cash	\$ 187	\$ 233
Income taxes paid in cash:		
U.S.	\$ 2	\$
Non-U.S.	102	91
Total income taxes paid in cash	\$ 104	\$ 91

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

During the nine months ended September 30, 2012, the Company received \$42 million from the Chinese government as partial compensation for land in China that the Company is required to return to the government. The Company has deferred recognition of a gain related to this compensation until all recognition criteria have been met.

5. Share Owners Equity

The activity in share owners equity for the three months ended September 30, 2012 and 2011 is as follows:

	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 July 1, 2012	\$ 2	\$ 3,000	\$ (402)	\$ (125)	\$ (1,373)	\$ 142	\$ 1,244
Issuance of common stock (0.1 million shares)		1					1
Reissuance of common stock (0.1 million shares)		(1)	3				2
Treasury shares purchased (0.7 million shares)			(14)				(14)
Stock compensation		2					2
Comprehensive income (loss):							
Net earnings				90		7	97
Foreign currency translation adjustments					84	2	86
Pension and other postretirement benefit adjustments, net of tax					16		16
Change in fair value of derivative instruments, net of tax					3		3
Dividends paid to noncontrolling interests on subsidiary common stock						(1)	(1)
Balance on September 30, 2012	\$ 2	\$ 3,002	\$ (413)	\$ (35)	\$ (1,270)	\$ 150	\$ 1,436

	Share Owners Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners Equity
Balance on July 1, 2011	\$ 2	\$ 2,986	\$ (410)	\$ 276	\$ (672)	\$ 157	\$ 2,339
Issuance of common stock (0.1 million shares)		2					2
Reissuance of common stock (0.1 million shares)		(1)	2				1
Stock compensation		3					3
Comprehensive income:							
Net earnings				116		4	120
Foreign currency translation adjustments					(352)	(6)	(358)
Pension and other postretirement benefit adjustments, net of tax					39		39
Change in fair value of derivative instruments, net of					(2)		(2)

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tax											
Dividends paid to noncontrolling interests on subsidiary common stock								(1)	(1)		
Balance on September 30, 2011	\$	2	\$	2,990	\$	(408)	\$	392	\$ (987)	\$ 154	\$ 2,143

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The activity in share owners equity for the nine months ended September 30, 2012 and 2011 is as follows:

	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, 2012	\$ 2	\$ 2,991	\$ (405)	\$ (379)	\$ (1,321)	\$ 153	\$ 1,041
Issuance of common stock (0.2 million shares)		3					3
Reissuance of common stock (0.2 million shares)		(1)	6				5
Treasury shares purchased (0.7 million shares)			(14)				(14)
Stock compensation		9					9
Comprehensive income:							
Net earnings				344		15	359
Foreign currency translation adjustments					(28)	6	(22)
Pension and other postretirement benefit adjustments, net of tax					73		73
Change in fair value of derivative instruments, net of tax					6		6
Dividends paid to noncontrolling interests on subsidiary common stock						(24)	(24)
Balance on September 30, 2012	\$ 2	\$ 3,002	\$ (413)	\$ (35)	\$ (1,270)	\$ 150	\$ 1,436

	Share Owners Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners Equity
Balance on January 1, 2011	\$ 2	\$ 3,040	\$ (412)	\$ 121	\$ (897)	\$ 211	\$ 2,065
Issuance of common stock (0.3 million shares)		5					5
Reissuance of common stock (0.2 million shares)			4				4
Stock compensation		(1)					(1)
Comprehensive income:							
Net earnings				271		15	286
Foreign currency translation adjustments					(165)	3	(162)
Pension and other postretirement benefit adjustments, net of tax					85		85
Change in fair value of derivative instruments, net of tax					(1)		(1)
Acquisition of noncontrolling interest		(54)			(9)	(43)	(106)
						(32)	(32)

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Dividends paid to
noncontrolling interests on
subsidiary common stock

Balance on September 30, 2011	\$	2	\$	2,990	\$	(408)	\$	392	\$	(987)	\$	154	\$	2,143
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During the three months and nine months ended September 30, 2012, the Company purchased 700,000 shares of its common stock for \$14 million pursuant to authorization by its Board of Directors in August 2012 to purchase up to \$75 million of the Company's common stock.

