

OWENS ILLINOIS INC /DE/  
Form 10-Q  
July 25, 2013

**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 June 30, 2013

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 ☐

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 June 30, 2013 was 164,358,692.

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, 2012.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 1,781	\$ 1,766	\$ 3,422	\$ 3,505
Manufacturing, shipping and delivery expense	(1,412)	(1,390)	(2,734)	(2,751)
Gross profit	369	376	688	754
Selling and administrative expense	(129)	(139)	(258)	(279)
Research, development and engineering expense	(15)	(17)	(30)	(32)
Interest expense	(57)	(62)	(128)	(126)
Interest income	1	2	4	5
Equity earnings	16	18	33	31
Royalties and net technical assistance	4	5	8	9
Other income	3	4	6	6
Other expense	(15)	(8)	(29)	(19)
Earnings from continuing operations before income taxes	177	179	294	349
Provision for income taxes	(37)	(41)	(70)	(85)
Earnings from continuing operations	140	138	224	264
Loss from discontinued operations	(3)	(1)	(13)	(2)
Net earnings	137	137	211	262
Net earnings attributable to noncontrolling interests	(5)	(4)	(10)	(8)
Net earnings attributable to the Company	\$ 132	\$ 133	\$ 201	\$ 254
Amounts attributable to the Company:				
Earnings from continuing operations	\$ 135	\$ 134	\$ 214	\$ 256
Loss from discontinued operations	(3)	(1)	(13)	(2)
Net earnings	\$ 132	\$ 133	\$ 201	\$ 254
Basic earnings per share:				
Earnings from continuing operations	\$ 0.82	\$ 0.82	\$ 1.30	\$ 1.56
Loss from discontinued operations	(0.02)	(0.01)	(0.08)	(0.02)
Net earnings	\$ 0.80	\$ 0.81	\$ 1.22	\$ 1.54
Weighted average shares outstanding (thousands)	164,369	164,799	164,220	164,520
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.81	\$ 0.81	\$ 1.29	\$ 1.54
Loss from discontinued operations	(0.02)	(0.01)	(0.08)	(0.02)
Net earnings	\$ 0.79	\$ 0.80	\$ 1.21	\$ 1.52
Weighted average diluted shares outstanding (thousands)	165,731	165,930	165,617	166,062

See accompanying notes.



OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended June 30,		2012		Six months ended June 30,		2012	
	2013		2013		2013		2012	
Net earnings	\$	137	\$	137	\$	211	\$	262
Other comprehensive income (loss):								
Foreign currency translation adjustments		(162)		(207)		(194)		(108)
Pension and other postretirement benefit adjustments, net of tax		90		33		135		57
Change in fair value of derivative instruments		(4)		3				3
Other comprehensive loss		(76)		(171)		(59)		(48)
Total comprehensive income (loss)		61		(34)		152		214
Comprehensive income attributable to noncontrolling interests		(3)		(1)		(4)		(12)
Comprehensive income (loss) attributable to the Company	\$	58	\$	(35)	\$	148	\$	202

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	June 30, 2013	December 31, 2012	June 30, 2012
Assets			
Current assets:			
Cash and cash equivalents	\$ 249	\$ 431	\$ 336
Receivables, less allowances for losses and discounts (\$42 at June 30, 2013, \$41 at December 31, 2012, and \$40 at June 30, 2012)	1,159	968	1,173
Inventories	1,175	1,139	1,223
Prepaid expenses	110	110	115
Total current assets	2,693	2,648	2,847
Investments and other assets:			
Equity investments	290	294	292
Repair parts inventories	129	133	149
Pension assets			115
Other assets	667	675	687
Goodwill	2,031	2,079	2,023
Total other assets	3,117	3,181	3,266
Property, plant and equipment, at cost	6,420	6,667	6,777
Less accumulated depreciation	3,820	3,898	4,056
Net property, plant and equipment	2,600	2,769	2,721
Total assets	\$ 8,410	\$ 8,598	\$ 8,834

