

OWENS ILLINOIS INC /DE/
Form 10-Q
October 28, 2010

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 Quarter Ended September 30, 2010

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Owens-Illinois, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of
incorporation or
organization)

1-9576
(Commission
File No.)

22-2781933
(IRS Employer
Identification No.)

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

43551-2999
(Zip Code)

567-336-5000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Owens-Illinois, Inc. \$.01 par value common stock 163,635,632 shares at September 30, 2010.

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 Registrant s Annual Report on Form 10-K for the year ended December 31, 2009.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended September 30,	
	2010	2009
Net sales	\$ 1,741.2	\$ 1,874.6
Manufacturing, shipping, and delivery expense	(1,364.1)	(1,425.9)
Gross profit	377.1	448.7
Selling and administrative expense	(125.4)	(128.2)
Research, development, and engineering expense	(14.2)	(14.3)
Interest expense	(61.0)	(58.6)
Interest income	2.5	6.1
Equity earnings	19.4	11.9
Royalties and net technical assistance	4.1	3.4
Other income	7.5	2.4
Other expense	(2.0)	(78.6)
Earnings from continuing operations before income taxes	208.0	192.8
Provision for income taxes	(57.3)	(63.8)
Net earnings	150.7	129.0
Net earnings attributable to noncontrolling interests	(12.0)	(2.3)
Net earnings attributable to the Company	\$ 138.7	\$ 126.7
Basic earnings per share	\$ 0.85	\$ 0.75
Weighted average shares outstanding (thousands)	163,079	167,877
Diluted earnings per share	\$ 0.84	\$ 0.74
Weighted diluted average shares (thousands)	165,591	171,543
Comprehensive income (loss):		
Net earnings	\$ 150.7	\$ 129.0
Foreign currency translation adjustments	276.1	158.2
Pension and other postretirement benefit adjustments, net of tax	10.7	11.0
Change in fair value of derivative instruments, net of tax	(4.1)	15.9
Total comprehensive income	433.4	314.1
Comprehensive income attributable to noncontrolling interests	(22.1)	(13.5)
Comprehensive income attributable to the Company	\$ 411.3	\$ 300.6

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Nine months ended September 30,	
	2010	2009
Net sales	\$ 5,034.6	\$ 5,200.6
Manufacturing, shipping, and delivery expense	(3,949.8)	(4,047.7)
Gross profit	1,084.8	1,152.9
Selling and administrative expense	(372.0)	(369.1)
Research, development, and engineering expense	(43.3)	(42.3)
Interest expense	(176.6)	(164.6)
Interest income	10.7	21.1
Equity earnings	45.5	39.6
Royalties and net technical assistance	12.1	9.7
Other income	10.1	4.9
Other expense	(25.1)	(157.4)
Earnings from continuing operations before income taxes	546.2	494.8
Provision for income taxes	(146.2)	(144.5)
Net earnings	400.0	350.3
Net earnings attributable to noncontrolling interests	(34.9)	(29.2)
Net earnings attributable to the Company	\$ 365.1	\$ 321.1
Basic earnings per share	\$ 2.21	\$ 1.91
Weighted average shares outstanding (thousands)	164,638	167,577
Diluted earnings per share	\$ 2.18	\$ 1.89
Weighted diluted average shares (thousands)	167,558	170,160
Comprehensive income (loss):		
Net earnings	\$ 400.0	\$ 350.3
Foreign currency translation adjustments	84.1	338.4
Pension and other postretirement benefit adjustments, net of tax	68.1	26.2
Change in fair value of derivative instruments, net of tax	(5.2)	24.7
Total comprehensive income	547.0	739.6
Comprehensive income attributable to noncontrolling interests	(43.1)	(48.4)
Comprehensive income attributable to the Company	\$ 503.9	\$ 691.2

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	September 30, 2010	December 31, 2009	September 30, 2009
Assets			
Current assets:			
Cash and cash equivalents	\$ 700.2	\$ 811.7	\$ 1,017.1
Short-term investments, at cost which approximates market	0.7	0.9	0.9
Receivables, less allowances for losses and discounts (\$43.2 at September 30, 2010, \$36.5 at December 31, 2009, and \$36.7 at September 30, 2009)	1,186.0	1,004.2	1,146.6
Inventories	1,012.1	900.3	1,035.4
Prepaid expenses	66.6	79.6	45.5
Total current assets	2,965.6	2,796.7	3,245.5
Investments and other assets:			
Equity investments	286.8	114.3	124.0
Repair parts inventories	145.2	125.1	144.2
Prepaid pension	45.5	46.3	
Deposits, receivables, and other assets	623.6	521.7	513.9
Goodwill	2,744.3	2,381.0	2,382.3
Total other assets	3,845.4	3,188.4	3,164.4
Property, plant, and equipment, at cost	7,042.4	6,618.9	6,559.2
Less accumulated depreciation	3,970.2	3,876.6	3,849.3
Net property, plant, and equipment	3,072.2	2,742.3	2,709.9
Total assets	\$ 9,883.2	\$ 8,727.4	\$ 9,119.8