6. Inventories

Major classes of inventory are as follows:

	September 30, 2012	December 31, 2011	September 30, 2011
Finished goods	\$ 1,054	\$ 891	\$ 930
Raw materials	128	123	117
Operating supplies	46	47	54
	\$ 1,228	\$ 1,061	\$ 1,101

7. Contingencies

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

As of September 30, 2012, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 4,500 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2011, approximately 71% 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 27% of plaintiffs specifically plead damages of \$15 million or less, and 2% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages \$100 million or greater but less than \$122 million.

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

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of September 30, 2012 there are approximately 350 claims against other defendants which are likely to be asserted some time in the future against the Company.

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

Since receiving its first asbestos claim, the Company, as of September 30, 2012, has disposed of the asbestos claims of approximately 389,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$8,200. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$27 million at September 30, 2012 (\$18 million at December 31, 2011) and are included in the foregoing average indemnity payment per claim. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Failure of claimants to meet certain medical and product exposure criteria in the Company's administrative claims handling agreements has generally reduced the number of marginal or suspect claims that would otherwise have been received. In addition, certain courts and legislatures have reduced or eliminated the number of marginal or suspect claims that the Company otherwise would have received. These developments generally have had the effect of increasing the Company's per-claim average indemnity payment.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot reasonably be estimated. Beginning with the initial liability of \$975 million established in 1993, the Company has accrued a total of approximately \$4.0 billion through 2011, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by, among other factors, the volatility of asbestos-related litigation in the United States, the significant number of co-defendants that have filed for bankruptcy, the magnitude and timing of co-defendant bankruptcy trust payments, the inherent uncertainty of future disease incidence and claiming patterns, the expanding list of non-traditional defendants that have been sued in this litigation, and the use of mass litigation screenings to generate large numbers of claims by parties who allege exposure to asbestos dust but have no present physical asbestos impairment.

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

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

a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;

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

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

On March 11, 2011, the Company received a verdict in an asbestos case in which conspiracy claims had been asserted against the Company. Of the total nearly \$90 million awarded by the jury against the four defendants in the case, almost \$10 million in compensatory damages were assessed against all four defendants, and \$40 million in punitive damages were assessed against the Company. On August 31, 2012, the trial judge who presided over the original trial vacated all of the damages awarded against the Company in the trial and entered judgment in the Company's favor. The plaintiff has appealed the trial judge's ruling to an intermediate appellate court, and while the Company cannot predict the ultimate outcome of this appeal, the Company believes that the trial judge ruled appropriately based upon applicable appellate precedent.

The Company's reported results of operations for 2011 were materially affected by the \$165 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and may continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs

and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

The Company is conducting 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 (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 (DOJ) and the Securities and Exchange Commission (SEC). The Company intends to cooperate with any investigation by the DOJ and the SEC.

The Company is presently unable to predict the duration, scope or result of its internal investigation, of any investigations by the DOJ or the SEC or whether either agency will commence any legal action. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, fines, penalties, and modifications to business practices. The Company also could 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.

8. Segment Information

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

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

In prior periods, pension expense was recorded in each segment related to the pension plans in place in that segment, with the exception of the U.S. pension plans which were recorded in Retained corporate costs and other. Effective January 1, 2012, the Company changed the allocation of pension expense to its reportable segments such that pension expense recorded in each segment relates only to the service cost component of the plans in that segment. The other

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components of pension expense, including interest cost, expected asset returns and amortization of actuarial losses, are recorded in Retained corporate costs and other. This change in allocation has been applied retrospectively to all periods. Also effective January 1, 2012, the Company elected to change the method of valuing U.S. inventories (see Note 1 for additional information).