## CONDENSED CONSOLIDATED BALANCE SHEETS Continued

	June 30, 2013	December 31, 2012	June 30, 2012
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 437	\$ 319	\$ 452
Current portion of asbestos-related liabilities	155	155	165
Accounts payable	982	1,032	909
Other liabilities	545	656	588
Total current liabilities	2,119	2,162	2,114
Long-term debt	3,336	3,454	3,567
Deferred taxes	190	182	204
Pension benefits	805	846	817
Nonpension postretirement benefits	199	264	266
Other liabilities	310	329	374
Asbestos-related liabilities	257	306	248
Commitments and contingencies			
Share owners' equity:			
Share owners' equity of the Company:			
Common stock, par value \$.01 per share, 250,000,000 shares authorized, 182,510,982, 181,865,751, and 181,726,093 shares issued (including treasury shares), respectively	2	2	2
Capital in excess of par value	3,018	3,005	3,000
Treasury stock, at cost, 18,152,290, 17,901,925, and 16,656,654 shares, respectively	(433)	(425)	(402)
Retained earnings (loss)	6	(195)	(125)
Accumulated other comprehensive loss	(1,559)	(1,506)	(1,373)
Total share owners' equity of the Company	1,034	881	1,102
Noncontrolling interests	160	174	142
Total share owners' equity	1,194	1,055	1,244
Total liabilities and share owners' equity	\$ 8,410	\$ 8,598	\$ 8,834

See accompanying notes.



## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Six months ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net earnings	\$ 211	\$ 262
Loss from discontinued operations	13	2
Non-cash charges (credits):		
Depreciation	180	191
Amortization of intangibles and other deferred items	19	16
Amortization of finance fees and debt discount	16	16
Pension expense	52	44
Restructuring, asset impairment and related charges	10	
Other	34	31
Pension contributions	(17)	(39)
Asbestos-related payments	(49)	(58)
Cash paid for restructuring activities	(47)	(40)
Change in non-current assets and liabilities	(49)	(39)
Change in components of working capital	(351)	(380)
Cash provided by continuing operating activities	22	6
Cash utilized in discontinued operating activities	(5)	(2)
Total cash provided by operating activities	17	4
Cash flows from investing activities:		
Additions to property, plant and equipment	(164)	(124)
Acquisitions, net of cash acquired		(5)
Net cash proceeds related to sale of assets and other	6	20
Proceeds from collection of (payments to fund) minority partner loan	(4)	9
Cash utilized in investing activities	(162)	(100)
Cash flows from financing activities:		
Additions to long-term debt	674	119
Repayments of long-term debt	(724)	(128)
Increase in short-term loans	59	31
Net receipts (payments) for hedging activity	(6)	27
Payment of finance fees	(7)	
Dividends paid to noncontrolling interests	(21)	(23)
Treasury shares purchased	(10)	
Issuance of common stock and other	6	1
Cash provided by (utilized in) financing activities	(29)	27
Effect of exchange rate fluctuations on cash	(8)	5
Decrease in cash	(182)	(64)
Cash at beginning of period	431	400
Cash at end of period	\$ 249	\$ 336

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, South America and 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.

Financial information for the three and six months ended June 30, 2013 and 2012 regarding the Company's reportable segments is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net sales:				
Europe	\$ 746	\$ 731	\$ 1,396	\$ 1,436
North America	527	516	996	998
South America	269	282	538	559
Asia Pacific	231	230	478	487
Reportable segment totals	1,773	1,759	3,408	3,480
Other	8	7	14	25
Net sales	\$ 1,781	\$ 1,766	\$ 3,422	\$ 3,505

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Segment operating profit:				
Europe	\$ 111	\$ 107	\$ 170	\$ 215
North America	93	96	167	174
South America	37	47	90	85
Asia Pacific	26	16	66	52
Reportable segment totals	267	266	493	526
Items excluded from segment operating profit:				
Retained corporate costs and other	(34)	(27)	(65)	(56)
Restructuring, asset impairment and related charges			(10)	
Interest income	1	2	4	5
Interest expense	(57)	(62)	(128)	(126)
Earnings from continuing operations before income taxes	\$ 177	\$ 179	\$ 294	\$ 349

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

	June 30,	December 31,	June 30,
	2013	2012	2012
Total assets:			
Europe	\$ 3,452	\$ 3,362	\$ 3,544
North America	2,029	1,994	2,055
South America	1,495	1,655	1,583
Asia Pacific	1,178	1,349	1,318
Reportable segment totals	8,154	8,360	8,500
Other	256	238	334
Consolidated totals	\$ 8,410	\$ 8,598	\$ 8,834

## 2. Inventories

Major classes of inventory are as follows:

	June 30,	December 31,	June 30,
	2013	2012	2012
Finished goods	\$ 1,006	\$ 957	\$ 1,054
Raw materials	125	137	124
Operating supplies	44	45	45
	\$ 1,175	\$ 1,139	\$ 1,223

### 3. 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 June 30, 2013 and 2012, the Company had entered into commodity futures contracts covering approximately 7,400,000 MM BTUs and 6,200,000 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 June 30, 2013 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 June 30, 2013 and 2012, an unrecognized loss of \$1 million and \$3 million, respectively, related to the commodity futures contracts was included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and six months ended June 30, 2013 and 2012 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended June 30, 2013 and 2012 is as follows:

Amount of Gain (Loss) Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping, and delivery) (Effective Portion)	
2013	2012	2013	2012
\$ (3)	\$ 1	\$ 1	\$ (2)

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

The effect of the commodity futures contracts on the results of operations for the six months ended June 30, 2013 and 2012 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)	
2013	2012	2013	2012
\$	\$ (2)	\$	\$ (5)

*Foreign 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 foreign exchange contracts 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 foreign exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At June 30, 2013 and 2012, various subsidiaries of the Company had outstanding foreign exchange contracts denominated in various currencies covering the equivalent of approximately \$740 million and \$590 million, respectively, related primarily to intercompany transactions and loans.

The effect of the foreign exchange contracts on the results of operations for the three months ended June 30, 2013 and 2012 is as follows:

Location of Gain (Loss) Recognized in Income on Foreign Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Foreign Exchange Contracts	
	2013	2012
Other expense	\$ (9)	\$ 9

The effect of the foreign exchange contracts on the results of operations for the six months ended June 30, 2013 and 2012 is as follows:

Location of Gain (Loss) Recognized in Income on Foreign Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Foreign Exchange Contracts	
	2013	2012
Other expense	\$ (12)	\$ 10



# 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	June 30, 2013	Fair Value December 31, 2012	June 30, 2012
<b>Asset Derivatives:</b>				
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	a	\$ 2	\$ 4	\$ 2
Foreign exchange contracts	b			1
Total asset derivatives		\$ 2	\$ 4	\$ 3
<b>Liability Derivatives:</b>				
Derivatives designated as hedging instruments:				
Commodity futures contracts	c	\$ 1	\$ 1	\$ 3
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	c	9	9	5
Total liability derivatives		\$ 10	\$ 10	\$ 8

#### 4. Restructuring Accruals

Selected information related to the restructuring accruals for the three months ended June 30, 2013 and 2012 is as follows:

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at April 1, 2013	\$ 37	\$ 4	\$ 54	\$ 95
Net cash paid, principally severance and related benefits	(7)	(1)	(5)	(13)
Other, including foreign exchange translation	1			1
Balance at June 30, 2013	\$ 31	\$ 3	\$ 49	\$ 83

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at April 1, 2012	\$ 3	\$ 6	\$ 67	\$ 76
Charges	1	(1)		
Write-down of assets to net realizable value			(2)	(2)
Net cash paid, principally severance and related benefits	(2)	(2)	(6)	(10)
Other, including foreign exchange translation			(8)	(8)
Balance at June 30, 2012	\$ 2	\$ 3	\$ 51	\$ 56

Selected information related to the restructuring accruals for the six months ended June 30, 2013 and 2012 is as follows:

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2013	\$ 53	\$ 6	\$ 64	\$ 123
Charges	7	2	1	10
Write-down of assets to net realizable value	(2)			(2)
Net cash paid, principally severance and related benefits	(27)	(5)	(15)	(47)
Other, including foreign exchange translation			(1)	(1)
Balance at June 30, 2013	\$ 31	\$ 3	\$ 49	\$ 83

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2012	\$ 12	\$ 17	\$ 74	\$ 103
Charges	1	(1)		
Write-down of assets to net realizable value			(2)	(2)
Net cash paid, principally severance and related benefits	(12)	(13)	(15)	(40)



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

Other, including foreign exchange translation		1			(6)	(5)		
Balance at June 30, 2012	\$	2	\$	3	\$	51	\$	56

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 as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

### *European Asset Optimization*

During the six months ended June 30, 2013, the Company recorded charges of \$7 million related to the European Asset Optimization program. These charges represented additional employee costs that the Company was required to record for the furnace closures announced during the fourth quarter of 2012.

## 5. Pensions Benefit Plans and Other Postretirement Benefits

The components of the net periodic pension cost for the three months ended June 30, 2013 and 2012 are as follows:

	U.S.		Non-U.S.	
	2013	2012	2013	2012
Service cost	\$ 7	\$ 7	\$ 8	\$ 6
Interest cost	27	29	17	18
Expected asset return	(46)	(46)	(22)	(22)
Amortization:				
Actuarial loss	27	24	8	6
Net periodic pension cost	\$ 15	\$ 14	\$ 11	\$ 8

The components of the net periodic pension cost for the six months ended June 30, 2013 and 2012 are as follows:

	U.S.		Non-U.S.	
	2013	2012	2013	2012
Service cost	\$ 14	\$ 14	\$ 16	\$ 13
Interest cost	54	57	34	37
Expected asset return	(92)	(92)	(45)	(44)
Amortization:				
Actuarial loss	55	48	16	11
Net periodic pension cost	\$ 31	\$ 27	\$ 21	\$ 17

The U.S. pension expense for the six months ended June 30, 2013 excludes \$8 million of special termination benefits that were recorded in discontinued operations.