CONDENSED CONSOLIDATED BALANCE SHEETS Continued

	September 30, 2010	December 31, 2009	September 30, 2009
Liabilities and Share Owners Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 339.3	\$ 352.0	\$ 377.6
Current portion of asbestos-related liabilities	175.0	175.0	175.0
Accounts payable	862.5	863.2	816.1
Other liabilities	779.1	644.1	730.8
Total current liabilities	2,155.9	2,034.3	2,099.5
Long-term debt	4,005.7	3,257.5	3,343.9
Deferred taxes	228.9	186.3	160.1
Pension benefits	547.0	577.6	706.9
Nonpension postretirement benefits	265.1	266.7	242.5
Other liabilities	328.0	358.5	368.9
Asbestos-related liabilities	196.5	310.1	197.9
Commitments and contingencies			
Share owners equity:			
Share owners equity of the Company:			
Common stock, par value \$.01 per share, 250,000,000 shares authorized, 180,778,613, 179,923,309, and 179,877,088 shares issued (including treasury shares), respectively	1.8	1.8	1.8
Capital in excess of par value	3,033.9	2,941.9	2,935.2
Treasury stock, at cost, 17,142,981, 11,322,544, and 11,366,734 shares, respectively	(413.0)	(217.1)	(218.0)
Retained earnings	494.5	129.4	288.7
Accumulated other comprehensive loss	(1,179.0)	(1,317.8)	(1,250.5)
Total share owners equity of the Company	1,938.2	1,538.2	1,757.2
Noncontrolling interests	217.9	198.2	242.9
Total share owners equity	2,156.1	1,736.4	2,000.1
Total liabilities and share owners equity	\$ 9,883.2	\$ 8,727.4	\$ 9,119.8

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$ 400.0	\$ 350.3
Non-cash charges (credits):		
Depreciation	270.5	274.3
Amortization of intangibles and other deferred items	17.6	18.0
Amortization of finance fees and debt discount	15.9	7.3
Deferred tax provision (benefit)	(7.1)	11.8
Restructuring and asset impairment	8.0	113.1
Charge for acquisition-related fair value inventory adjustments	5.1	
Other	78.9	55.0
Asbestos-related payments	(113.6)	(122.4)
Cash paid for restructuring activities	(49.0)	(42.7)
Change in non-current operating assets	(33.2)	13.1
Change in non-current liabilities	(44.0)	(96.8)
Change in components of working capital	(144.1)	(1.6)
Cash provided by operating activities	405.0	579.4
Cash flows from investing activities:		
Additions to property, plant, and equipment	(391.6)	(193.7)
Acquisitions, net of cash acquired	(754.3)	(5.4)
Advances to equity affiliate - net		1.6
Change in short-term investments	0.3	
Net cash proceeds related to sale of assets	0.9	4.4
Cash utilized in investing activities	(1,144.7)	(193.1)
Cash flows from financing activities:		
Additions to long-term debt	1,369.8	1,072.6
Repayments of long-term debt	(494.8)	(750.0)
Decrease in short-term loans	(29.4)	(55.1)
Net receipts for hedging activity	33.8	17.9
Payment of finance fees	(32.6)	(13.9)
Dividends paid to noncontrolling interests	(23.4)	(58.3)
Treasury shares purchased	(199.2)	
Issuance of common stock and other	4.1	6.1
Cash provided by financing activities	628.3	219.3
Effect of exchange rate fluctuations on cash	(0.1)	32.0
Increase (decrease) in cash	(111.5)	637.6
Cash at beginning of period	811.7	379.5
Cash at end of period	\$ 700.2	\$ 1,017.1

See accompanying notes.

OWENS-ILLINOIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Earnings Per Share

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

	Three months ended September 30,	
	2010	2009
Numerator:		
Net earnings attributable to the Company	\$ 138.7	\$ 126.7
Net earnings attributable to participating securities	(0.4)	(0.4)
Numerator for basic earnings per share - income available to common share owners	\$ 138.3	\$ 126.3
Denominator:		
Denominator for basic earnings per share - weighted average shares outstanding	163,078,538	167,877,352
Effect of dilutive securities:		
Stock options and other	2,512,519	3,665,804
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	165,591,057	171,543,156
Basic earnings per share	\$ 0.85	\$ 0.75
Diluted earnings per share	\$ 0.84	\$ 0.74

Options to purchase 838,535 and 400,182 weighted average shares of common stock that were outstanding during the three months ended September 30, 2010 and 2009, 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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The following table sets forth the computation of basic and diluted earnings per share:

	Nine months ended September 30,	
	2010	2009
Numerator:		
Net earnings attributable to the Company	\$ 365.1	\$ 321.1
Net earnings attributable to participating securities	(1.2)	(1.1)
Numerator for basic earnings per share - income available to common share owners	\$ 363.9	\$ 320.0
Denominator:		
Denominator for basic earnings per share - weighted average shares outstanding	164,637,945	167,576,712
Effect of dilutive securities:		