There is no impact of the change in accounting method for inventory on segment operating profit for the three months ended September 30, 2011. The impact of the change in pension expense allocation for the three months ended September 30, 2011 is as follows:

	As Originally Reported	Change in Pension Allocation	As Adjusted
Segment operating profit:			
Europe	\$ 106	\$ 5	\$ 111
North America	73	(6)	67
South America	67		67
Asia Pacific	23		23
Reportable segment totals	269	(1)	268
Retained corporate costs and other	(24)	1	(23)

The impact of the changes in pension expense allocation and accounting method for inventory on segment operating profit for the nine months ended September 30, 2011 is as follows:

	As Originally Reported	Change in Pension Allocation	Change in Accounting Method for Inventory	As Adjusted
Segment operating profit:				
Europe	\$ 284	\$ 15	\$	\$ 299
North America	188	(18)	10	180
South America	165			165
Asia Pacific	56			56
Reportable segment totals	693	(3)	10	700
Retained corporate costs and other	(51)	3		(48)

Financial information for the three months ended September 30, 2012 and 2011 regarding the Company's reportable segments is as follows:

	2012	2011
Net sales:		
Europe	\$ 652	\$ 770
North America	513	497
South America	323	310
Asia Pacific	254	270
Reportable segment totals	1,742	1,847
Other	5	15
Net sales	\$ 1,747	\$ 1,862

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	2012		2011
Segment operating profit:			
Europe	\$ 74	\$	111
North America	75		67
South America	69		67
Asia Pacific	27		23
Reportable segment totals	245		268
Items excluded from segment operating profit:			
Retained corporate costs and other	(26)		(23)
Restructuring and asset impairment	(33)		(29)
Interest income	2		2
Interest expense	(61)		(70)
Earnings from continuing operations before income taxes	\$ 127	\$	148

Financial information for the nine months ended September 30, 2012 and 2011 regarding the Company's reportable segments is as follows:

	2012		2011
Net sales:			
Europe	\$ 2,088	\$	2,355
North America	1,511		1,466
South America	882		881
Asia Pacific	741		778
Reportable segment totals	5,222		5,480
Other	30		60
Net sales	\$ 5,252	\$	5,540

	2012		2011
Segment operating profit:			
Europe	\$ 289	\$	299
North America	249		180
South America	154		165
Asia Pacific	79		56
Reportable segment totals	771		700
Items excluded from segment operating profit:			
Retained corporate costs and other	(82)		(48)
Restructuring and asset impairment	(33)		(41)
Interest income	7		8
Interest expense	(187)		(246)
Earnings from continuing operations before income taxes	\$ 476	\$	373

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

Total assets:						
Europe	\$	3,510	\$	3,588	\$	3,693
North America		2,058		2,020		2,002
South America		1,658		1,682		1,649
Asia Pacific		1,371		1,379		1,974
Reportable segment totals		8,597		8,669		9,318
Other		274		306		283
Consolidated totals	\$	8,871	\$	8,975	\$	9,601

9. Other Expense

Other expense for the three months and nine months ended September 30, 2012 includes charges for restructuring and asset impairment totaling \$9 million in the Company's Europe segment and \$27 million in the Asia Pacific segment, primarily related to the closure of a furnace in each segment. Other expense for the three months and nine months ended September 30, 2012 also includes a \$3 million gain related to the sale of a previously closed facility in North America. See Note 10 for additional information.

Other expense for the three months and nine months ended September 30, 2011 includes charges totaling \$23 million and \$35 million, respectively, for restructuring and asset impairment in the Company's Asia Pacific segment related to the completed and planned closures of furnaces and machine lines. Other expense for the three months and nine months ended September 30, 2011 also includes \$6 million for restructuring charges related to headcount reductions, primarily in the Company's South America segment. See Note 10 for additional information.

