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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark one)

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

For Quarter Ended September 30, 2002

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 SeaGate, Toledo, Ohio (Address of principal executive offices)	**43666** (Zip Code)

419-247-5000
(Registrant's telephone number, including area code)

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

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—147,353,193 shares at October 31, 2002.

Part I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements 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. Since 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, 2001.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS
Three months ended September 30, 2002 and 2001
(Dollars in millions, except per share amounts)

	2002	2001
Revenues:		
Net sales	$ 1,472.1	$ 1,360.2
Royalties and net technical assistance	5.4	6.1

Equity earnings		7.6		4.8
Interest		5.9		6.3
Other		9.6		6.4
		1,500.6		1,383.8
Costs and expenses:				
Manufacturing, shipping, and delivery		1,137.7		1,036.9
Research and development		10.0		11.1
Engineering		11.6		6.8
Selling and administrative		76.6		69.2
Interest		106.9		105.1
Other		6.9		31.1
		1,349.7		1,260.2
Earnings before items below		150.9		123.6
Provision for income taxes		47.7		47.6
Minority share owners' interests in earnings of subsidiaries		5.3		6.6
Net earnings	$	97.9	$	69.4
Basic net earnings per share of common stock	$	0.63	$	0.44
Weighted average shares outstanding (thousands)		146,749		146,147
Diluted net earnings per share of common stock	$	0.63	$	0.44
Weighted diluted average shares (thousands)		147,474		146,228

See accompanying notes.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS
Nine months ended September 30, 2002 and 2001
(Dollars in millions, except per share amounts)

		2002		2001
Revenues:				
Net sales	$	4,280.3	$	4,056.1
Royalties and net technical assistance		18.5		19.0
Equity earnings		19.8		13.7
Interest		17.8		21.2
Other		25.5		531.6
		4,361.9		4,641.6
Costs and expenses:				
Manufacturing, shipping, and delivery		3,310.6		3,147.9
Research and development		30.0		31.5
Engineering		29.1		21.5
Selling and administrative		241.3		249.1
Interest		314.0		335.5
Other		501.8		209.5
		4,426.8		3,995.0
Earnings (loss) before items below		(64.9)		646.6
Provision (credit) for income taxes		(36.7)		267.9
Minority share owners' interests in earnings of subsidiaries		15.6		12.8
Earnings (loss) before extraordinary items and cumulative effect of accounting change		(43.8)		365.9
Extraordinary charges from early extinguishment of debt, net of applicable income taxes		(6.7)		(4.1)
Cumulative effect of accounting change		(460.0)		

Net earnings (loss)	$ (510.5)	$ 361.8
Basic net earnings (loss) per share of common stock:		
Earnings (loss) before extraordinary items and cumulative effect of accounting change	$ (0.41)	$ 2.41
Extraordinary charges	(0.05)	(0.03)
Cumulative effect of accounting change	(3.14)	
Net earnings (loss)	$ (3.60)	$ 2.38
Weighted average shares outstanding (thousands)	146,560	145,225
Diluted net earnings (loss) per share of common stock:		
Earnings (loss) before extraordinary items and cumulative effect of accounting change	$ (0.41)	$ 2.38
Extraordinary charges	(0.05)	(0.03)
Cumulative effect of accounting change	(3.14)	
Net earnings (loss)	$ (3.60)	$ 2.35
Weighted diluted average shares (thousands)	146,560	154,036

See accompanying notes.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2002, December 31, 2001, and September 30, 2001
(Dollars in millions)

