

OWENS ILLINOIS INC /DE/  
Form 10-Q  
July 26, 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

June 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 June 30, 2012 was 165,069,439.



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 June 30, |          | Six months ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2012                        | 2011     | 2012                      | 2011     |
| Net sales   | \$ 1,766                    | \$ 1,959 | \$ 3,505                  | \$ 3,678 |
| Manufacturing, shipping and delivery expense            | (1,390)                     | (1,604)  | (2,751)                   | (2,980)  |
| Gross profit  | 376                         | 355      | 754                       | 698      |
| Selling and administrative expense                      | (139)                       | (146)    | (279)                     | (288)    |
| Research, development and engineering expense           | (17)                        | (18)     | (32)                      | (34)     |
| Interest expense  | (62)                        | (100)    | (126)                     | (176)    |
| Interest income   | 2                           | 3        | 5                         | 6        |
| Equity earnings   | 18                          | 19       | 31                        | 33       |
| Royalties and net technical assistance                  | 5                           | 3        | 9                         | 8        |
| Other income  | 4                           | 2        | 6                         | 4        |
| Other expense   | (8)                         | (8)      | (19)                      | (26)     |
| Earnings from continuing operations before income taxes | 179                         | 110      | 349                       | 225      |
| Provision for income taxes                              | (41)                        | (32)     | (85)                      | (60)     |
| Earnings from continuing operations                     | 138                         | 78       | 264                       | 165      |
| Earnings (loss) from discontinued operations            | (1)                         | 2        | (2)                       | 1        |
| Net earnings  | 137                         | 80       | 262                       | 166      |
| Net earnings attributable to noncontrolling interests   | (4)                         | (7)      | (8)                       | (11)     |
| Net earnings attributable to the Company                | \$ 133                      | \$ 73    | \$ 254                    | \$ 155   |
| Amounts attributable to the Company:                    |                             |          |                           |          |
| Earnings from continuing operations                     | \$ 134                      | \$ 71    | \$ 256                    | \$ 154   |
| Earnings (loss) from discontinued operations            | (1)                         | 2        | (2)                       | 1        |
| Net earnings  | \$ 133                      | \$ 73    | \$ 254                    | \$ 155   |
| Basic earnings per share:                               |                             |          |                           |          |
| Earnings from continuing operations                     | \$ 0.82                     | \$ 0.43  | \$ 1.56                   | \$ 0.93  |
| Earnings (loss) from discontinued operations            | (0.01)                      | 0.01     | (0.02)                    | 0.01     |
| Net earnings  | \$ 0.81                     | \$ 0.44  | \$ 1.54                   | \$ 0.94  |
| Weighted average shares outstanding (thousands)         | 164,799                     | 163,633  | 164,520                   | 163,494  |
| Diluted earnings per share:                             |                             |          |                           |          |
| Earnings from continuing operations                     | \$ 0.81                     | \$ 0.42  | \$ 1.54                   | \$ 0.92  |
| Earnings (loss) from discontinued operations            | (0.01)                      | 0.01     | (0.02)                    | 0.01     |
| Net earnings  | \$ 0.80                     | \$ 0.43  | \$ 1.52                   | \$ 0.93  |
| Weighted average diluted shares outstanding (thousands) | 165,930                     | 166,271  | 166,062                   | 166,193  |

See accompanying notes.



OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

|   | Three months ended June 30, |        | Six months ended June 30, |        |
|---|-----------------------------|--------|---------------------------|--------|
|   | 2012                        | 2011   | 2012                      | 2011   |
| Net earnings  | \$ 137                      | \$ 80  | \$ 262                    | \$ 166 |
| Other comprehensive income (loss), net of tax:                |                             |        |                           |        |
| Foreign currency translation adjustments                      | (207)                       | 122    | (108)                     | 196    |
| Pension and other postretirement benefit adjustments          | 33                          | 26     | 57                        | 46     |
| Change in fair value of derivative instruments                | 3                           |        | 3                         | 1      |
| Other comprehensive income (loss)                             | (171)                       | 148    | (48)                      | 243    |
| Total comprehensive income (loss)                             | (34)                        | 228    | 214                       | 409    |
| Comprehensive income attributable to noncontrolling interests | (1)                         | (12)   | (12)                      | (20)   |
| Comprehensive income (loss) attributable to the Company       | \$ (35)                     | \$ 216 | \$ 202                    | \$ 389 |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

|   | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|---|------------------|----------------------|------------------|
| <b>Assets</b>   |                  |                      |                  |
| <b>Current assets:</b>  |                  |                      |                  |
| Cash and cash equivalents   | \$ 336           | \$ 400               | \$ 260           |
| Receivables, less allowances for losses and discounts (\$40 at June 30, 2012, \$38 at December 31, 2011, and \$41 at June 30, 2011) | 1,173            | 1,158                | 1,322            |
| Inventories   | 1,223            | 1,061                | 1,114            |
| Prepaid expenses  | 115              | 124                  | 104              |
| <b>Total current assets</b>   | <b>2,847</b>     | <b>2,743</b>         | <b>2,800</b>     |
| <b>Investments and other assets:</b>  |                  |                      |                  |
| Equity investments  | 292              | 315                  | 330              |
| Repair parts inventories  | 149              | 155                  | 156              |
| Pension assets  | 115              | 116                  | 63               |
| Other assets  | 687              | 687                  | 711              |
| Goodwill  | 2,023            | 2,082                | 2,957            |
| <b>Total other assets</b>   | <b>3,266</b>     | <b>3,355</b>         | <b>4,217</b>     |
| Property, plant and equipment, at cost  | 6,777            | 6,899                | 7,416            |
| Less accumulated depreciation   | 4,056            | 4,022                | 4,240            |
| <b>Net property, plant and equipment</b>  | <b>2,721</b>     | <b>2,877</b>         | <b>3,176</b>     |
| <b>Total assets</b>   | <b>\$ 8,834</b>  | <b>\$ 8,975</b>      | <b>\$ 10,193</b> |



## CONDENSED CONSOLIDATED BALANCE SHEETS Continued

|   | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|---|------------------|----------------------|------------------|
| <b>Liabilities and Share Owners Equity</b>  |                  |                      |                  |
| <b>Current liabilities:</b>   |                  |                      |                  |
| Short-term loans and long-term debt due within one year   | \$ 452           | \$ 406               | \$ 371           |
| Current portion of asbestos-related liabilities   | 165              | 165                  | 170              |
| Accounts payable  | 909              | 1,038                | 985              |
| Other liabilities   | 588              | 636                  | 666              |
| <b>Total current liabilities</b>  | <b>2,114</b>     | <b>2,245</b>         | <b>2,192</b>     |
| Long-term debt  | 3,567            | 3,627                | 3,969            |
| Deferred taxes  | 204              | 212                  | 234              |
| Pension benefits  | 817              | 871                  | 564              |
| Nonpension postretirement benefits  | 266              | 269                  | 259              |
| Other liabilities   | 374              | 404                  | 398              |
| Asbestos-related liabilities  | 248              | 306                  | 238              |
| Commitments and contingencies   |                  |                      |                  |
| <b>Share owners equity:</b>   |                  |                      |                  |
| <b>Share owners equity of the Company:</b>  |                  |                      |                  |
| Common stock, par value \$.01 per share, 250,000,000 shares authorized, 181,726,093, 181,174,050, and 181,192,253 shares issued (including treasury shares), respectively | 2                | 2                    | 2                |
| Capital in excess of par value  | 3,000            | 2,991                | 2,986            |
| Treasury stock, at cost, 16,656,654, 16,799,903 and 16,991,597 shares, respectively   | (402)            | (405)                | (410)            |
| Retained earnings (loss)  | (125)            | (379)                | 276              |
| Accumulated other comprehensive loss  | (1,373)          | (1,321)              | (672)            |
| <b>Total share owners equity of the Company</b>   | <b>1,102</b>     | <b>888</b>           | <b>2,182</b>     |
| Noncontrolling interests  | 142              | 153                  | 157              |
| <b>Total share owners equity</b>  | <b>1,244</b>     | <b>1,041</b>         | <b>2,339</b>     |
| <b>Total liabilities and share owners equity</b>  | <b>\$ 8,834</b>  | <b>\$ 8,975</b>      | <b>\$ 10,193</b> |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

|  | Six months ended June 30, |         |
|--|---------------------------|---------|
|  | 2012                      | 2011    |
| Cash flows from operating activities:                            |                           |         |
| Net earnings   | \$ 262                    | \$ 166  |
| (Earnings) loss from discontinued operations                     | 2                         | (1)     |
| Non-cash charges (credits):                                      |                           |         |
| Depreciation   | 191                       | 208     |
| Amortization of intangibles and other deferred items             | 16                        | 9       |
| Amortization of finance fees and debt discount                   | 16                        | 16      |
| Pension expense  | 44                        | 44      |
| Restructuring  |                           | 12      |
| Other  | 31                        | 17      |
| Pension contributions  | (39)                      | (27)    |
| Asbestos-related payments  | (58)                      | (68)    |
| Cash paid for restructuring activities                           | (40)                      | (13)    |
| Change in non-current assets and liabilities                     | (39)                      | (52)    |
| Change in components of working capital                          | (380)                     | (219)   |
| Cash provided by continuing operating activities                 | 6                         | 92      |
| Cash provided by (utilized in) discontinued operating activities | (2)                       | 2       |
| Total cash provided by operating activities                      | 4                         | 94      |
| Cash flows from investing activities:                            |                           |         |
| Additions to property, plant and equipment                       | (124)                     | (153)   |
| Acquisitions, net of cash acquired                               | (5)                       | (147)   |
| Net cash proceeds related to sale of assets and other            | 20                        |         |
| Proceeds from collection of minority partner loan                | 9                         |         |
| Cash utilized in investing activities                            | (100)                     | (300)   |
| Cash flows from financing activities:                            |                           |         |
| Additions to long-term debt                                      | 119                       | 1,451   |
| Repayments of long-term debt                                     | (128)                     | (1,644) |
| Increase in short-term loans                                     | 31                        | 61      |
| Net receipts (payments) for hedging activity                     | 27                        | (9)     |
| Payment of finance fees  |                           | (18)    |
| Dividends paid to noncontrolling interests                       | (23)                      | (31)    |
| Issuance of common stock and other                               | 1                         | 2       |
| Cash provided by (utilized in) financing activities              | 27                        | (188)   |
| Effect of exchange rate fluctuations on cash                     | 5                         | 14      |
| Decrease in cash   | (64)                      | (380)   |
| Cash at beginning of period                                      | 400                       | 640     |
| Cash at end of period  | \$ 336                    | \$ 260  |