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

The components of the net postretirement benefit cost for the three months ended June 30, 2013 and 2012 are as follows:

	U.S.		Non-U.S.	
	2013	2012	2013	2012
Service cost	\$ 1	\$ 2	\$ 1	\$ 1
Interest cost				
Curtailement gain	(5)			
Amortization:				
Prior service credit	(3)	(1)		
Actuarial loss		2		
Net amortization	(3)	1		
Net postretirement benefit cost	\$ (7)	\$ 3	\$ 2	\$ 2

The components of the net postretirement benefit cost for the six months ended June 30, 2013 and 2012 are as follows:

	U.S.		Non-U.S.	
	2013	2012	2013	2012
Service cost	\$ 2	\$ 4	\$ 1	\$ 1
Interest cost				
Curtailement gain	(5)			
Amortization:				
Prior service credit	(4)	(2)		
Actuarial loss	2	3		
Net amortization	(2)	1		
Net postretirement benefit cost	\$ (5)	\$ 6	\$ 3	\$ 3

During the second quarter of 2013, the Company recorded a curtailement gain related to modifications made to one of its U.S. postretirement benefit plans that reduced or eliminated certain health care and life insurance benefits. These modifications also resulted in a \$55 million reduction in the postretirement benefit obligation that was recognized in accumulated other comprehensive income.

## 6. 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.

## 7. Debt

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

	June 30, 2013	December 31, 2012	June 30, 2012
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$	\$	\$
Term Loans:			
Term Loan A (25 million AUD at June 30, 2013)	23	53	173
Term Loan B	525	525	600
Term Loan C (102 million CAD at June 30, 2013)	97	102	113
Term Loan D ( 123 million at June 30, 2013)	161	163	177
Senior Notes:			
3.00%, Exchangeable, due 2015	607	642	633
7.375%, due 2016	592	591	589
6.875%, due 2017 ( 300 million)		396	377
6.75%, due 2020 ( 500 million)	653	660	628
4.875%, due 2021 ( 330 million)	431		
Senior Debentures:			
7.80%, due 2018	250	250	250
Other	84	95	128
Total long-term debt	3,423	3,477	3,668
Less amounts due within one year	87	23	101
Long-term debt	\$ 3,336	\$ 3,454	\$ 3,567

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the "Agreement"). At June 30, 2013, the Agreement included a \$900 million revolving credit facility, a 25 million Australian dollar term loan, a \$525 million term loan, a 102 million Canadian dollar term loan, and a 123 million term loan, each of which has a final maturity date of May 19, 2016. At June 30, 2013, the Company's subsidiary borrowers had unused credit of \$816 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2013 was 2.13%.

During the six months ended June 30, 2013, a subsidiary of the Company repurchased \$46 million of the 2015 Exchangeable Notes. The amount by which the cash paid exceeded the fair value of the notes repurchased was recorded as a reduction to share owners' equity. The Company recorded \$3 million of additional interest charges for the loss on debt extinguishment and the related write-off of unamortized finance fees.

During March 2013, a subsidiary of the Company issued senior notes with a face value of 330 million due March 31, 2021. The notes bear interest at 4.875% and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds, after deducting debt

issuance costs, totaled approximately \$418 million.

During March 2013, a subsidiary of the Company discharged, in accordance with the indenture, all \$300 million of the 6.875% senior notes due 2017. The Company recorded \$11 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.

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:

	June 30, 2013	December 31, 2012	June 30, 2012
Balance (included in short-term loans)	\$ 290	\$ 264	\$ 302
Weighted average interest rate	1.20%	1.33%	1.42%

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 June 30, 2013 of the Company's significant fixed rate debt obligations are as follows:

Senior Notes:			
7.375%, due 2016	600	112.70	676
4.875%, due 2021 ( \$330 million)	431	99.26	428
7.80%, due 2018	250	115.50	289

## 8. Contingencies

### Asbestos

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").



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

As of June 30, 2013, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 2,600 plaintiffs and claimants. Based on an analysis of

the lawsuits pending as of December 31, 2012, approximately 66% 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 30% of plaintiffs specifically plead damages of \$15 million or less, and 4% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages equal to or greater than \$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 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.

