OWENS ILLINOIS INC /DE/
Form 10-Q
October 29, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark one)

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

For Quarter Ended September 30, 2009

or

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

Owens-Illinois, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**1-9576** (Commission File No.)	**22-2781933** (IRS Employer Identification No.)

One Michael Owens Way, Perrysburg, Ohio (Address of principal executive offices)	**43551-2999** (Zip Code)

567-336-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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 x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No x

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

Owens-Illinois, Inc. $.01 par value common stock 168,510,354 shares at September 30, 2009.

Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the Company) presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008. The Company has evaluated subsequent events through October 29, 2009, the date the financial statements were issued.

Effective January 1, 2009, the Company adopted the provisions of a new accounting standard which changed the presentation of noncontrolling interests in subsidiaries. The format of the Company s condensed consolidated results of operations for the three and nine months ended September 30, 2008, condensed consolidated cash flows for the nine months ended September 30, 2008, and condensed consolidated balance sheets at September 30, 2008 and December 31, 2008 have been reclassified to conform to the new presentation which is required to be applied retrospectively.

Effective January 1, 2009, the Company adopted the provisions of a new accounting standard which required the Company to allocate earnings to unvested restricted shares outstanding during the period. Earnings per share for the three and nine months ended September 30, 2008 were restated in accordance with the new provisions which are required to be applied retrospectively.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended September 30, 2009	2008
Net sales	$ 1,874.6	$ 2,008.6
Manufacturing, shipping, and delivery expense	(1,425.9)	(1,601.3)
Gross profit	448.7	407.3
Selling and administrative expense	(128.2)	(120.8)
Research, development, and engineering expense	(14.3)	(17.1)
Interest expense	(58.6)	(66.3)
Interest income	6.1	10.4
Equity earnings	11.9	12.9
Royalties and net technical assistance	3.4	5.0
Other income	2.4	1.9
Other expense	(78.6)	(94.5)
Earnings from continuing operations before income taxes	192.8	138.8
Provision for income taxes	(63.8)	(42.2)
Net earnings	129.0	96.6
Net earnings attributable to noncontrolling interests	(2.3)	(18.0)
Net earnings attributable to the Company	$ 126.7	$ 78.6
Basic earnings per share	$ 0.75	$ 0.47
Weighted average shares outstanding (thousands)	167,877	165,462
Diluted earnings per share	$ 0.74	$ 0.46
Weighted diluted average shares (thousands)	171,543	170,058

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Nine months ended September 30, 2009	2008
Net sales	$ 5,200.6	$ 6,179.7
Manufacturing, shipping, and delivery expense	(4,047.7)	(4,790.4)
Gross profit	1,152.9	1,389.3
Selling and administrative expense	(369.1)	(379.4)
Research, development, and engineering expense	(42.3)	(51.0)
Interest expense	(164.6)	(199.8)
Interest income	21.1	29.1
Equity earnings	39.6	36.7
Royalties and net technical assistance	9.7	14.8
Other income	4.9	5.1
Other expense	(157.4)	(130.3)
Earnings from continuing operations before income taxes	494.8	714.5
Provision for income taxes	(144.5)	(183.0)
Earnings from continuing operations	350.3	531.5
Gain on sale of discontinued operations		7.9
Net earnings	350.3	539.4
Net earnings attributable to noncontrolling interests	(29.2)	(51.4)
Net earnings attributable to the Company	$ 321.1	$ 488.0
Amounts attributable to the Company:		
Earnings from continuing operations	$ 321.1	$ 480.1
Gain on sale of discontinued operations		7.9
Net earnings	$ 321.1	$ 488.0
Basic earnings per share:		
Earnings from continuing operations	$ 1.91	$ 2.89
Gain on sale of discontinued operations		0.05
Net earnings	$ 1.91	$ 2.94
Weighted average shares outstanding (thousands)	167,577	162,390
Diluted earnings per share:		
Earnings from continuing operations	$ 1.89	$ 2.81
Gain on sale of discontinued operations		0.05
Net earnings	$ 1.89	$ 2.86
Weighted diluted average shares (thousands)	170,160	170,483