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 June 30, 2011. The effect of the change for the six months ended June 30, 2011 is as follows:

|   | As originally<br>reported under<br>LIFO | Effect of<br>Change | As<br>Adjusted |
|---|---|---------------------|----------------|
| Manufacturing, shipping and delivery expense          | \$ (2,990)                              | \$ 10               | \$ (2,980)     |
| Amounts attributable to the Company:                  |   |                     |                |
| Net earnings from continuing operations               | 144                                     | 10                  | 154            |
| Basic earnings per share from continuing operations   | 0.87                                    | 0.06                | 0.93           |
| Diluted earnings per share from continuing operations | 0.86                                    | 0.06                | 0.92           |

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

|                          | As originally<br>reported under<br>LIFO | Effect of<br>Change | As<br>Adjusted |
|--------------------------|---|---------------------|----------------|
| <b>December 31, 2011</b> |   |                     |                |
| Assets:                  |   |                     |                |
| Inventories              | \$ 1,012                                | \$ 49               | \$ 1,061       |
| Share owners' equity:    |   |                     |                |
| Retained earnings (loss) | (428)                                   | 49                  | (379)          |
| <b>June 30, 2011</b>     |   |                     |                |
| Assets:                  |   |                     |                |
| Inventories              | \$ 1,065                                | \$ 49               | \$ 1,114       |
| Share owners' equity:    |   |                     |                |
| Retained earnings        | 227                                     | 49                  | 276            |



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

|                   | <b>As originally<br/>reported under<br/>LIFO</b> |    | <b>Effect of<br/>Change</b> |    | <b>As<br/>Adjusted</b> |
|-------------------|--|----|-----------------------------|----|------------------------|
| Retained earnings | \$ 82  | \$ | 39                          | \$ | 121                    |

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

|   | <b>As originally<br/>reported under<br/>LIFO</b> |    | <b>Effect of<br/>Change</b> |    | <b>As<br/>Adjusted</b> |
|---|--|----|-----------------------------|----|------------------------|
| Net earnings                            | \$ 156   | \$ | 10                          | \$ | 166                    |
| Change in components of working capital | (209)  |    | (10)                        |    | (219)                  |

Had the Company not made this change in accounting method, manufacturing, shipping and delivery expense for the three and six months ended June 30, 2012 would have been higher by \$7 million and \$1 million, respectively, and net earnings attributable to the Company would have been lower by \$7 million and \$1 million, respectively, than reported in the condensed consolidated results of operations. In addition, both basic and diluted earnings per share would have been lower by \$0.04 and \$0.01 for the three and six months ended June 30, 2012, respectively.

## 2. Earnings Per Share

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

|   | Three months ended June 30, |         |
|---|-----------------------------|---------|
|   | 2012                        | 2011    |
| <b>Numerator:</b>   |                             |         |
| Net earnings attributable to the Company  | \$ 133                      | \$ 73   |
| <b>Denominator (in thousands):</b>  |                             |         |
| Denominator for basic earnings per share - weighted average shares outstanding            | 164,799                     | 163,633 |
| <b>Effect of dilutive securities:</b>   |                             |         |
| Stock options and other   | 1,131                       | 2,638   |
| Denominator for diluted earnings per share - adjusted weighted average shares outstanding | 165,930                     | 166,271 |
| <b>Basic earnings per share:</b>  |                             |         |
| Earnings from continuing operations   | \$ 0.82                     | \$ 0.43 |
| Earnings (loss) from discontinued operations  | (0.01)                      | 0.01    |
| Net earnings  | \$ 0.81                     | \$ 0.44 |
| <b>Diluted earnings per share:</b>  |                             |         |
| Earnings from continuing operations   | \$ 0.81                     | \$ 0.42 |
| Earnings (loss) from discontinued operations  | (0.01)                      | 0.01    |
| Net earnings  | \$ 0.80                     | \$ 0.43 |

Options to purchase 2,118,603 and 1,338,432 weighted average shares of common stock which were outstanding during the three months ended June 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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|   | Six months ended June 30, |         |
|---|---------------------------|---------|
|   | 2012                      | 2011    |
| <b>Numerator:</b>   |                           |         |
| Net earnings attributable to the Company  | \$ 254                    | \$ 155  |
| <b>Denominator (in thousands):</b>  |                           |         |
| Denominator for basic earnings per share - weighted average shares outstanding            | 164,520                   | 163,494 |
| <b>Effect of dilutive securities:</b>   |                           |         |
| Stock options and other   | 1,542                     | 2,699   |
| Denominator for diluted earnings per share - adjusted weighted average shares outstanding | 166,062                   | 166,193 |
| <b>Basic earnings per share:</b>  |                           |         |
| Earnings from continuing operations   | \$ 1.56                   | \$ 0.93 |
| Earnings (loss) from discontinued operations  | (0.02)                    | 0.01    |
| Net earnings  | \$ 1.54                   | \$ 0.94 |
| <b>Diluted earnings per share:</b>  |                           |         |
| Earnings from continuing operations   | \$ 1.54                   | \$ 0.92 |
| Earnings (loss) from discontinued operations  | (0.02)                    | 0.01    |
| Net earnings  | \$ 1.52                   | \$ 0.93 |

Options to purchase 1,908,925 and 1,147,767 weighted average shares of common stock which were outstanding during the six months ended June 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 six months ended June 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:

|                                   | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|-----------------------------------|------------------|----------------------|------------------|
| <b>Secured Credit Agreement:</b>  |                  |                      |                  |
| <b>Revolving Credit Facility:</b> |                  |                      |                  |
| Revolving Loans                   | \$               | \$                   | \$ 125           |
| <b>Term Loans:</b>                |                  |                      |                  |
| Term Loan A (170 million AUD)     | 173              | 173                  | 183              |
| Term Loan B                       | 600              | 600                  | 600              |
| Term Loan C (116 million CAD)     | 113              | 114                  | 120              |
| Term Loan D ( 141 million)        | 177              | 182                  | 205              |
| <b>Senior Notes:</b>              |                  |                      |                  |
| 3.00%, Exchangeable, due 2015     | 633              | 624                  | 615              |
| 7.375%, due 2016                  | 589              | 588                  | 586              |
| 6.875%, due 2017 ( 300 million)   | 377              | 388                  | 435              |
| 6.75%, due 2020 ( 500 million)    | 628              | 647                  | 725              |
| <b>Senior Debentures:</b>         |                  |                      |                  |
| 7.80%, due 2018                   | 250              | 250                  | 250              |
| Other                             | 128              | 137                  | 161              |
| <b>Total long-term debt</b>       | <b>3,668</b>     | <b>3,703</b>         | <b>4,005</b>     |
| Less amounts due within one year  | 101              | 76                   | 36               |
| <b>Long-term debt</b>             | <b>\$ 3,567</b>  | <b>\$ 3,627</b>      | <b>\$ 3,969</b>  |

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). At June 30, 2012, the Agreement included a \$900 million revolving credit facility, a 170 million Australian dollar term loan, a \$600 million term loan, a 116 million Canadian dollar term loan, and a 141 million term loan, each of which has a final maturity date of May 19, 2016. At June 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 June 30, 2012 was 2.74%.

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

|  | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|--|------------------|----------------------|------------------|
| Balance (included in short-term loans) | \$ 302           | \$ 281               | \$ 312           |
| Weighted average interest rate         | 1.42%            | 2.41%                | 2.69%            |



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 June 30, 2012 of the Company's significant fixed rate debt obligations are as follows:

|                                 | Principal<br>Amount | Indicated<br>Market<br>Price | Fair<br>Value |
|---------------------------------|---------------------|------------------------------|---------------|
| <b>Senior Notes:</b>            |                     |                              |               |
| 3.00%, Exchangeable, due 2015   | \$ 690              | 95.76                        | \$ 661        |
| 7.375%, due 2016                | 600                 | 111.88                       | 671           |
| 6.875%, due 2017 ( 300 million) | 377                 | 103.63                       | 391           |
| 6.75%, due 2020 ( 500 million)  | 628                 | 106.34                       | 668           |
| <b>Senior Debentures:</b>       |                     |                              |               |
| 7.80%, due 2018                 | 250                 | 113.50                       | 284           |

#### 4. Supplemental Cash Flow Information

|                                   | Six months ended June 30, |        |
|-----------------------------------|---------------------------|--------|
|                                   | 2012                      | 2011   |
| Interest paid in cash             | \$ 123                    | \$ 148 |
| <b>Income taxes paid in cash:</b> |                           |        |
| U.S.                              | \$ 1                      | \$ 1   |
| Non-U.S.                          | 71                        | 63     |
| Total income taxes paid in cash   | \$ 72                     | \$ 64  |

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.

Proceeds from collection of minority partner loan in 2012 represents cash received from one of the Company's noncontrolling partners in South America as repayment of a loan.