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 June 30, 2013, has disposed of the asbestos claims of approximately 392,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$8,400. Certain of these dispositions have included deferred amounts payable over time. Deferred amounts payable totaled approximately \$11 million at June 30, 2013 (\$24 million at December 31, 2012) 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 \$4.3 billion through 2012, 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.

The Company's reported results of operations for 2012 were materially affected by the \$155 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.

#### *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"). The Company intends to cooperate with any investigation by U.S. authorities.

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.

The Company is presently unable to predict the duration, scope or result of any investigation by the SEC 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.

The Company received a non-income tax assessment from a foreign tax authority for approximately \$90 million (including penalties and interest). The Company challenged this assessment, but the tax authority's position was upheld in court. The Company strongly disagrees with this ruling and believes it to be contradictory to other court rulings in the Company's favor. Although the Company cannot predict the ultimate outcome of this case, it believes that it is probable that the tax authority's assessment will be overturned by a higher court, and therefore, the Company has not established an accrual. In order to contest the lower court rulings, legal rules require the Company to deposit the amount of the tax assessment, which will be remitted in monthly installments over the next twenty-four months. A favorable ruling by the higher court will result in a return to the Company of amounts paid. An unfavorable ruling will result in the forfeiture of the deposit, a charge of approximately \$60 million and a non-income tax refund of \$30 million. As of June 30, 2013, the Company has made installment payments totaling \$24 million, which is included in Other assets on the balance sheet.

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.



## 9. Share Owners Equity

The activity in share owners equity for the three months ended June 30, 2013 and 2012 is as follows:

	Share Owners Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Share Owners Equity
Balance on April 1, 2013	\$ 2	\$ 3,013	\$ (424)	\$ (126)	\$ (1,485)	\$ 175	\$ 1,155
Issuance of common stock (0.1 million shares)		3					3
Reissuance of common stock (0.06 million shares)			1				1
Treasury shares purchased (0.3 million shares)			(10)				(10)
Repurchase of exchangeable notes		(1)					(1)
Stock compensation		3					3
Comprehensive income:							
Net earnings				132		5	137
Foreign currency translation adjustments					(160)	(2)	(162)
Pension and other postretirement benefit adjustments, net of tax					90		90
Change in fair value of derivative instruments					(4)		(4)
Dividends paid to noncontrolling interests on subsidiary common stock						(21)	(21)
Contributions from noncontrolling interests						3	3
Balance on June 30, 2013	\$ 2	\$ 3,018	\$ (433)	\$ 6	\$ (1,559)	\$ 160	\$ 1,194

	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 April 1, 2012	\$ 2	\$ 2,996	\$ (404)	\$ (258)	\$ (1,205)	\$ 164	\$ 1,295
Issuance of common stock (0.1 million shares)		1					1
Reissuance of common stock (0.07 million shares)			2				2
Stock compensation		3					3
Comprehensive income:							
Net earnings				133		4	137
Foreign currency translation adjustments					(204)	(3)	(207)
Pension and other postretirement benefit adjustments, net of tax					33		33
Change in fair value of derivative instruments					3		3
Dividends paid to noncontrolling interests on subsidiary common stock						(23)	(23)

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

Balance on June 30, 2012	\$	2	\$	3,000	\$	(402)	\$	(125)	\$	(1,373)	\$	142	\$	1,244
--------------------------	----	---	----	-------	----	-------	----	-------	----	---------	----	-----	----	-------



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

The activity in share owners' equity for the six months ended June 30, 2013 and 2012 is as follows:

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Share Owners Equity
Balance on January 1, 2013	\$ 2	\$ 3,005	\$ (425)	\$ (195)	\$ (1,506)	\$ 174	\$ 1,055
Issuance of common stock (0.4 million shares)		7					7
Reissuance of common stock (0.1 million shares)			2				2
Treasury shares purchased (0.3 million shares)			(10)				(10)
Repurchase of exchangeable notes		(1)					(1)
Stock compensation		7					7
Comprehensive income:							
Net earnings				201		10	211
Foreign currency translation adjustments					(188)	(6)	(194)
Pension and other postretirement benefit adjustments, net of tax					135		135
Dividends paid to noncontrolling interests on subsidiary common stock						(21)	(21)
Contributions from noncontrolling interests						3	3
Balance on June 30, 2013	\$ 2	\$ 3,018	\$ (433)	\$ 6	\$ (1,559)	\$ 160	\$ 1,194

	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)		2					2
Reissuance of common stock (0.1 million shares)			3				3
Stock compensation		7					7
Comprehensive income:							
Net earnings				254		8	262
Foreign currency translation adjustments					(112)	4	(108)
Pension and other postretirement benefit adjustments, net of tax					57		57
Change in fair value of derivative instrument					3		3
Dividends paid to noncontrolling interests on subsidiary common stock						(23)	(23)
Balance on June 30, 2012	\$ 2	\$ 3,000	\$ (402)	\$ (125)	\$ (1,373)	\$ 142	\$ 1,244

During the three and six months ended June 30, 2013, the Company purchased 348,000 shares of its common stock for \$10 million pursuant to authorization by its Board of Directors in August 2012 to purchase up to \$75 million of the Company's common stock until December 31, 2013.