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Assets			
Current assets:			
Cash and cash equivalents	$ 1,017.1	$ 379.5	$ 410.5
Short-term investments, at cost which approximates market	0.9	25.0	34.0
Receivables, less allowances for losses and discounts ($36.7 at September 30, 2009, $39.7 at December 31, 2008, and $37.5 at September 30, 2008)	1,146.6	988.8	1,194.1
Inventories	1,035.4	999.5	1,141.2
Prepaid expenses	45.5	51.9	57.3
Total current assets	3,245.5	2,444.7	2,837.1
Investments and other assets:			
Equity investments	124.0	101.7	94.5
Repair parts inventories	144.2	132.5	136.3
Prepaid pension			624.9
Deposits, receivables, and other assets	513.9	444.5	462.4
Goodwill	2,382.3	2,207.5	2,333.3
Total other assets	3,164.4	2,886.2	3,651.4
Property, plant, and equipment, at cost	6,559.2	5,983.1	6,345.9
Less accumulated depreciation	3,849.3	3,337.5	3,597.0
Net property, plant, and equipment	2,709.9	2,645.6	2,748.9
Total assets	$ 9,119.8	$ 7,976.5	$ 9,237.4

CONDENSED CONSOLIDATED BALANCE SHEETS Continued

	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Liabilities and Share Owners Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	$ 377.6	$ 393.8	$ 496.4
Current portion of asbestos-related liabilities	175.0	175.0	210.0
Accounts payable	816.1	838.2	901.5
Other liabilities	730.8	596.3	773.3
Total current liabilities	2,099.5	2,003.3	2,381.2
Long-term debt	3,343.9	2,940.3	2,961.1
Deferred taxes	160.1	77.6	72.1
Pension benefits	706.9	741.8	273.1
Nonpension postretirement benefits	242.5	239.7	273.5
Other liabilities	368.9	360.1	361.4
Asbestos-related liabilities	197.9	320.3	105.2
Commitments and contingencies			
Share owners equity:			
The Company s share owners equity:			
Common stock, par value $.01 per share 250,000,000 shares authorized, 179,877,088, 178,705,817, and 178,623,719 shares issued and outstanding, respectively	1.8	1.8	1.8
Capital in excess of par value	2,935.2	2,913.3	2,905.0
Treasury stock, at cost 11,366,734, 11,556,341, and 11,617,743 shares, respectively	(218.0)	(221.5)	(222.8)
Retained earnings (deficit)	288.7	(32.4)	197.3
Accumulated other comprehensive loss	(1,250.5)	(1,620.6)	(320.6)
Total share owners equity of the Company	1,757.2	1,040.6	2,560.7
Noncontrolling interests	242.9	252.8	249.1
Total share owners equity	2,000.1	1,293.4	2,809.8
Total liabilities and share owners equity	$ 9,119.8	$ 7,976.5	$ 9,237.4