## 5. Share Owners Equity

The activity in share owners equity for the three months ended June 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 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 (loss):  |                                    |                                |                |               |                                      |                           |                           |
| 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, net of tax            |                                    |                                |                |               | 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                  |

|  | 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 April 1, 2011   | \$ 2                               | \$ 3,041                       | \$ (411)       | \$ 203            | \$ (806)                             | \$ 201                    | \$ 2,230                  |
| Issuance of common stock (0.2 million shares)                    |                                    | 1                              |                |                   |                                      |                           | 1                         |
| Reissuance of common stock (0.05 million shares)                 |                                    | 1                              | 1              |                   |                                      |                           | 2                         |
| Stock compensation   |                                    | (3)                            |                |                   |                                      |                           | (3)                       |
| Comprehensive income:  |                                    |                                |                |                   |                                      |                           |                           |
| Net earnings   |                                    |                                |                | 73                |                                      | 7                         | 80                        |
| Foreign currency translation adjustments                         |                                    |                                |                |                   | 117                                  | 5                         | 122                       |
| Pension and other postretirement benefit adjustments, net of tax |                                    |                                |                |                   | 26                                   |                           | 26                        |
| Acquisition of noncontrolling interest                           |                                    | (54)                           |                |                   | (9)                                  | (43)                      | (106)                     |

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Dividends paid to  
noncontrolling interests on  
subsidiary common stock

|                          |    |   |    |       |    |       |    |     |    |       |    |      |    |     |    |      |    |       |
|--------------------------|----|---|----|-------|----|-------|----|-----|----|-------|----|------|----|-----|----|------|----|-------|
| Balance on June 30, 2011 | \$ | 2 | \$ | 2,986 | \$ | (410) | \$ | 276 | \$ | (672) | \$ | (13) | \$ | 157 | \$ | (13) | \$ | 2,339 |
|--------------------------|----|---|----|-------|----|-------|----|-----|----|-------|----|------|----|-----|----|------|----|-------|

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The activity in share owners equity for the six months ended June 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)                         |                                    | 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 instruments, net of tax            |                                    |                                |                |               | 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                  |

|   | 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 (0.2 million shares)                         |                                    | 3                              |                |                   |                                      |                           | 3                         |
| Reissuance of common stock (0.1 million shares)                       |                                    | 1                              | 2              |                   |                                      |                           | 3                         |
| Stock compensation  |                                    | (4)                            |                |                   |                                      |                           | (4)                       |
| Comprehensive income:   |                                    |                                |                |                   |                                      |                           |                           |
| Net earnings  |                                    |                                |                | 155               |                                      | 11                        | 166                       |
| Foreign currency translation adjustments                              |                                    |                                |                |                   | 187                                  | 9                         | 196                       |
| Pension and other postretirement benefit adjustments, net of tax      |                                    |                                |                |                   | 46                                   |                           | 46                        |
| Change in fair value of derivative instruments, net of tax            |                                    |                                |                |                   | 1                                    |                           | 1                         |
| Acquisition of noncontrolling interest                                |                                    | (54)                           |                |                   | (9)                                  | (43)                      | (106)                     |
| Dividends paid to noncontrolling interests on subsidiary common stock |                                    |                                |                |                   |                                      | (31)                      | (31)                      |

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|                          |    |   |    |       |    |       |    |     |    |       |    |     |    |       |
|--------------------------|----|---|----|-------|----|-------|----|-----|----|-------|----|-----|----|-------|
| Balance on June 30, 2011 | \$ | 2 | \$ | 2,986 | \$ | (410) | \$ | 276 | \$ | (672) | \$ | 157 | \$ | 2,339 |
|--------------------------|----|---|----|-------|----|-------|----|-----|----|-------|----|-----|----|-------|

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

## 6. Inventories

Major classes of inventory are as follows:

|                    | June 30,<br>2012 |    | December 31,<br>2011 |    | June 30,<br>2011 |
|--------------------|------------------|----|----------------------|----|------------------|
| Finished goods     | \$ 1,054         | \$ | 891                  | \$ | 936              |
| Raw materials      | 124              |    | 123                  |    | 124              |
| Operating supplies | 45               |    | 47                   |    | 54               |
|                    | \$ 1,223         | \$ | 1,061                | \$ | 1,114            |

## 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 June 30, 2012, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 4,700 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 June 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 June 30, 2012, has disposed of the asbestos claims of approximately 388,000 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 \$34 million at June 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.

The Company continues to deny the conspiracy allegations in this case and will vigorously challenge this verdict, if necessary, in the appellate courts, and, therefore, has made no change to its asbestos-related liability as of June 30, 2012. While the Company cannot predict the ultimate outcome of this lawsuit, the Company and other conspiracy defendants have successfully challenged jury verdicts in similar cases.

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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.

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 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).

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There is no impact of the change in accounting method for inventory on Segment Operating Profit for the three months ended June 30, 2011. The impact of the change in pension expense allocation is as follows:

|                                    | As<br>Originally<br>Reported | Change in<br>Pension<br>Allocation | As<br>Adjusted |
|------------------------------------|------------------------------|------------------------------------|----------------|
| <b>Segment Operating Profit:</b>   |                              |                                    |                |
| Europe                             | \$ 107                       | \$ 5                               | \$ 112         |
| North America                      | 56                           | (6)                                | 50             |
| South America                      | 53                           |                                    | 53             |
| Asia Pacific                       | 9                            |                                    | 9              |
| Reportable segment totals          | 225                          | (1)                                | 224            |
| Retained corporate costs and other | (14)                         | 1                                  | (13)           |

The impact of the changes in pension expense allocation and accounting method for inventory on Segment Operating Profit for the six months ended June 30, 2011 is as follows:

|                                    | As<br>Originally<br>Reported | Change in<br>Pension<br>Allocation | Change in<br>Accounting<br>Method for<br>Inventory | As<br>Adjusted |
|------------------------------------|------------------------------|------------------------------------|--|----------------|
| <b>Segment Operating Profit:</b>   |                              |                                    |  |                |
| Europe                             | \$ 178                       | \$ 10                              | \$   | \$ 188         |
| North America                      | 115                          | (12)                               | 10   | 113            |
| South America                      | 98                           |                                    |  | 98             |
| Asia Pacific                       | 33                           |                                    |  | 33             |
| Reportable segment totals          | 424                          | (2)                                | 10   | 432            |
| Retained corporate costs and other | (27)                         | 2                                  |  | (25)           |

Financial information for the three-month periods ended June 30, 2012 and 2011 regarding the Company's reportable segments is as follows:

|                           | 2012     | 2011     |
|---------------------------|----------|----------|
| <b>Net sales:</b>         |          |          |
| Europe                    | \$ 731   | \$ 887   |
| North America             | 516      | 506      |
| South America             | 282      | 302      |
| Asia Pacific              | 230      | 246      |
| Reportable segment totals | 1,759    | 1,941    |
| Other                     | 7        | 18       |
| Net sales                 | \$ 1,766 | \$ 1,959 |

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|   | 2012   |    | 2011  |
|---|--------|----|-------|
| <b>Segment Operating Profit:</b>                        |        |    |       |
| Europe  | \$ 107 | \$ | 112   |
| North America   | 96     |    | 50    |
| South America   | 47     |    | 53    |
| Asia Pacific  | 16     |    | 9     |
| Reportable segment totals                               | 266    |    | 224   |
| <b>Items excluded from Segment Operating Profit:</b>    |        |    |       |
| Retained corporate costs and other                      | (27)   |    | (13)  |
| Restructuring   |        |    | (4)   |
| Interest income   | 2      |    | 3     |
| Interest expense  | (62)   |    | (100) |
| Earnings from continuing operations before income taxes | \$ 179 | \$ | 110   |

Financial information for the six-month periods ended June 30, 2012 and 2011 regarding the Company's reportable segments is as follows:

|                           | 2012     |    | 2011  |
|---------------------------|----------|----|-------|
| <b>Net sales:</b>         |          |    |       |
| Europe                    | \$ 1,436 | \$ | 1,585 |
| North America             | 998      |    | 969   |
| South America             | 559      |    | 571   |
| Asia Pacific              | 487      |    | 508   |
| Reportable segment totals | 3,480    |    | 3,633 |
| Other                     | 25       |    | 45    |
| Net sales                 | \$ 3,505 | \$ | 3,678 |

|   | 2012   |    | 2011  |
|---|--------|----|-------|
| <b>Segment Operating Profit:</b>                        |        |    |       |
| Europe  | \$ 215 | \$ | 188   |
| North America   | 174    |    | 113   |
| South America   | 85     |    | 98    |
| Asia Pacific  | 52     |    | 33    |
| Reportable segment totals                               | 526    |    | 432   |
| <b>Items excluded from Segment Operating Profit:</b>    |        |    |       |
| Retained corporate costs and other                      | (56)   |    | (25)  |
| Restructuring   |        |    | (12)  |
| Interest income   | 5      |    | 6     |
| Interest expense  | (126)  |    | (176) |
| Earnings from continuing operations before income taxes | \$ 349 | \$ | 225   |

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

|                           | June 30,<br>2012 |    | December 31,<br>2011 |    | June 30,<br>2011 |
|---------------------------|------------------|----|----------------------|----|------------------|
| Total assets:             |                  |    |                      |    |                  |
| Europe                    | \$ 3,544         | \$ | 3,588                | \$ | 3,954            |
| North America             | 2,055            |    | 2,020                |    | 2,042            |
| South America             | 1,583            |    | 1,682                |    | 1,802            |
| Asia Pacific              | 1,318            |    | 1,379                |    | 2,109            |
| Reportable segment totals | 8,500            |    | 8,669                |    | 9,907            |
| Other                     | 334              |    | 306                  |    | 286              |
| Consolidated totals       | \$ 8,834         | \$ | 8,975                | \$ | 10,193           |

## 9. Other Expense

Other expense for the three and six months ended June 30, 2011 includes charges totaling \$4 million and \$12 million, respectively, for restructuring charges in the Company's Asia Pacific segment. See Note 10 for additional information.

## 10. Restructuring Accruals

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

|   | Strategic<br>Footprint<br>Review |    | Asia Pacific<br>Restructuring |    | Other<br>Restructuring<br>Actions |    | Total<br>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                                 |    |                        |
| Net cash paid, principally severance and related benefits | (1)                              |    | (2)                           |    | (7)                               |    | (10)                   |
| Write-down of assets to net realizable value              |                                  |    |                               |    | (2)                               |    | (2)                    |
| Other, including foreign exchange translation             | (4)                              |    |                               |    | (4)                               |    | (8)                    |
| Balance at June 30, 2012                                  | \$ 29                            | \$ | 3                             | \$ | 24                                | \$ | 56                     |
| 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                      |

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|   |       |      |       |
|---|-------|------|-------|
| 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 |

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 June 30, 2012 and 2011, the Company had entered into commodity futures contracts covering approximately 6,200,000 MM BTUs and 6,300,000 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, 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 June 30, 2012 and 2011, an unrecognized loss of \$3 million and \$2 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, 2012 and 2011 was not material.