# 10. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended June 30, 2013 is as follows:

Balance on April 1, 2013	\$	427	\$	(10)
			\$	(1,902)
			\$	(1,485)
Change before reclassifications		(160)		(3)
Amounts reclassified from accumulated other comprehensive income				55
Translation effect			(1)(a)	32(b)
Tax effect				5
				(2)
Other comprehensive income attributable to the Company		(160)		(4)
				90
Balance on June 30, 2013	\$	267	\$	(14)
			\$	(1,812)
			\$	(1,559)

The activity in accumulated other comprehensive loss for the six months ended June 30, 2013 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, 2013	\$ 455	\$ (14)	\$ (1,947)	\$ (1,506)
Change before reclassifications	(188)		55	(133)
Amounts reclassified from accumulated other comprehensive income			69(b)	69
Translation effect			15	15
Tax effect			(4)	(4)
Other comprehensive income attributable to the Company	(188)		135	(53)
Balance on June 30, 2013	\$ 267	\$ (14)	\$ (1,812)	\$ (1,559)

(a) Amount is included in Manufacturing, shipping and delivery on the Condensed Consolidated Results of Operations (see Note 3 for additional information).

(b) Amount is included in the computation of net periodic pension cost and net postretirement benefit cost (see Note 5 for additional information).

#### **11. Other Expense**

Other expense for the six months ended June 30, 2013 includes charges of \$10 million for restructuring, asset impairment and related charges. See Note 4 for additional information.

**12. Earnings Per Share**

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

	Three months ended June 30,	
	2013	2012
Numerator:		
Net earnings attributable to the Company	\$ 132	\$ 133
Denominator (in thousands):		
Denominator for basic earnings per share - weighted average shares outstanding	164,369	164,799
Effect of dilutive securities:		
Stock options and other	1,362	1,131
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	165,731	165,930
Basic earnings per share:		
Earnings from continuing operations	\$ 0.82	\$ 0.82
Loss from discontinued operations	(0.02)	(0.01)
Net earnings	\$ 0.80	\$ 0.81
Diluted earnings per share:		
Earnings from continuing operations	\$ 0.81	\$ 0.81
Loss from discontinued operations	(0.02)	(0.01)
Net earnings	\$ 0.79	\$ 0.80

Options to purchase 1,519,897 and 2,118,603 weighted average shares of common stock which were outstanding during the three months ended June 30, 2013 and 2012, 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.

	Six months ended June 30,	
	2013	2012
Numerator:		
Net earnings attributable to the Company	\$ 201	\$ 254
Denominator (in thousands):		
Denominator for basic earnings per share - weighted average shares outstanding	164,220	164,520
Effect of dilutive securities:		
Stock options and other	1,397	1,542
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	165,617	166,062
Basic earnings per share:		
Earnings from continuing operations	\$ 1.30	\$ 1.56
Loss from discontinued operations	(0.08)	(0.02)
Net earnings	\$ 1.22	\$ 1.54
Diluted earnings per share:		
Earnings from continuing operations	\$ 1.29	\$ 1.54
Loss from discontinued operations	(0.08)	(0.02)
Net earnings	\$ 1.21	\$ 1.52

Options to purchase 1,580,200 and 1,908,925 weighted average shares of common stock which were outstanding during the six months ended June 30, 2013 and 2012, 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 six months ended June 30, 2013 and 2012, 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.

**13. Supplemental Cash Flow Information**

	Six months ended June 30,	
	2013	2012
Interest paid in cash	\$ 113	\$ 123
Income taxes paid in cash:		
U.S.	\$ 1	\$ 1
Non-U.S.	79	71
Total income taxes paid in cash	\$ 80	\$ 72

Cash interest for 2013 includes note repurchase premiums of \$10 million related to the discharge of the Company's 6.875% senior notes due 2017 and the repurchase of a portion of the Company's 3.00% exchangeable senior notes due 2015.