10. Restructuring Accruals

Selected information related to the restructuring accruals for the three months and nine months ended September 30, 2012 and 2011 is as follows:

	Strategic Footprint Review	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2012	\$ 37	\$ 17	\$ 49	\$ 103
Net cash paid, principally severance and related benefits	(2)	(11)	(17)	(30)
Other, including foreign exchange translation			3	3
Balance at March 31, 2012	35	6	35	76
Second quarter 2012 charges	(1)	(1)	2	
Write-down of assets to net realizable value			(2)	(2)
Net cash paid, principally severance and related benefits	(1)	(2)	(7)	(10)
Other, including foreign exchange translation	(4)		(4)	(8)
Balance at June 30, 2012	29	3	24	56
Third quarter 2012 charges	(3)	27	9	33
Write-down of assets to net realizable value		(14)	(2)	(16)
Net cash paid, principally severance and related benefits	(1)		(6)	(7)
Other, including foreign exchange translation	2		2	4
Balance at September 30, 2012	\$ 27	\$ 16	\$ 27	\$ 70
Balance at January 1, 2011	\$ 52		\$ 27	\$ 79
First quarter 2011 charges		8		8
Net cash paid, principally severance and related benefits	(4)			(4)
Other, including foreign exchange translation	2			2
Balance at March 31, 2011	50	8	27	85
Second quarter 2011 charges		4		4
Net cash paid, principally severance and related benefits	(2)	(7)		(9)
Other, including foreign exchange translation			(2)	(2)
Balance at June 30, 2011	48	5	25	78
Third quarter 2011 charges		23	6	29
Write-down of assets to net realizable value		(10)		(10)
Net cash paid, principally severance and related benefits	(2)	(10)	(2)	(14)
Acquisition			11	11
Other, including foreign exchange translation	(1)		(2)	(3)
Balance at September 30, 2011	\$ 45	\$ 8	\$ 38	\$ 91

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

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

11. 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 valuing 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 Futures Contracts Designated as Cash Flow Hedges

In North America, the Company enters into commodity futures contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements. The majority of the sales volume in North America is tied to customer contracts that contain provisions that pass the price of natural gas to the customer. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. At September 30, 2012 and 2011, the Company had entered into commodity futures contracts covering approximately 6,300,000 MM BTUs and 5,100,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above futures contracts as cash flow hedges at September 30, 2012 and recognizes them on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in the Accumulated Other Comprehensive Income component of share owners' equity (OCI) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. At September 30, 2012, an immaterial unrecognized gain related to the commodity futures contracts was included in Accumulated OCI, while an unrecognized loss of \$4 million was included in Accumulated OCI at September 30, 2011. The amounts recorded in Accumulated OCI will be reclassified into earnings over the next twelve to twenty-four months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and nine months ended September 30, 2012 and 2011 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended September 30, 2012 and 2011 is as follows:

Amount of Gain (Loss) Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Loss Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping and delivery) (Effective Portion)	
2012	2011	2012	2011
\$ 1	\$ (3)	\$ (2)	\$ (1)

The effect of the commodity futures contracts on the results of operations for the nine months ended September 30, 2012 and 2011 is as follows:

Amount of Loss Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Loss Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping and delivery) (Effective Portion)	
2012	2011	2012	2011
\$ (1)	\$ (5)	\$ (7)	\$ (4)

Senior Notes Designated as Net Investment Hedge

During December 2004, a U.S. subsidiary of the Company issued senior notes totaling 225 million. These notes were designated by the Company's subsidiary as a hedge of a portion of its net investment in a non-U.S. subsidiary with a Euro functional currency. Because the amount of the senior notes matched the hedged portion of the net investment, there was no hedge ineffectiveness. Accordingly, the Company recorded the impact of changes in the foreign currency exchange rate on the Euro-denominated notes in OCI. The amount of loss recognized in OCI related to this net investment hedge for the nine months ended September 30, 2011 was \$25 million. During the second quarter of 2011, the senior notes designated as the net investment hedge were redeemed by a subsidiary of the Company. The amount recorded in OCI related to this net investment hedge will be reclassified into earnings when the Company sells or liquidates its net investment in the non-U.S. subsidiary.