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

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

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

| Amount of Loss<br>Recognized in OCI on<br>Commodity Futures Contracts<br>(Effective Portion) |        | Amount of Loss<br>Reclassified from<br>Accumulated OCI into<br>Income (reported in<br>manufacturing, shipping and<br>delivery) (Effective Portion) |        |
|--|--------|--|--------|
| 2012   | 2011   | 2012   | 2011   |
| \$ (2)   | \$ (2) | \$ (5)   | \$ (3) |

*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 three and six months ended June 30, 2011 was \$7 million and \$25 million, respectively. 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 June 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 \$590 million and \$890 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 June 30, 2012 and 2011 is as follows:

| Location of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts | Amount of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts |         |
|--|--|---------|
|  | 2012   | 2011    |
| Other expense  | \$ 9   | \$ (17) |

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

| Location of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts | Amount of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts |         |
|--|--|---------|
|  | 2012   | 2011    |
| Other expense  | \$ 10  | \$ (24) |

*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:

|   | <b>Balance<br/>Sheet<br/>Location</b> | <b>June 30,<br/>2012</b> | <b>Fair Value<br/>December 31,<br/>2011</b> | <b>June 30,<br/>2011</b> |
|---|---------------------------------------|--------------------------|---|--------------------------|
| <b>Asset Derivatives:</b>                               |                                       |                          |   |                          |
| Derivatives not designated as hedging instruments:      |                                       |                          |   |                          |
| Foreign exchange contracts                              | a                                     | \$ 2                     | \$ 13                                       | \$ 4                     |
| Foreign exchange contracts                              | b                                     | 1                        |   |                          |
| Foreign exchange contracts                              | c                                     |                          |   | 1                        |
| Total derivatives not designated as hedging instruments |                                       | 3                        | 13  | 5                        |
| Total asset derivatives                                 |                                       | \$ 3                     | \$ 13                                       | \$ 5                     |
| <b>Liability Derivatives:</b>                           |                                       |                          |   |                          |
| Derivatives designated as hedging instruments:          |                                       |                          |   |                          |
| Commodity futures contracts                             | c                                     | \$ 3                     | \$ 6  | \$ 2                     |
| Derivatives not designated as hedging instruments:      |                                       |                          |   |                          |
| Foreign exchange contracts                              | c                                     | 5                        | 4   | 9                        |
| Total liability derivatives                             |                                       | \$ 8                     | \$ 10                                       | \$ 11                    |

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

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

|                           | U.S.  |       | Non-U.S. |       |
|---------------------------|-------|-------|----------|-------|
|                           | 2012  | 2011  | 2012     | 2011  |
| Service cost              | \$ 7  | \$ 6  | \$ 6     | \$ 7  |
| Interest cost             | 29    | 31    | 18       | 21    |
| Expected asset return     | (46)  | (47)  | (22)     | (23)  |
| <b>Amortization:</b>      |       |       |          |       |
| Actuarial loss            | 24    | 21    | 6        | 6     |
| Net periodic pension cost | \$ 14 | \$ 11 | \$ 8     | \$ 11 |

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

|                           | U.S.  |       | Non-U.S. |       |
|---------------------------|-------|-------|----------|-------|
|                           | 2012  | 2011  | 2012     | 2011  |
| Service cost              | \$ 14 | \$ 13 | \$ 13    | \$ 12 |
| Interest cost             | 57    | 62    | 37       | 42    |
| Expected asset return     | (92)  | (94)  | (44)     | (44)  |
| <b>Amortization:</b>      |       |       |          |       |
| Actuarial loss            | 48    | 42    | 11       | 12    |
| Net periodic pension cost | \$ 27 | \$ 23 | \$ 17    | \$ 22 |

The components of the net postretirement benefit cost for the three months ended June 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    |
| <b>Amortization:</b>            |      |      |          |      |
| Prior service credit            | (1)  | (1)  |          |      |
| Actuarial loss                  | 2    | 2    |          |      |
| Net amortization                | 1    | 1    |          |      |
| Net postretirement benefit cost | \$ 3 | \$ 3 | \$ 2     | \$ 2 |

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

|                                 | U.S. |      | Non-U.S. |      |
|---------------------------------|------|------|----------|------|
|                                 | 2012 | 2011 | 2012     | 2011 |
| Service cost                    | \$ 1 | \$ 1 | \$ 1     | \$ 1 |
| Interest cost                   | 4    | 5    | 2        | 2    |
| Amortization:                   |      |      |          |      |
| Prior service credit            | (2)  | (2)  |          |      |
| Actuarial loss                  | 3    | 3    |          |      |
| Net amortization                | 1    | 1    |          |      |
| Net postretirement benefit cost | \$ 6 | \$ 6 | \$ 3     | \$ 3 |

### 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 \$35 million to the estimated liability associated with uncertain tax positions in the six months ended June 30, 2012. The Company believes that it is reasonably possible that unrecognized tax benefits 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.



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| Balance Sheet   | June 30, 2012 |                           |                                   |              |            | Consolidated |
|---|---------------|---------------------------|-----------------------------------|--------------|------------|--------------|
|   | Parent        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations |            |              |
| <b>Current assets:</b>                                  |               |                           |                                   |              |            |              |
| Accounts receivable                                     | \$            | \$                        | \$                                | 1,173        | \$         | \$ 1,173     |
| Inventories   |               |                           |                                   | 1,223        |            | 1,223        |
| Other current assets                                    |               |                           |                                   | 451          |            | 451          |
| Total current assets                                    |               |                           |                                   | 2,847        |            | 2,847        |
| Investments in and advances to subsidiaries             | 1,765         | 1,515                     |                                   |              | (3,280)    |              |
| Goodwill  |               |                           |                                   | 2,023        |            | 2,023        |
| Other non-current assets                                |               |                           |                                   | 1,243        |            | 1,243        |
| Total other assets                                      | 1,765         | 1,515                     |                                   | 3,266        | (3,280)    | 3,266        |
| Property, plant and equipment, net                      |               |                           |                                   | 2,721        |            | 2,721        |
| Total assets  | \$ 1,765      | \$ 1,515                  | \$                                | 8,834        | \$ (3,280) | \$ 8,834     |
| <b>Current liabilities :</b>                            |               |                           |                                   |              |            |              |
| 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  | 250           |                           |                                   | 3,567        | (250)      | 3,567        |
| Asbestos-related liabilities                            | 248           |                           |                                   |              |            | 248          |
| Other non-current liabilities                           |               |                           |                                   | 1,661        |            | 1,661        |
| Total share owners equity of the Company                | 1,102         | 1,515                     |                                   | 1,515        | (3,030)    | 1,102        |
| Noncontrolling interests                                |               |                           |                                   | 142          |            | 142          |
| Total liabilities and share owners equity               | \$ 1,765      | \$ 1,515                  | \$                                | 8,834        | \$ (3,280) | \$ 8,834     |

| Balance Sheet   | December 31, 2011 |                           |                                   |                   |                | Consolidated    |
|---|-------------------|---------------------------|-----------------------------------|-------------------|----------------|-----------------|
|   | Parent            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations      |                |                 |
| <b>Current assets:</b>                                  |                   |                           |                                   |                   |                |                 |
| Accounts receivable                                     | \$                | \$                        | \$                                | 1,158             | \$             | \$ 1,158        |
| Inventories   |                   |                           |                                   | 1,061             |                | 1,061           |
| Other current assets                                    |                   |                           |                                   | 524               |                | 524             |
| <b>Total current assets</b>                             |                   |                           |                                   | <b>2,743</b>      |                | <b>2,743</b>    |
| 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           |
| <b>Total other assets</b>                               | <b>1,609</b>      | <b>1,359</b>              |                                   | <b>3,355</b>      | <b>(2,968)</b> | <b>3,355</b>    |
| Property, plant and equipment, net                      |                   |                           |                                   | 2,877             |                | 2,877           |
| <b>Total assets</b>                                     | <b>\$ 1,609</b>   | <b>\$ 1,359</b>           | <b>\$ 8,975</b>                   | <b>\$ (2,968)</b> | <b>\$</b>      | <b>\$ 8,975</b> |
| <b>Current liabilities :</b>                            |                   |                           |                                   |                   |                |                 |
| 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             |
| <b>Total current liabilities</b>                        | <b>165</b>        |                           |                                   | <b>2,080</b>      |                | <b>2,245</b>    |
| Long-term debt  | 250               |                           |                                   | 3,627             | (250)          | 3,627           |
| Asbestos-related liabilities                            | 306               |                           |                                   |                   |                | 306             |
| Other non-current liabilities                           |                   |                           |                                   | 1,756             |                | 1,756           |
| <b>Total share owners equity of the Company</b>         | <b>888</b>        | <b>1,359</b>              | <b>1,359</b>                      | <b>(2,718)</b>    |                | <b>888</b>      |
| Noncontrolling interests                                |                   |                           |                                   | 153               |                | 153             |
| <b>Total liabilities and share owners equity</b>        | <b>\$ 1,609</b>   | <b>\$ 1,359</b>           | <b>\$ 8,975</b>                   | <b>\$ (2,968)</b> | <b>\$</b>      | <b>\$ 8,975</b> |

| Balance Sheet  | June 30, 2011 |                           |                                   |              |            | Consolidated |
|--|---------------|---------------------------|-----------------------------------|--------------|------------|--------------|
|  | Parent        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations |            |              |
| Current assets:  |               |                           |                                   |              |            |              |
| Accounts receivable  | \$            | \$                        | \$                                | 1,322        | \$         | \$ 1,322     |
| Inventories  |               |                           |                                   | 1,114        |            | 1,114        |
| Other current assets                                       |               |                           |                                   | 364          |            | 364          |
| Total current assets                                       |               |                           |                                   | 2,800        |            | 2,800        |
| Investments in and advances to<br>subsidiaries             | 2,840         | 2,590                     |                                   |              | (5,430)    |              |
| Goodwill   |               |                           |                                   | 2,957        |            | 2,957        |
| Other non-current assets                                   |               |                           |                                   | 1,260        |            | 1,260        |
| Total other assets   | 2,840         | 2,590                     |                                   | 4,217        | (5,430)    | 4,217        |
| Property, plant and equipment, net                         |               |                           |                                   | 3,176        |            | 3,176        |
| Total assets   | \$ 2,840      | \$ 2,590                  | \$                                | 10,193       | \$ (5,430) | \$ 10,193    |
| Current liabilities :                                      |               |                           |                                   |              |            |              |
| Accounts payable and accrued liabilities                   | \$            | \$                        | \$                                | 1,651        | \$         | \$ 1,651     |
| Current portion of asbestos liability                      | 170           |                           |                                   |              |            | 170          |
| Short-term loans and long-term debt due<br>within one year |               |                           |                                   | 371          |            | 371          |
| Total current liabilities                                  | 170           |                           |                                   | 2,022        |            | 2,192        |
| Long-term debt   | 250           |                           |                                   | 3,969        | (250)      | 3,969        |
| Asbestos-related liabilities                               | 238           |                           |                                   |              |            | 238          |
| Other non-current liabilities                              |               |                           |                                   | 1,455        |            | 1,455        |
| Total share owners' equity of the<br>Company               | 2,182         | 2,590                     |                                   | 2,590        | (5,180)    | 2,182        |
| Noncontrolling interests                                   |               |                           |                                   | 157          |            | 157          |
| Total liabilities and share owners' equity                 | \$ 2,840      | \$ 2,590                  | \$                                | 10,193       | \$ (5,430) | \$ 10,193    |