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Nine months ended Sept. 30, 2009	Nine months ended Sept. 30, 2008
Cash flows from operating activities:		
Net earnings	$ 350.3	$ 539.4
Net earnings attributable to noncontrolling interest	(29.2)	(51.4)
Gain on sale of discontinued operations		(7.9)
Non-cash charges (credits):		
Depreciation	274.3	339.3
Amortization of intangibles and other deferred items	18.0	21.5
Amortization of finance fees and debt discount	7.3	6.0
Deferred tax provision (benefit)	11.8	(43.1)
Restructuring and asset impairment	113.1	111.7
Other	84.2	107.2
Asbestos-related payments	(122.4)	(140.3)
Cash paid for restructuring activities	(42.7)	(28.0)
Change in non-current operating assets	13.1	4.5
Change in non-current liabilities	(96.8)	(73.8)
Change in components of working capital	(1.6)	(204.2)
Cash provided by operating activities	579.4	580.9
Cash flows from investing activities:		
Additions to property, plant, and equipment	(193.7)	(238.5)
Advances to equity affiliate - net	1.6	(8.1)
Acquisitions, net of cash acquired	(5.4)	
Net cash proceeds (payments) related to divestitures and asset sales	4.4	(16.0)
Cash utilized in investing activities	(193.1)	(262.6)
Cash flows from financing activities:		
Additions to long-term debt	1,072.6	636.8
Repayments of long-term debt	(750.0)	(906.4)
Increase (decrease) in short-term loans	(55.1)	66.0
Net receipts (payments) for hedging activity	17.9	(47.1)
Payment of finance fees	(13.9)	
Convertible preferred stock dividends		(5.4)
Dividends paid to noncontrolling interests	(58.3)	(46.1)
Issuance of common stock and other	6.1	14.5
Cash provided by (utilized in) financing activities	219.3	(287.7)
Effect of exchange rate fluctuations on cash	32.0	(7.8)
Increase in cash	637.6	22.8
Cash at beginning of period	379.5	387.7
Cash at end of period	$ 1,017.1	$ 410.5

See accompanying notes.

OWENS-ILLINOIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions,

except share and per share amounts

1. Earnings Per Share

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

	Three months ended Sept. 30, 2009		2008	
Numerator:				
Net earnings attributable to the Company	$	126.7	$	78.6
Net earnings attributable to participating securities		(0.4)		(0.7)
Numerator for basic earnings per share - income available to common share owners	$	126.3	$	77.9
Denominator:				
Denominator for basic earnings per share - weighted average shares outstanding		167,877,352		165,461,841
Effect of dilutive securities:				
Stock options and other		3,665,804		4,596,597
Denominator for diluted earnings per share - adjusted weighted average shares outstanding		171,543,156		170,058,438
Basic earnings per share	$	0.75	$	0.47
Diluted earnings per share	$	0.74	$	0.46

Options to purchase 400,182 and 422,331 weighted average shares of common stock that were outstanding during the three months ended September 30, 2009 and 2008, 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 following table sets forth the computation of basic and diluted earnings per share:

	Nine months ended Sept. 30, 2009		Nine months ended Sept. 30, 2008	
Numerator:				
Net earnings attributable to the Company	$	321.1	$	488.0
Convertible preferred stock dividends				(5.4)
Net earnings attributable to participating securities		(1.1)		(4.6)
Numerator for basic earnings per share - income available to common share owners	$	320.0	$	478.0
Denominator:				
Denominator for basic earnings per share - weighted average shares outstanding		167,576,712		162,390,032
Effect of dilutive securities:				
Convertible preferred stock				2,863,118
Stock options and other		2,583,478		5,230,316
Denominator for diluted earnings per share - adjusted weighted average shares outstanding		170,160,190		170,483,466
Basic earnings per share:				
Earnings from continuing operations	$	1.91	$	2.89
Gain on sale of discontinued operations				0.05
Net earnings	$	1.91	$	2.94
Diluted earnings per share:				
Earnings from continuing operations	$	1.89	$	2.81
Gain on sale of discontinued operations				0.05
Net earnings	$	1.89	$	2.86

The convertible preferred stock was included in the computation of diluted earnings per share for the nine months ended September 30, 2008 on an if converted basis for the period prior to its actual conversion on March 31, 2008, since the result was dilutive. For purposes of this computation, the preferred stock dividends were not subtracted from the numerator. Options to purchase 1,196,593 and 186,495 weighted average shares of common stock that were outstanding during the nine months ended September 30, 2009 and 2008, 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.