Forward Exchange Contracts not Designated as Hedging Instruments

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

At September 30, 2012 and 2011, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$640 million and \$740 million, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange contracts on the results of operations for the three months ended September 30, 2012 and 2011 is as follows:

Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts	
	2012	2011
Other expense	\$ (1)	\$ 10

The effect of the forward exchange contracts on the results of operations for the nine months ended September 30, 2012 and 2011 is as follows:

Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts	
	2012	2011
Other expense	\$ 9	\$ (14)

Balance Sheet Classification

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

	Balance Sheet Location	September 30, 2012	Fair Value December 31, 2011	September 30, 2011
Asset Derivatives:				
Derivatives designated as hedging instruments:				
Commodity futures contracts	c	\$ 1	\$	\$
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	a	2	13	19
Foreign exchange contracts	b	1		
Foreign exchange contracts	c			3
Total derivatives not designated as hedging instruments		3	13	22
Total asset derivatives		\$ 4	\$ 13	\$ 22
Liability Derivatives:				
Derivatives designated as hedging instruments:				
Commodity futures contracts	c	\$ 1	\$ 6	\$ 4
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	c	4	4	8
Total liability derivatives		\$ 5	\$ 10	\$ 12

12. Pensions Benefit Plans and Other Postretirement Benefits

The components of the net periodic pension cost for the three months ended September 30, 2012 and 2011 are as follows:

	U.S.		Non-U.S.	
	2012	2011	2012	2011
Service cost	\$ 6	\$ 6	\$ 10	\$ 6
Interest cost	29	31	18	24
Expected asset return	(46)	(46)	(22)	(23)
Amortization:				
Prior service credit				(1)
Actuarial loss	24	21	6	6
Net amortization	24	21	6	5
Net periodic pension cost	\$ 13	\$ 12	\$ 12	\$ 12

The components of the net periodic pension cost for the nine months ended September 30, 2012 and 2011 are as follows:

	U.S.		Non-U.S.	
	2012	2011	2012	2011
Service cost	\$ 20	\$ 19	\$ 23	\$ 18
Interest cost	86	93	55	66
Expected asset return	(138)	(140)	(66)	(67)
Amortization:				
Prior service credit				(1)
Actuarial loss	72	63	17	18
Net amortization	72	63	17	17
Net periodic pension cost	\$ 40	\$ 35	\$ 29	\$ 34

The components of the net postretirement benefit cost for the three months ended September 30, 2012 and 2011 are as follows:

	U.S.		Non-U.S.	
	2012	2011	2012	2011
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	2	2	1	1
Amortization:				
Prior service credit		(1)		
Actuarial loss		1		
Net amortization				

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Net postretirement benefit cost	\$	2	\$	3	\$	1	\$	1
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The components of the net postretirement benefit cost for the nine months ended September 30, 2012 and 2011 are as follows:

	U.S.		Non-U.S.	
	2012	2011	2012	2011
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	6	7	3	3
Amortization:				
Prior service credit	(2)	(3)		
Actuarial loss	3	4		
Net amortization	1	1		
Net postretirement benefit cost	\$ 8	\$ 9	\$ 4	\$ 4

13. Income Taxes

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

The Company records a liability for unrecognized tax benefits related to uncertain tax positions. The Company recorded a decrease of \$38 million to the estimated liability associated with uncertain tax positions in the nine months ended September 30, 2012. The Company believes that it is reasonably possible that the estimated liability could decrease up to \$30 million within the next 12 months. This is primarily the result of audit settlements or statute expirations in several taxing jurisdictions.

14. Discontinued Operations

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

Since the issuance of the decree, the Company has cooperated with the Venezuelan government, as it is compelled to do under Venezuelan law, to provide for an orderly transition while ensuring the safety and well-being of the employees and the integrity of the production facilities. The Company has been engaged in negotiations with the Venezuelan government in relation to certain aspects of the expropriation, including the compensation payable by the government as a result of its expropriation. On September 26, 2011, the Company, having been unable to reach an

agreement with the Venezuelan government regarding fair compensation, commenced an arbitration against Venezuela through the World Bank's International Centre for Settlement of Investment Disputes. The Company is unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive.

15. 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.