## Three months ended June 30, 2012

| Results of Operations  | Non-   |                           |                           |              |          | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|----------|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |          |              |
| Net sales  | \$     | \$                        | \$                        | 1,766        | \$       | \$ 1,766     |
| Manufacturing, shipping and delivery                         |        |                           |                           | (1,390)      |          | (1,390)      |
| Gross profit   |        |                           |                           | 376          |          | 376          |
| Research, engineering, selling,<br>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 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<br>interests     |        |                           |                           | (4)          |          | (4)          |
| Net earnings attributable to the Company                     | \$ 133 | \$ 133                    | \$ 133                    | \$ 133       | \$ (266) | \$ 133       |

## Three months ended June 30, 2012

| Comprehensive Income   | Non-    |                           |                           |              |    | Consolidated |
|--|---------|---------------------------|---------------------------|--------------|----|--------------|
|  | Parent  | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |
| 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<br>noncontrolling interests |         |                           |                           | (1)          |    | (1)          |
| Comprehensive income (loss) attributable to<br>the Company       | \$ (35) | \$ (35)                   | \$ (60)                   | \$ 95        | \$ | \$ (35)      |

## Three months ended June 30, 2011

| Results of Operations  | Non-   |                           |                           |              |       | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|-------|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |       |              |
| Net sales  | \$     | \$                        | \$                        | 1,959        | \$    | \$ 1,959     |
| Manufacturing, shipping, and delivery                        |        |                           |                           | (1,604)      |       | (1,604)      |
| Gross profit   |        |                           |                           | 355          |       | 355          |
| Research, engineering, selling,<br>administrative, and other |        |                           |                           | (172)        |       | (172)        |
| Net intercompany interest                                    | 5      |                           |                           | (5)          |       |              |
| Interest expense   | (5)    |                           |                           | (95)         |       | (100)        |
| Interest income  |        |                           |                           | 3            |       | 3            |
| Equity earnings from subsidiaries                            | 73     | 73                        |                           |              | (146) |              |
| Other equity earnings  |        |                           |                           | 19           |       | 19           |
| Other income   |        |                           |                           | 5            |       | 5            |
| Earnings from continuing operations before<br>income taxes   | 73     | 73                        |                           | 110          | (146) | 110          |
| Provision for income taxes                                   |        |                           |                           | (32)         |       | (32)         |
| Earnings from continuing operations                          | 73     | 73                        |                           | 78           | (146) | 78           |
| Earnings from discontinued operations                        |        |                           |                           | 2            |       | 2            |
| Net earnings   | 73     | 73                        |                           | 80           | (146) | 80           |
| Net earnings attributable to noncontrolling<br>interest      |        |                           |                           | (7)          |       | (7)          |
| Net earnings attributable to the Company                     | \$ 73  | \$ 73                     | \$ 73                     | \$ (146)     | \$    | \$ 73        |

## Three months ended June 30, 2011

| Comprehensive Income   | Non-   |                           |                           |              |    | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|----|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |
| Net earnings   | \$ 73  | \$ 73                     | \$ 80                     | \$ (146)     | \$ | \$ 80        |
| Other comprehensive income                                       | 143    | 143                       | 126                       | (264)        |    | 148          |
| Total comprehensive income                                       | 216    | 216                       | 206                       | (410)        |    | 228          |
| Comprehensive income attributable to<br>noncontrolling interests |        |                           |                           | (12)         |    | (12)         |
| Comprehensive income attributable to the<br>Company              | \$ 216 | \$ 216                    | \$ 194                    | \$ (410)     | \$ | \$ 216       |

## Six months ended June 30, 2012

| Results of Operations  | Non-   |                           |                           |              |       | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|-------|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |       |              |
| Net sales  | \$     | \$                        | \$                        | 3,505        | \$    | \$ 3,505     |
| Manufacturing, shipping, and delivery                        |        |                           |                           | (2,751)      |       | (2,751)      |
| Gross profit   |        |                           |                           | 754          |       | 754          |
| Research, engineering, selling,<br>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<br>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<br>interest      |        |                           |                           | (8)          |       | (8)          |
| Net earnings attributable to the Company                     | \$ 254 | \$ 254                    | \$ 254                    | \$ (508)     | \$    | \$ 254       |

## Six months ended June 30, 2012

| Comprehensive Income   | Non-   |                           |                           |              |    | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|----|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |
| Net earnings   | \$ 254 | \$ 254                    | \$ 262                    | \$ (508)     | \$ | \$ 262       |
| Other comprehensive income (loss)                                | (52)   | (52)                      | (97)                      | 153          |    | (48)         |
| Total comprehensive income                                       | 202    | 202                       | 165                       | (355)        |    | 214          |
| Comprehensive income attributable to<br>noncontrolling interests |        |                           | (12)                      |              |    | (12)         |
| Comprehensive income attributable to the<br>Company              | \$ 202 | \$ 202                    | \$ 153                    | \$ (355)     | \$ | \$ 202       |

## Six months ended June 30, 2011

| Results of Operations  | Non-   |                           |                           |              |       | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|-------|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |       |              |
| Net sales  | \$     | \$                        | \$                        | 3,678        | \$    | \$ 3,678     |
| Manufacturing, shipping, and delivery                        |        |                           |                           | (2,980)      |       | (2,980)      |
| Gross profit   |        |                           |                           | 698          |       | 698          |
| Research, engineering, selling,<br>administrative, and other |        |                           |                           | (348)        |       | (348)        |
| Net intercompany interest                                    | 10     |                           |                           | (10)         |       |              |
| Interest expense   | (10)   |                           |                           | (166)        |       | (176)        |
| Interest income  |        |                           |                           | 6            |       | 6            |
| Equity earnings from subsidiaries                            | 155    | 155                       |                           |              | (310) |              |
| Other equity earnings  |        |                           |                           | 33           |       | 33           |
| Other income   |        |                           |                           | 12           |       | 12           |
| Earnings from continuing operations before<br>income taxes   | 155    | 155                       |                           | 225          | (310) | 225          |
| Provision for income taxes                                   |        |                           |                           | (60)         |       | (60)         |
| Earnings from continuing operations                          | 155    | 155                       |                           | 165          | (310) | 165          |
| Earnings from discontinued operations                        |        |                           |                           | 1            |       | 1            |
| Net earnings   | 155    | 155                       |                           | 166          | (310) | 166          |
| Net earnings attributable to noncontrolling<br>interest      |        |                           |                           | (11)         |       | (11)         |
| Net earnings attributable to the Company                     | \$ 155 | \$ 155                    | \$ 155                    | \$ (310)     | \$    | \$ 155       |

## Six months ended June 30, 2011

| Comprehensive Income   | Non-   |                           |                           |              |    | Consolidated |
|--|--------|---------------------------|---------------------------|--------------|----|--------------|
|  | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |
| Net earnings   | \$ 155 | \$ 155                    | \$ 166                    | \$ (310)     | \$ | \$ 166       |
| Other comprehensive income                                       | 234    | 234                       | 200                       | (425)        |    | 243          |
| Total comprehensive income                                       | 389    | 389                       | 366                       | (735)        |    | 409          |
| Comprehensive income attributable to<br>noncontrolling interests |        |                           |                           | (20)         |    | (20)         |
| Comprehensive income attributable to the<br>Company              | \$ 389 | \$ 389                    | \$ 346                    | \$ (735)     | \$ | \$ 389       |

## Six months ended June 30, 2012

| Cash Flows                                      | Non-    |                           |                           |              |              |
|---|---------|---------------------------|---------------------------|--------------|--------------|
|   | Parent  | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | \$ (58) | \$                        | \$ 62                     | \$           | \$ 4         |
| Cash used in investing activities               |         |                           | (100)                     |              | (100)        |
| Cash provided by (used in) financing activities | 58      |                           | (31)                      |              | 27           |
| Effect of exchange rate change on cash          |         |                           | 5                         |              | 5            |
| Net change in cash                              |         |                           | (64)                      |              | (64)         |
| Cash at beginning of period                     |         |                           | 400                       |              | 400          |
| Cash at end of period                           | \$      | \$                        | \$ 336                    | \$           | \$ 336       |

## Six months ended June 30, 2011

| Cash Flows                                      | Non-    |                           |                           |              |              |
|---|---------|---------------------------|---------------------------|--------------|--------------|
|   | Parent  | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | \$ (68) | \$                        | \$ 162                    | \$           | \$ 94        |
| Cash used in investing activities               |         |                           | (300)                     |              | (300)        |
| Cash provided by (used in) financing activities | 68      |                           | (256)                     |              | (188)        |
| Effect of exchange rate change on cash          |         |                           | 14                        |              | 14           |
| Net change in cash                              |         |                           | (380)                     |              | (380)        |
| Cash at beginning of period                     |         |                           | 640                       |              | 640          |
| Cash at end of period                           | \$      | \$                        | \$ 260                    | \$           | \$ 260       |



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

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

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 (see Note 1 to the Condensed Consolidated Financial Statements for more information). Also effective January 1, 2012, the Company changed its method of allocating pension expense to its reportable segments (see Note 8 to the Condensed Consolidated Financial Statements for more information). The changes in the inventory valuation method and pension allocation have been applied retrospectively to all prior periods. There is no impact of the change in accounting method for inventory on Segment Operating Profit for the three months ended June 30, 2011. The impact of the change in pension expense allocation on Segment Operating Profit for the three months ended June 30, 2011 is as follows (dollars in millions):

|                                    | As<br>Originally<br>Reported | Change in<br>Pension<br>Allocation | As<br>Adjusted |
|------------------------------------|------------------------------|------------------------------------|----------------|
| Segment Operating Profit:          |                              |                                    |                |
| Europe                             | \$ 107                       | \$ 5                               | \$ 112         |
| North America                      | 56                           | (6)                                | 50             |
| South America                      | 53                           |                                    | 53             |
| Asia Pacific                       | 9                            |                                    | 9              |
| Reportable segment totals          | 225                          | (1)                                | 224            |
| Retained corporate costs and other | (14)                         | 1                                  | (13)           |