Effective January 1, 2009, the Company adopted the provisions of a new accounting standard which addresses whether instruments granted in share-based payment awards are participating securities prior to vesting and, therefore, must be included in the earnings allocation in calculating earnings per share under the two-class method. The new provisions require that unvested share-based payment awards that contain non-forfeitable rights to dividends be treated as participating securities in calculating earnings per share. The Company was required to allocate earnings to unvested restricted shares outstanding during the period. Basic earnings per share for the nine months ended September 30, 2008 were reduced by $0.03 per share in accordance with the new provisions which require retrospective application. Basic earnings per share for the three months ended September 30, 2008 were not impacted. There was no impact on basic earnings per share for the three and nine months ended September 30, 2009 or diluted earnings per share in any period.

2. Debt

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

	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	$	$ 18.7	$
Term Loans:			
Term Loan A (225.0 million AUD)	197.9	155.7	180.2
Term Loan B	191.5	191.5	191.5
Term Loan C (110.8 million CAD)	102.5	90.9	105.5
Term Loan D (191.5 million)	280.2	269.6	274.9
Senior Notes:			
8.25%, due 2013	461.2	470.0	450.9
6.75%, due 2014	400.0	400.0	400.0
6.75%, due 2014 (225 million)	329.2	316.8	323.0
7.375%, due 2016	581.4		
6.875%, due 2017 (300 million)	438.9	422.4	430.6
Senior Debentures:			
7.50%, due 2010	28.4	259.5	253.6
7.80%, due 2018	250.0	250.0	250.0
Other	126.0	113.4	113.1
Total long-term debt	3,387.2	2,958.5	2,973.3
Less amounts due within one year	43.3	18.2	12.2
Long-term debt	$ 3,343.9	$ 2,940.3	$ 2,961.1

On June 14, 2006, the Company s subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). At September 30, 2009, the Agreement included a $900.0 million revolving credit facility, a 225.0 million Australian dollar term loan, and a 110.8 million Canadian dollar term loan, each of which has a final maturity date of June 15, 2012. It also included a $191.5 million term loan and a 191.5 million term loan, each of which has a final maturity date of June 14, 2013.

As a result of the bankruptcy of Lehman Brothers Holdings Inc. and several of its subsidiaries, the Company believes that the maximum amount available under the revolving credit facility was reduced by $32.3 million. After further deducting amounts attributable to letters of credit and overdraft facilities that are supported by the revolving credit facility, at September 30, 2009 the Company s subsidiary borrowers had unused credit of $761.2 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2009 was 2.40%.

During May 2009, a subsidiary of the Company issued senior notes with a face value of $600.0 million issued at 96.72% of face value for an effective interest rate of 8.00%. The notes bear interest at 7.375% and are due May 15, 2016. The notes are guaranteed by substantially all of the Company s domestic subsidiaries. The net proceeds, after deducting commissions and expenses from the notes, approximated $568 million and were used to purchase in a tender offer $221.9 million of the $250 million principal amount of 7.50% Senior Debentures due May 2010 and to reduce borrowings under the revolving credit facility. The balance of the proceeds increased cash. As a part of the issuance of these notes and the related tender offer, the Company recorded in the second quarter of 2009 additional interest charges of $5.2 million for note repurchase premiums and the related write-off of unamortized finance fees, net of a gain from the termination of the interest rate swap agreement on the notes.

During October 2006, the Company entered into a 300 million European accounts receivable securitization program. The program extends through October 2011, subject to annual renewal of backup credit lines. In addition, the Company participates in a receivables financing program in the Asia Pacific region with a revolving funding commitment of 85 million Australian dollars and 25 million New Zealand dollars that expire January 2010 and November 2009, respectively.

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

	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Balance (included in short-term loans)	$ 289.4	$ 293.7	$ 390.5
Weighted average interest rate	1.70%	5.31%	6.00%

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 generally based on published market quotations.

Fair values at September 30, 2009 of the Company s significant fixed rate debt obligations are as follows:

	Principal Amount (millions of	Indicated Market	Fair Value (millions of