**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.

The loss from discontinued operations of \$13 million for the six months ended June 30, 2013 includes \$8 million of special termination benefits related to a previously disposed business and \$5 million for ongoing costs related to the Venezuela expropriation.

**15. New Accounting Pronouncement**

In July 2013, the Financial Accounting Standards Board issued guidance related to the presentation of unrecognized tax benefits when net operating loss carryforwards or tax credit carryforwards exist. This new guidance is effective for fiscal years, and interim periods, beginning after December 15, 2013. Adoption of this guidance will impact how the Company presents certain of its unrecognized tax benefits on its balance sheet, with no impact to its results of operations or cash flows.

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

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of senior debentures (the Parent ); (2) the two



subsidiaries which have guaranteed the senior debentures on a subordinated basis (the Guarantor Subsidiaries ); and (3) all other subsidiaries (the Non-Guarantor Subsidiaries ). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

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.

Current assets:									
Accounts receivable	\$		\$		\$	1,159	\$		\$ 1,159
Inventories						1,175			1,175
Other current assets						359			359
Total current assets									
						2,693			2,693
Investments in and advances to subsidiaries		1,696		1,446				(3,142)	
Goodwill									
						2,031			2,031
Other non-current assets						1,086			1,086
Total other assets									
		1,696		1,446		3,117		(3,142)	3,117
Property, plant and equipment, net									
						2,600			2,600
Total assets	\$	1,696	\$	1,446	\$	8,410	\$	(3,142)	\$ 8,410
Current liabilities :									
Accounts payable and accrued liabilities	\$		\$		\$	1,527	\$		\$ 1,527
Current portion of asbestos liability		155							155
Short-term loans and long-term debt due within one year						437			437
Total current liabilities									
		155				1,964			2,119
Long-term debt		250				3,336		(250)	3,336
Asbestos-related liabilities		257							257
Other non-current liabilities						1,504			1,504
Total share owners equity of the Company		1,034		1,446		1,446		(2,892)	1,034
Noncontrolling interests						160			160
Total liabilities and share owners equity									
	\$	1,696	\$	1,446	\$	8,410	\$	(3,142)	\$ 8,410

Current assets:										
Accounts receivable	\$		\$		\$	968	\$		\$	968
Inventories						1,139				1,139
Other current assets						541				541
Total current assets						2,648				2,648
Investments in and advances to subsidiaries		1,592		1,342				(2,934)		
Goodwill						2,079				2,079
Other non-current assets						1,102				1,102
Total other assets		1,592		1,342		3,181		(2,934)		3,181
Property, plant and equipment, net						2,769				2,769
Total assets	\$	1,592	\$	1,342	\$	8,598	\$	(2,934)	\$	8,598
Current liabilities :										
Accounts payable and accrued liabilities	\$		\$		\$	1,688	\$		\$	1,688
Current portion of asbestos liability		155								155
Short-term loans and long-term debt due within one year						319				319
Total current liabilities		155				2,007				2,162
Long-term debt		250				3,454		(250)		3,454
Asbestos-related liabilities		306								306
Other non-current liabilities						1,621				1,621
Total share owners equity of the Company		881		1,342		1,342		(2,684)		881
Noncontrolling interests						174				174
Total liabilities and share owners equity	\$	1,592	\$	1,342	\$	8,598	\$	(2,934)	\$	8,598

Current assets:					
Accounts receivable	\$	\$	\$	1,173	\$ 1,173
Inventories				1,223	1,223
Other current assets				451	451
Total current assets					
Investments in and advances to subsidiaries	1,765	1,515		(3,280)	2,847
Goodwill					
Other non-current assets				1,243	2,023
Total other assets					
Property, plant and equipment, net	1,765	1,515	3,266	(3,280)	2,023
Total assets					
	\$	1,765	\$	1,515	\$ 8,834
			\$	8,834	\$ (3,280)
					\$ 8,834
Current liabilities :					
Accounts payable and accrued liabilities	\$	\$	\$	1,497	\$ 1,497
Current portion of asbestos liability		165			165
Short-term loans and long-term debt due within one year				452	452
Total current liabilities					
	165		1,949		2,114
Long-term debt					
Asbestos-related liabilities	250		3,567	(250)	3,567
Other non-current liabilities	248				248
Total share owners equity of the Company					
Noncontrolling interests	1,102	1,515	1,661	(3,030)	1,661
			142		1,102
Total liabilities and share owners equity					
	\$	1,765	\$	1,515	\$ 8,834
			\$	8,834	\$ (3,280)
					\$ 8,834