The impact of these changes on Segment Operating Profit for the six months ended June 30, 2011 is as follows (dollars in millions):

|                                    | As<br>Originally<br>Reported | Change in<br>Pension<br>Allocation | Change in<br>Accounting<br>Method for<br>Inventory | As<br>Adjusted |
|------------------------------------|------------------------------|------------------------------------|--|----------------|
| Segment Operating Profit:          |                              |                                    |  |                |
| Europe                             | \$ 178                       | \$ 10                              |  | \$ 188         |
| North America                      | 115                          | (12)                               | 10   | 113            |
| South America                      | 98                           |                                    |  | 98             |
| Asia Pacific                       | 33                           |                                    |  | 33             |
| Reportable segment totals          | 424                          | (2)                                | 10   | 432            |
| Retained corporate costs and other | (27)                         | 2                                  |  | (25)           |

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Financial information for the three and six months ended June 30, 2012 and 2011 regarding the Company's reportable segments is as follows (dollars in millions):

|                           | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|---------------------------|--------------------------------|----------|------------------------------|----------|
|                           | 2012                           | 2011     | 2012                         | 2011     |
| Net Sales:                |                                |          |                              |          |
| Europe                    | \$ 731                         | \$ 887   | \$ 1,436                     | \$ 1,585 |
| North America             | 516                            | 506      | 998                          | 969      |
| South America             | 282                            | 302      | 559                          | 571      |
| Asia Pacific              | 230                            | 246      | 487                          | 508      |
| Reportable segment totals | 1,759                          | 1,941    | 3,480                        | 3,633    |
| Other                     | 7                              | 18       | 25                           | 45       |
| Net Sales                 | \$ 1,766                       | \$ 1,959 | \$ 3,505                     | \$ 3,678 |

|   | Three months ended<br>June 30, |        | Six months ended<br>June 30, |        |
|---|--------------------------------|--------|------------------------------|--------|
|   | 2012                           | 2011   | 2012                         | 2011   |
| Segment Operating Profit:                               |                                |        |                              |        |
| Europe  | \$ 107                         | \$ 112 | \$ 215                       | \$ 188 |
| North America   | 96                             | 50     | 174                          | 113    |
| South America   | 47                             | 53     | 85                           | 98     |
| Asia Pacific  | 16                             | 9      | 52                           | 33     |
| Reportable segment totals                               | 266                            | 224    | 526                          | 432    |
| Items excluded from Segment Operating Profit:           |                                |        |                              |        |
| Retained corporate costs and other                      | (27)                           | (13)   | (56)                         | (25)   |
| Restructuring   |                                | (4)    |                              | (12)   |
| Interest income   | 2                              | 3      | 5                            | 6      |
| Interest expense  | (62)                           | (100)  | (126)                        | (176)  |
| Earnings from continuing operations before income taxes | 179                            | 110    | 349                          | 225    |
| Provision for income taxes                              | (41)                           | (32)   | (85)                         | (60)   |
| Earnings from continuing operations                     | 138                            | 78     | 264                          | 165    |
| Earnings (loss) from discontinued operations            | (1)                            | 2      | (2)                          | 1      |
| Net earnings  | 137                            | 80     | 262                          | 166    |
| Net earnings attributable to noncontrolling interests   | (4)                            | (7)    | (8)                          | (11)   |
| Net earnings attributable to the Company                | \$ 133                         | \$ 73  | \$ 254                       | \$ 155 |
| Amounts attributable to the Company:                    |                                |        |                              |        |
| Earnings from continuing operations                     | \$ 134                         | \$ 71  | \$ 256                       | \$ 154 |
| Earnings (loss) from discontinued operations            | (1)                            | 2      | (2)                          | 1      |
| Net earnings  | \$ 133                         | \$ 73  | \$ 254                       | \$ 155 |

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

**Executive Overview** *Quarters ended June 30, 2012 and 2011*

*Second Quarter 2012 Highlights*

- Net sales lower due to foreign currency exchange rate changes and 6% decline in glass container shipments.
- Increased Segment Operating Profit due to strong manufacturing performance, cost-cutting initiatives and higher pricing.

Net sales were \$193 million lower than the prior year, primarily due to the unfavorable effect of changes in foreign currency exchange rates and lower sales volumes, partially offset by improved pricing.

Segment Operating Profit for reportable segments was \$42 million higher than the prior year. The increase was mainly attributable to strong manufacturing performance, cost-cutting initiatives and higher selling prices to offset inflation. The increase was driven by improvements made in North America to correct the production and supply chain issues experienced in the prior year.

Interest expense for the second quarter of 2012 decreased \$38 million over the second quarter of 2011. The decrease was principally due to the refinancing of higher cost debt in connection with the Company's new bank credit agreement completed in mid-2011, as well as note repurchase premiums and the write-off of finance fees related to debt redeemed in 2011.

For the second quarter of 2012 the Company recorded earnings from continuing operations attributable to the Company of \$134 million, or \$0.81 per share (diluted), compared to \$71 million, or \$0.42 per share (diluted), in the second quarter of 2011. Earnings in the second quarter of 2011 included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2011 by \$27 million, or \$0.17 per share. There were no items that management considered not representative of ongoing operations in the second quarter of 2012.

**Results of Operations** *Second Quarter of 2012 compared with Second Quarter of 2011*

*Net Sales*

The Company's net sales in the second quarter of 2012 were \$1,766 million compared with \$1,959 million for the second quarter of 2011, a decrease of \$193 million, or 10%. The decrease in net sales was primarily caused by the unfavorable effects of changes in foreign currency exchange rates and lower glass container shipments, partially offset by improved pricing. Unfavorable foreign currency exchange rate changes decreased net sales in the second quarter of 2012 compared to the prior year, primarily due to a weaker Euro and Brazilian real in relation to the U.S. dollar. Glass container shipments, in tonnes, were down approximately 6% in the second quarter of 2012 compared to the second quarter of 2011. The decrease in sales volume was primarily driven by lower shipments in Europe, partially offset by higher shipments in North America and South America. Average selling prices improved in the second quarter of 2012 over the prior year as the Company increased prices to

recover high cost inflation.

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

|  |    |       |       |
|--|----|-------|-------|
| Net sales - 2011                           |    | \$    | 1,941 |
| Price                                      |    |       |       |
| Price and product mix                      | \$ | 82    |       |
| Cost pass-through provisions               |    | (10)  |       |
| Sales volume                               |    | (95)  |       |
| Effects of changing foreign currency rates |    | (159) |       |
| Total effect on net sales                  |    |       | (182) |
| Net sales - 2012                           |    | \$    | 1,759 |

*Europe:* Net sales in Europe in the second quarter of 2012 were \$731 million compared with \$887 million for the second quarter of 2011, a decrease of \$156 million, or 18%. The decrease in net sales was partly due to the unfavorable effects of foreign currency exchange rate changes as the Euro declined in value in relation to the U.S. dollar by approximately 12% in the second quarter of 2012 compared to the prior year. The decrease in net sales was also due to lower glass container shipment levels which were down approximately 11% in the second quarter of 2012 compared to the prior year. Lower wine and beer bottle shipments accounted for the majority of the volume decrease, primarily a result of macroeconomic conditions in the region and the Company's pricing strategy. Partially offsetting these decreases to net sales were higher selling prices resulting from the successful negotiation of annual customer contracts to recover high cost inflation from the prior year.

*North America:* Net sales in North America in the second quarter of 2012 were \$516 million compared with \$506 million for the second quarter of 2011, an increase of \$10 million, or 2%. The increase in net sales was due to improved pricing and higher glass container shipments. The Company increased selling prices in the current year to recover high cost inflation from the prior year. Glass container shipments, in tonnes, were up slightly in the current quarter, particularly in the wine and spirits categories.

*South America:* Net sales in South America in the second quarter of 2012 were \$282 million compared with \$302 million for the second quarter of 2011, a decrease of \$20 million, or 7%. The decrease in net sales was due to the unfavorable effects of foreign currency exchange rate changes as the Brazilian real declined in value in relation to the U.S. dollar by approximately 25% in the second quarter of 2012 compared to the prior year. Glass container shipments were up slightly in the second quarter of 2012 compared to the prior year, particularly in the beer category.

*Asia Pacific:* Net sales in Asia Pacific in the second quarter of 2012 were \$230 million compared with \$246 million for the second quarter of 2011, a decrease of \$16 million, or 7%. Glass container shipments, in tonnes, were down approximately 6% compared to the prior year, primarily attributable to lower wine and beer bottle shipments in Australia. The decrease in shipments of wine bottles was due to the reductions of in-country bottling by wine producers. The decrease in shipments of beer bottles was due to the continued effect of high interest and savings rates on consumer spending in the country. Net sales also declined in the second quarter of 2012 as a result of the unfavorable effects of foreign currency exchange rate changes as the Australian dollar weakened in relation to the U.S. dollar.

*Segment Operating Profit*

Operating Profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

Segment Operating Profit of reportable segments in the second quarter of 2012 was \$266 million compared to \$224 million for the second quarter of 2011, an increase of \$42 million, or 19%. The increase in Segment Operating Profit was primarily due to strong manufacturing performance, cost-cutting initiatives and higher selling prices to offset inflation. Manufacturing and delivery costs were lower in the current year primarily as a result of improvements made in North America to correct the production and supply chain issues experienced in the prior year and cost savings achieved from the permanent footprint adjustments made in Australia over the past year. The Company increased selling prices in the current year to offset the high cost inflation experienced during 2011. Operating expenses were also lower in the second quarter of 2012 due to global cost reductions. Partially offsetting these increases to Segment Operating Profit were lower sales volume and the unfavorable effects of foreign currency exchange rate changes.