Balance Sheet	September 30, 2012					Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations		
Current assets:						
Accounts receivable	\$	\$	\$	1,133	\$	\$ 1,133
Inventories				1,228		1,228
Other current assets				427		427
Total current assets				2,788		2,788
Investments in and advances to subsidiaries	1,921	1,671			(3,592)	
Goodwill				2,065		2,065
Other non-current assets				1,283		1,283
Total other assets	1,921	1,671		3,348	(3,592)	3,348
Property, plant and equipment, net				2,735		2,735
Total assets	\$ 1,921	\$ 1,671	\$ 8,871	\$ (3,592)	\$	\$ 8,871
Current liabilities :						
Accounts payable and accrued liabilities	\$	\$	\$	1,517	\$	\$ 1,517
Current portion of asbestos liability	165					165
Short-term loans and long-term debt due within one year				356		356
Total current liabilities	165			1,873		2,038
Long-term debt	250			3,537	(250)	3,537
Asbestos-related liabilities	220					220
Other non-current liabilities				1,640		1,640
Total share owners equity of the Company	1,286	1,671	1,671		(3,342)	1,286
Noncontrolling interests				150		150
Total liabilities and share owners equity	\$ 1,921	\$ 1,671	\$ 8,871	\$ (3,592)	\$	\$ 8,871

Balance Sheet	December 31, 2011					Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations		
Current assets:						
Accounts receivable	\$	\$	\$	1,158	\$	\$ 1,158
Inventories				1,061		1,061
Other current assets				524		524
Total current assets				2,743		2,743
Investments in and advances to subsidiaries	1,609	1,359			(2,968)	
Goodwill				2,082		2,082
Other non-current assets				1,273		1,273
Total other assets	1,609	1,359		3,355	(2,968)	3,355
Property, plant and equipment, net				2,877		2,877
Total assets	\$ 1,609	\$ 1,359	\$ 8,975	\$ (2,968)	\$ 8,975	
Current liabilities :						
Accounts payable and accrued liabilities	\$	\$	\$	1,674	\$	\$ 1,674
Current portion of asbestos liability	165					165
Short-term loans and long-term debt due within one year				406		406
Total current liabilities	165			2,080		2,245
Long-term debt	250			3,627	(250)	3,627
Asbestos-related liabilities	306					306
Other non-current liabilities				1,756		1,756
Total share owners equity of the Company	888	1,359	1,359	(2,718)		888
Noncontrolling interests				153		153
Total liabilities and share owners equity	\$ 1,609	\$ 1,359	\$ 8,975	\$ (2,968)	\$ 8,975	

Balance Sheet	September 30, 2011					Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations		
Current assets:						
Accounts receivable	\$	\$	\$	1,218	\$	\$ 1,218
Inventories				1,101		1,101
Other current assets				369		369
Total current assets				2,688		2,688
Investments in and advances to subsidiaries	2,613	2,363			(4,976)	
Goodwill				2,762		2,762
Other non-current assets				1,220		1,220
Total other assets	2,613	2,363		3,982	(4,976)	3,982
Property, plant and equipment, net				2,931		2,931
Total assets	\$ 2,613	\$ 2,363	\$ 9,601	\$ (4,976)	\$	\$ 9,601
Current liabilities :						
Accounts payable and accrued liabilities	\$	\$	\$	1,598	\$	\$ 1,598
Current portion of asbestos liability	170					170
Short-term loans and long-term debt due within one year				345		345
Total current liabilities	170			1,943		2,113
Long-term debt	250			3,743	(250)	3,743
Asbestos-related liabilities	204					204
Other non-current liabilities				1,398		1,398
Total share owners equity of the Company	1,989	2,363	2,363		(4,726)	1,989
Noncontrolling interests				154		154
Total liabilities and share owners equity	\$ 2,613	\$ 2,363	\$ 9,601	\$ (4,976)	\$	\$ 9,601

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Three months ended September 30, 2012

Results of Operations	Non-				Consolidated
	Parent	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	
Net sales	\$	\$	\$ 1,747	\$	\$ 1,747
Manufacturing, shipping and delivery			(1,405)		(1,405)
Gross profit			342		342
Research, engineering, selling, administrative, and other			(180)		(180)
Net intercompany interest	5		(5)		
Interest expense	(5)		(56)		(61)
Interest income			2		2
Equity earnings from subsidiaries	90	90		(180)	
Other equity earnings			16		16
Other income			8		8
Earnings before income taxes	90	90	127	(180)	127
Provision for income taxes			(28)		(28)