Net sales	\$		\$		\$	1,781	\$		\$	1,781
Manufacturing, shipping and delivery						(1,412)				(1,412)
Gross profit						369				369
Research, engineering, selling, administrative, and other						(159)				(159)
Net intercompany interest		5				(5)				
Interest expense		(5)				(52)				(57)
Interest income						1				1
Equity earnings from subsidiaries		132		132				(264)		
Other equity earnings						16				16
Other income						7				7
Earnings before income taxes		132		132		177		(264)		177
Provision for income taxes						(37)				(37)
Earnings from continuing operations		132		132		140		(264)		140
Loss from discontinued operations						(3)				(3)
Net earnings		132		132		137		(264)		137
Net earnings attributable to noncontrolling interests						(5)				(5)
Net earnings attributable to the Company	\$	132	\$	132	\$	132	\$	(264)	\$	132

Net earnings	\$	132	\$	132	\$	137	\$	(264)	\$	137
Other comprehensive income (loss)		(74)		(74)		(100)		172		(76)
Total comprehensive income (loss)		58		58		37		(92)		61
Comprehensive income attributable to noncontrolling interests						(3)				(3)
Comprehensive income (loss) attributable to the Company	\$	58	\$	58	\$	34	\$	(92)	\$	58

Net sales	\$		\$		\$	1,766	\$		\$	1,766
Manufacturing, shipping and delivery						(1,390)				(1,390)
Gross profit						376				376
Research, engineering, selling, administrative, and other						(164)				(164)
Net intercompany interest		5				(5)				
Interest expense		(5)				(57)				(62)
Interest income						2				2
Equity earnings from subsidiaries		133		133				(266)		
Other equity earnings						18				18
Other income						9				9
Earnings from continuing operations before income taxes		133		133		179		(266)		179
Provision for income taxes						(41)				(41)
Earnings from continuing operations		133		133		138		(266)		138
Loss from discontinued operations						(1)				(1)
Net earnings		133		133		137		(266)		137
Net earnings attributable to noncontrolling interests						(4)				(4)
Net earnings attributable to the Company	\$	133	\$	133	\$	133	\$	(266)	\$	133

Net earnings	\$	133	\$	133	\$	137	\$	(266)	\$	137
Other comprehensive income (loss)		(168)		(168)		(196)		361		(171)
Total comprehensive income (loss)		(35)		(35)		(59)		95		(34)
Comprehensive income attributable to noncontrolling interests							(1)	(1)		
Comprehensive income (loss) attributable to the Company	\$	(35)	\$	(35)	\$	(60)	\$	95	\$	(35)

Net sales	\$		\$		\$	3,422	\$ 3,422
Manufacturing, shipping and delivery						(2,734)	(2,734)
Gross profit						688	688
Research, engineering, selling, administrative, and other						(317)	(317)
Net intercompany interest		10				(10)	
Interest expense		(10)				(118)	(128)
Interest income						4	4
Equity earnings from subsidiaries		201	201			(402)	
Other equity earnings						33	33
Other income						14	14
Earnings before income taxes		201	201			294	(402) 294
Provision for income taxes						(70)	(70)
Earnings from continuing operations		201	201			224	(402) 224
Loss from discontinued operations						(13)	(13)
Net earnings		201	201			211	(402) 211
Net earnings attributable to noncontrolling interests						(10)	(10)
Net earnings attributable to the Company	\$	201	\$ 201	\$	201	\$ (402)	\$ 201

Net earnings	\$	201	\$ 201	\$	211	\$ (402)	\$ 211
Other comprehensive income (loss)		(53)	(53)		(112)	159	(59)
Total comprehensive income (loss)		148	148		99	(243)	152
Comprehensive income attributable to noncontrolling interests						(4)	(4)
Comprehensive income attributable to the Company	\$	148	\$ 148	\$	95	\$ (243)	\$ 148

Net sales	\$	\$	\$	3,505	\$ 3,505
Manufacturing, shipping and delivery				(2,751)	(2,751)
Gross profit				754	754
Research, engineering, selling, administrative, and other				(330)	(330)
Net intercompany interest	10			(10)	
Interest expense	(10)			(116)	(126)
Interest income				5	5
Equity earnings from subsidiaries	254	254		(508)	
Other equity earnings				31	31
Other income				15	15
Earnings from continuing operations before income taxes	254	254		349	(508) 349
Provision for income taxes				(85)	(85)
Earnings from continuing operations	254	254		264	(508) 264
Loss from discontinued operations				(2)	(2)
Net earnings	254	254		262	(508) 262
Net earnings attributable to noncontrolling interests				(8)	(8)
Net earnings attributable to the Company	\$	254	\$	254	\$