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

|  |    |      |     |
|--|----|------|-----|
| Segment Operating Profit - 2011              |    | \$   | 224 |
| Price and product mix                        | \$ | 82   |     |
| Cost inflation                               |    | (52) |     |
| Price / inflation spread                     |    | 30   |     |
| Sales volume                                 |    | (26) |     |
| Manufacturing and delivery                   |    | 49   |     |
| Operating expenses and other                 |    | 12   |     |
| Effects of changing foreign currency rates   |    | (23) |     |
| Total net effect on Segment Operating Profit |    |      | 42  |
| Segment Operating Profit - 2012              |    | \$   | 266 |

*Europe:* Segment operating profit in Europe in the second quarter of 2012 was \$107 million compared with \$112 million in the second quarter of 2011, a decrease of \$5 million, or 4%. The decrease in segment operating profit was primarily due to lower sales volumes and the unfavorable effect of a weaker Euro in relation to the U.S. dollar, partially offset by higher selling prices over inflation. As a result of weakening sales volumes during the second quarter of 2012, the Company implemented production curtailment measures late in the quarter to balance capacity with lower demand in the region. This partially offset the positive impact of higher production efficiencies during the quarter, and will likely continue to impact the region's segment operating profit for the remainder of 2012.

*North America:* Segment operating profit in North America in the second quarter of 2012 was \$96 million compared with \$50 million in the second quarter of 2011, an increase of \$46 million, or 92%. The increase in segment operating profit was primarily due to strong manufacturing performance and improvements made to correct the production and supply chain issues experienced in the prior



year. High production rates in the second quarter of 2012, along with the restarting of two idled furnaces in the second half of 2011, resulted in higher fixed cost absorption compared to the prior year. Segment operating profit also increased during the second quarter of 2012 due to higher selling prices to offset inflation and cost control initiatives.

*South America:* Segment operating profit in South America in the second quarter of 2012 was \$47 million compared with \$53 million in the second quarter of 2011, a decrease of \$6 million, or 11%. The decrease in segment operating profit was primarily due to the unfavorable effects of foreign currency exchange rate changes. Higher sales volume in the second quarter of 2012 benefited segment operating profit compared to the prior year.

*Asia Pacific:* Segment operating profit in Asia Pacific in the second quarter of 2012 was \$16 million compared with \$9 million in the second quarter of 2011, an increase of \$7 million, or 78%. The increase in segment operating profit was primarily due to benefits realized from the permanent footprint adjustments made in Australia over the past year and overall cost-cutting initiatives in the region, partially offset by lower sales volume and the unfavorable effect of foreign currency exchange rate changes.

#### *Interest Expense*

Interest expense for the second quarter of 2012 was \$62 million compared with \$100 million for the second quarter of 2011. The 2011 amount includes \$25 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees related to the cancellation of the Company's previous bank credit agreement and the redemption of the senior notes due 2014. Exclusive of these items, interest expense decreased approximately \$13 million. The decrease was principally due to the refinancing of higher cost debt in connection with the Company's new bank credit agreement completed in mid-2011.

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

Net earnings attributable to noncontrolling interests in the second quarter of 2012 were \$4 million compared with \$7 million in the second quarter of 2011. The decrease in the current quarter was primarily a result of lower earnings in the Company's less than wholly-owned subsidiaries in its South America and Asia Pacific segments in the second quarter of 2012.

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

For the second quarter of 2012 the Company recorded earnings from continuing operations attributable to the Company of \$134 million, or \$0.81 per share (diluted), compared to \$71 million, or \$0.42 per share (diluted), in the second quarter of 2011. Earnings in the second quarter of 2011 included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2011 by \$27 million, or \$0.17 per share. There were no items that management considered not representative of ongoing operations in the second quarter of 2012.





**Executive Overview** Six Months ended June 30, 2012 and 2011

*2012 Highlights*

- Net sales lower due to foreign currency exchange rate changes and 4% decline in glass container shipments.
- Increased Segment Operating Profit due to strong manufacturing performance, cost-cutting initiatives and higher pricing.

Net sales were \$173 million lower than the prior year, primarily due to the unfavorable effect of changes in foreign currency exchange rates and lower sales volumes, partially offset by improved pricing.

Segment Operating Profit for reportable segments was \$94 million higher than the prior year. The increase was mainly attributable to strong manufacturing performance, cost-cutting initiatives and higher selling prices to offset inflation. The increase was driven by improvements made in North America to correct the production and supply chain issues experienced in the prior year.

Interest expense for the first six months of 2012 decreased \$50 million over the first six months of 2011. The decrease was principally due to the refinancing of higher cost debt in connection with the Company's new bank credit agreement completed in mid-2011, as well as note repurchase premiums and the write-off of finance fees related to debt redeemed in 2011.

For the first six months of 2012, the Company recorded earnings from continuing operations attributable to the Company of \$256 million, or \$1.54 per share (diluted), compared to \$154 million, or \$0.92 per share (diluted), in the first six months of 2011. Earnings in the first six months of 2011 included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2011 by \$32 million, or \$0.20 per share. There were no items that management considered not representative of ongoing operations in the first six months of 2012.

**Results of Operations** First six months of 2012 compared with first six months of 2011

*Net Sales*

The Company's net sales in the first six months of 2012 were \$3,505 million compared with \$3,678 million for the first six months of 2011, a decrease of \$173 million, or 5%. The decrease in net sales was primarily caused by the unfavorable effects of changes in foreign currency exchange rates and lower glass container shipments, partially offset by improved pricing. Unfavorable foreign currency exchange rate changes decreased net sales in the current year, primarily due to a weaker Euro and Brazilian real in relation to the U.S. dollar. Glass container shipments, in tonnes, were down approximately 4% in the first six months of 2012 compared to the first six months of 2011. The decrease in sales volume was primarily driven by lower sales in Europe, partially offset by higher sales in North America and South America. Average selling prices improved in the first six months of 2012 over the prior year as the Company increased prices to recover high cost inflation.



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

|  |    |       |       |
|--|----|-------|-------|
| Net sales - 2011                           |    | \$    | 3,633 |
| Price                                      |    |       |       |
| Price and product mix                      | \$ | 145   |       |
| Cost pass-through provisions               |    | (18)  |       |
| Sales volume                               |    | (99)  |       |
| Effects of changing foreign currency rates |    | (181) |       |
| Total effect on net sales                  |    |       | (153) |
| Net sales - 2012                           |    | \$    | 3,480 |

*Europe:* Net sales in Europe in the first six months of 2012 were \$1,436 million compared with \$1,585 million for the first six months of 2011, a decrease of \$149 million, or 9%. The decrease in net sales was partly attributable to the unfavorable effects of foreign currency exchange rate changes as the Euro declined in value in relation to the U.S. dollar by approximately 8% in the first six months of 2012 compared to the prior year. The decrease in net sales was also due to lower glass container shipment levels which were down approximately 6% in the first six months of 2012 compared to the prior year. Lower wine bottle shipments accounted for the majority of the volume decrease, primarily a result of macroeconomic conditions in the region and the Company's pricing strategy. Partially offsetting these decreases to net sales were higher selling prices resulting from the successful negotiation of annual customer contracts to recover high cost inflation from the prior year.

*North America:* Net sales in North America in the first six months of 2012 were \$998 million compared with \$969 million for the first six months of 2011, an increase of \$29 million, or 3%. The increase in net sales was due to improved pricing and higher glass container shipments. The Company increased selling prices in the current year to recover high cost inflation from the prior year. Glass container shipments, in tonnes, were up slightly in the first six months of 2012, particularly in the wine and spirits categories.

*South America:* Net sales in South America in the first six months of 2012 were \$559 million compared with \$571 million for the first six months of 2011, a decrease of \$12 million, or 2%. The decrease in net sales was due to the unfavorable effects of foreign currency exchange rate changes as the Brazilian real declined in value in relation to the U.S. dollar by approximately 16% in the first six months of 2012 compared to the prior year. Glass container shipments were up slightly in the first six months of 2012 compared to the prior year, particularly in the beer category.

*Asia Pacific:* Net sales in Asia Pacific in the first six months of 2012 were \$487 million compared with \$508 million for the first six months of 2011, a decrease of \$21 million, or 4%. Glass container shipments, in tonnes, were down approximately 10% in the first six months of 2012 compared to the prior year. Glass container shipments in Australia, primarily wine and beer bottles, were down in the current year compared to the prior year. The decrease in shipments of wine bottles was due to the reductions of in-country bottling by wine producers. The decrease in shipments of beer bottles was due to the continued effect of high interest and savings rates on consumer spending in the country. Glass container shipments in China were down approximately 20% in the first six months of 2012 compared to the prior year, mainly attributable to furnace rebuilds in 2012.

*Segment Operating Profit*

Operating Profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

Segment Operating Profit of reportable segments in the first six months of 2012 was \$526 million compared to \$432 million for the first six months of 2011, an increase of \$94 million, or 22%. The increase in Segment Operating Profit was primarily due to strong manufacturing performance, cost-cutting initiatives and higher selling prices to offset inflation. Manufacturing and delivery costs were lower in the current year primarily as a result of improvements made in North America to correct the production and supply chain issues experienced in the prior year and cost savings achieved from the permanent footprint adjustments made in Australia over the past year. Manufacturing costs were also lower in the current year due to the non-recurrence of approximately \$9 million of costs related to flooding in Australia during the first quarter of 2011. The Company increased selling prices in the current year to offset the high cost inflation experienced during 2011. Operating expenses were also lower in the first six months of 2012 due to global cost reductions. Partially offsetting these increases to Segment Operating Profit were lower sales volume and the unfavorable effects of foreign currency exchange rate changes.

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

|  |    |       |     |
|--|----|-------|-----|
| Segment Operating Profit - 2011              |    | \$    | 432 |
| Price and product mix                        | \$ | 145   |     |
| Cost inflation                               |    | (102) |     |
| Price / inflation spread                     |    | 43    |     |
| Sales volume                                 |    | (26)  |     |
| Manufacturing and delivery                   |    | 80    |     |
| Operating expenses and other                 |    | 25    |     |
| Effects of changing foreign currency rates   |    | (28)  |     |
| Total net effect on Segment Operating Profit |    |       | 94  |
| Segment Operating Profit - 2012              |    | \$    | 526 |

*Europe:* Segment operating profit in Europe in the first six months of 2012 was \$215 million compared with \$188 million in the first six months of 2011, an increase of \$27 million, or 14%. The increase in segment operating profit was primarily attributable to higher selling prices to offset inflation and strong manufacturing performance, caused by higher production efficiencies in the first six months of 2012 that resulted in lower manufacturing costs compared to the prior year. Segment operating profit also increased during the current year as a result of cost control initiatives. These increases to segment operating profit were partially offset by lower sales volumes and the unfavorable effect of foreign currency exchange rate changes.

*North America:* Segment operating profit in North America in the first six months of 2012 was \$174 million compared with \$113 million in the first six months of 2011, an increase of \$61 million, or



54%. The increase in segment operating profit was primarily due to strong manufacturing performance and improvements made to correct the production and supply chain issues experienced in the prior year. High production rates in the first six months of 2012, along with the restarting of two idled furnaces in the second half of 2011, resulted in higher fixed cost absorption compared to the prior year. Segment operating profit also increased during the first six months of 2012 due to higher selling prices to offset inflation and cost control initiatives.

*South America:* Segment operating profit in South America in the first six months of 2012 was \$85 million compared with \$98 million in the first six months of 2011, a decrease of \$13 million, or 13%. The decrease in segment operating profit was primarily due to the unfavorable effects of foreign currency exchange rate changes. Higher sales volume in the first six months of 2012 benefited segment operating profit compared to the prior year.

*Asia Pacific:* Segment operating profit in Asia Pacific in the first six months of 2012 was \$52 million compared with \$33 million in the first six months of 2011, an increase of \$19 million, or 58%. The increase in segment operating profit was primarily due to benefits realized from the permanent footprint adjustments made in Australia over the past year and overall cost-cutting initiatives in the region, partially offset by lower sales volume. The increase in segment operating profit was also due to the non-recurrence of approximately \$9 million of costs related to flooding in Australia during the first quarter of 2011.

#### *Interest Expense*

Interest expense for the first six months of 2012 was \$126 million compared with \$176 million for the first six months of 2011. The 2011 amount includes \$25 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees related to the cancellation of the Company's previous bank credit agreement and the redemption of the senior notes due 2014. Exclusive of these items, interest expense decreased approximately \$25 million. The decrease was principally due to the refinancing of higher cost debt in connection with the Company's new bank credit agreement completed in mid-2011.

#### *Provision for Income Taxes*

The Company's effective tax rate from continuing operations for the six months ended June 30, 2012 was 24.4% compared with 26.7% for the first six months of 2011. Excluding the amounts related to items that management considers not representative of ongoing operations, the Company expects that the full year effective tax rate for 2012 will be between 24% to 25% compared with 21.6% for 2011. The increase in the expected effective tax rate for the full year 2012 is due to the Company's current expected change in mix of earnings by jurisdictions.

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

Net earnings attributable to noncontrolling interests in the first six months of 2012 were \$8 million compared with \$11 million in the first six months of 2011. Net earnings attributable to noncontrolling interests in 2011 included \$2 million of charges related to items that management considered not representative of ongoing operations. Exclusive of these items, net earnings attributable to noncontrolling interests in the first six months of 2012 decreased \$5 million from the first six months of 2011. This decrease was primarily a result of lower earnings in the Company's less than wholly-owned subsidiaries in its South America and Asia Pacific segments in 2012.





*Earnings from Continuing Operations Attributable to the Company*

For the first six months of 2012, the Company recorded earnings from continuing operations attributable to the Company of \$256 million, or \$1.54 per share (diluted), compared to \$154 million, or \$0.92 per share (diluted), in the first six months of 2011. Earnings in the first six months of 2011 included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2011 by \$32 million, or \$0.20 per share. There were no items that management considered not representative of ongoing operations in the first six months of 2012.

**Items Excluded from Reportable Segment Totals**

Retained Corporate Costs and Other

Retained corporate costs and other for the second quarter of 2012 was \$27 million compared with \$13 million for the second quarter of 2011, and \$56 million for the first six months of 2012 compared to \$25 million for the first six months of 2011. Retained corporate costs and other for the three and six months ended June 30, 2012 reflect lower earnings from global machine and equipment sales as well as higher management incentive compensation expense.

Restructuring

During the three months ended June 30, 2011, the Company recorded restructuring charges totaling \$4 million for employee costs related to the closure of a machine line in its Asia Pacific segment.

During the six months ended June 30, 2011, the Company recorded restructuring charges totaling \$12 million for employee costs related to the closure of a plant and machine line in its Asia Pacific segment.

See Note 10 to the Condensed Consolidated Financial Statements for additional information.

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 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 \$1 million and \$2 million for the three and six months ended June 30, 2012, respectively, consisted primarily of ongoing legal fees related to the expropriation.

### Capital Resources and Liquidity

As of June 30, 2012, the Company had cash and total debt of \$336 million and \$4.0 billion, respectively, compared to \$260 million and \$4.3 billion, respectively, as of June 30, 2011. A significant portion of the cash was held in mature, liquid markets where the Company has operations, such as the U.S., Europe and Australia, and is readily available to fund global liquidity requirements. The amount of cash held in non-U.S. locations as of June 30, 2012 was \$252 million.

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

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). At June 30, 2012, the Agreement included a \$900 million revolving credit facility, a 170 million Australian dollar term loan, a \$600 million term loan, a 116 million Canadian dollar term loan, and a 141 million term loan, each of which has a final maturity date of May 19, 2016. At June 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 June 30, 2012 was 2.74%.

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

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

|  | June 30,<br>2012 | December 31,<br>2011 | June 30,<br>2011 |
|--|------------------|----------------------|------------------|
| Balance (included in short-term loans) | \$ 302           | \$ 281               | \$ 312           |
| Weighted average interest rate         | 1.42%            | 2.41%                | 2.69%            |

*Cash Flows*

Free cash flow was \$(118) million for the first six months of 2012 compared to \$(61) million for the first six months of 2011. The Company defines free cash flow as cash provided by continuing operating activities less additions to property, plant and equipment from continuing operations. Free cash flow does not conform to U.S. GAAP and should not be construed as an alternative to the cash flow measures reported in accordance with U.S. GAAP. The Company uses free cash flow for internal reporting, forecasting and budgeting and believes this information allows the board of directors, management, investors and analysts to better understand the Company's financial performance. Free cash flow for the six months ended June 30, 2012 and 2011 is calculated as follows:

|  | 2012     | 2011    |
|--|----------|---------|
| Cash provided by continuing operating activities | \$ 6     | \$ 92   |
| Additions to property, plant and equipment       | (124)    | (153)   |
| Free cash flow                                   | \$ (118) | \$ (61) |

*Operating activities:* Cash provided by continuing operating activities was \$6 million for the six months ended June 30, 2012, compared with \$92 million for the six months ended June 30, 2011. The decrease in cash flows from continuing operating activities was primarily due to an increase in working capital of \$380 million in 2012 compared to \$219 million in 2011. The larger increase in working capital during 2012 was mainly due to a larger increase in inventory as the Company built inventory levels in North America to avoid the supply chain issues that impacted that region in the second quarter of 2011. The Company also increased inventory levels in Europe in the first six months of 2012 in advance of implementing production curtailment measures at the end of the second quarter. The decrease in cash flows from continuing operating activities was also due to an increase in cash paid for restructuring activities of \$27 million, an increase in pension plan contributions of \$12 million and an increase in income taxes paid of \$8 million, partially offset by higher earnings, a decrease in asbestos-related payments of \$10 million and a decrease in cash paid related to the SAP implementation.

*Investing activities:* Cash utilized in investing activities was \$100 million for the six months ended June 30, 2012 compared to \$300 million for the six months ended June 30, 2011. Capital spending for property, plant and equipment during the six months ended June 30, 2012 was \$124 million compared with \$153 million in the prior year. Cash utilized in investing activities in 2012 included \$5 million for the final payment related to an acquisition in China in 2010. During the first six months of 2012, the Company received \$14 million from the Chinese government as partial compensation for the land in China that the Company is required to return to the government. The Company also received \$9 million in 2012 from one of its noncontrolling partners in South America as repayment of a loan. Cash utilized in investing activities in 2011 included \$147 million for acquisitions, primarily related to the acquisition of the noncontrolling interest of the Company's southern Brazil operation.

The Company has plans to build a new facility in China to replace certain capacity lost due to Chinese government requirements. Certain of the Company's older glass manufacturing plants in China are being encroached by strong urban growth. The local Chinese government entities have determined that the land on which some of these facilities reside should be returned to the government. The Company expects the compensation to be received from the Chinese government for the value of the land should offset most or all of the future capital spending required to rebuild capacity at alternative sites in China.

*Financing activities:* Cash provided by financing activities was \$27 million for the six months ended June 30, 2012 compared to cash utilized in financing activities of \$188 million for the six months ended June 30, 2011. Financing activities in 2012 included additions to long-term debt of \$119 million and short-term loans of \$31 million, partially offset by repayments of long-term debt of \$128 million. Financing activities in 2011 included additions to long-term debt of approximately \$1.5 billion, primarily related to borrowings under the Company's new bank credit agreement, and repayments of long-term debt of approximately \$1.6 billion, primarily related to the cancellation of the old bank credit agreement and the redemption of the senior notes due 2014.

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

### **Critical Accounting Estimates**

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

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

There have been no material changes in critical accounting estimates at June 30, 2012 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

## Forward Looking Statements

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

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

There have been no material changes in market risk at June 30, 2012 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Item 4. Controls and Procedures.**

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

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2012.

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2011. As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company's internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company is undertaking the phased implementation of a global Enterprise Resource Planning ( ERP ) software system. The phased implementation was completed in the North America segment during the first quarter of 2012, resulting in changes to certain processes in that segment. The Company believes it is maintaining and monitoring appropriate internal controls during the implementation period and further believes that its internal control environment will be enhanced as a result of this implementation. There have been no other changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

For further information on legal proceedings, see Note 7 to the Condensed Consolidated Financial Statements, Contingencies, that is included in Part I of this Report and is incorporated herein by reference.

**Item 1A. Risk Factors.**

There have been no material changes in risk factors at June 30, 2012 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Item 6. Exhibits.**

- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.
- Exhibit 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1\* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- Exhibit 32.2\* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
- Exhibit 101 Financial statements from the quarterly report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended June 30, 2012, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

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



SIGNATURES

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

OWENS-ILLINOIS, INC.

|      |               |    |  |
|------|---------------|----|--|
| Date | July 26, 2012 | By | /s/ Stephen P. Bramlage, Jr.<br>Stephen P. Bramlage, Jr.<br>Senior Vice President and Chief Financial Officer<br>(Principal Financial Officer; Principal Accounting Officer) |
|------|---------------|----|--|

INDEX TO EXHIBITS

**Exhibits**

|       |   |
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