	Sept. 30, 2002	Dec. 31, 2001	Sept. 30, 2001
Assets			
Current assets:			
Cash, including time deposits	$ 177.1	$ 155.6	$ 174.3
Short-term investments, at cost which approximates market	17.4	16.4	16.6
Receivables, less allowances for losses and discounts ($60.6 at September 30, 2002, $71.1 at December 31, 2001, and $54.1 at September 30, 2001)	787.4	754.5	870.9
Inventories	841.1	836.7	792.9
Prepaid expenses	230.1	224.0	201.8
Total current assets	2,053.1	1,987.2	2,056.5
Investments and other assets:			
Equity investments	177.7	166.1	177.6
Repair parts inventories	183.3	199.2	204.8
Prepaid pension	949.6	879.5	851.8
Insurance receivable for asbestos-related costs	13.8	37.0	42.5
Deposits, receivables, and other assets	611.0	582.4	584.2
Goodwill	2,636.3	2,995.3	2,919.3
Total other assets	4,571.7	4,859.5	4,780.2
Property, plant, and equipment, at cost	5,857.8	5,796.2	5,554.2
Less accumulated depreciation	2,645.8	2,536.3	2,464.5
Net property, plant, and equipment	3,212.0	3,259.9	3,089.7
Total assets	$ 9,836.8	$ 10,106.6	$ 9,926.4

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS—Continued
September 30, 2002, December 31, 2001, and September 30, 2001
(Dollars in millions)

	Sept. 30, 2002	Dec. 31, 2001	Sept. 30, 2001
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	$ 64.9	$ 71.2	$ 108.6
Current portion of asbestos-related liabilities	205.0	220.0	220.0
Accounts payable	437.1	457.4	427.9
Other liabilities	558.7	482.9	477.9
Total current liabilities	1,265.7	1,231.5	1,234.4
Long-term debt	5,321.1	5,329.7	5,203.9
Deferred taxes	371.9	465.2	443.5
Nonpension postretirement benefits	287.7	303.4	274.9
Other liabilities	439.1	386.9	352.1
Asbestos-related liabilities	401.4	78.8	137.9
Commitments and contingencies			
Minority share owners' interests	130.2	159.3	151.3
Share owners' equity:			
Convertible preferred stock, par value $.01 per share, liquidation preference $50 per share, 9,050,000 shares authorized, issued and outstanding	452.5	452.5	452.5
Common stock, par value $.01 per share 250,000,000 shares authorized, 160,262,255 shares issued and outstanding, less 12,914,262 treasury shares at September 30, 2002 (159,411,845 issued and outstanding, less 12,932,897 treasury shares at December 31, 2001 and 159,415,245 issued and outstanding, less 12,932,897 treasury shares at September 30, 2001)	1.6	1.6	1.6
Capital in excess of par value	2,224.0	2,217.3	2,216.9
Treasury stock, at cost	(247.6)	(248.0)	(248.0)
Retained earnings (deficit)	(222.0)	304.7	315.2
Accumulated other comprehensive income (loss)	(588.8)	(576.3)	(609.8)
Total share owners' equity	1,619.7	2,151.8	2,128.4
Total liabilities and share owners' equity	$ 9,836.8	$ 10,106.6	$ 9,926.4

See accompanying notes.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED CASH FLOWS
Nine months ended September 30, 2002 and 2001
(Dollars in millions)

	2002	2001
Cash flows from operating activities:		
Net earnings (loss) before extraordinary items and cumulative effect of accounting change	$ (43.8)	$ 365.9
Non-cash charges (credits):		
Depreciation	321.1	299.1
Amortization of deferred costs	36.7	101.2
Restructuring costs and write-offs of certain assets		122.0
Future asbestos-related costs	475.0	
Deferred tax provision (credit)	(97.0)	210.3
Gains on asset sales and divestitures		(470.3)
Other	(108.3)	(86.2)
Change in non-current operating assets	19.9	4.8
Asbestos-related payments	(167.4)	(186.8)
Asbestos-related insurance proceeds	23.2	158.2
Reduction of non-current liabilities	(16.4)	(12.9)
Change in components of working capital	(33.9)	(233.5)
Cash provided by operating activities	409.1	271.8

Cash flows from investing activities:		
Additions to property, plant, and equipment	(343.2)	(344.1)
Net cash proceeds from divestitures	25.7	594.9
Acquisitions, net of cash acquired	(6.5)	(31.6)
Cash provided by (utilized in) investing activities	(324.0)	219.2
Cash flows from financing activities:		
Additions to long-term debt	1,245.9	3,726.0
Repayments of long-term debt	(1,244.1)	(4,158.5)
Payment of finance fees	(18.0)	(62.1)
Increase (decrease) in short-term loans	14.0	(2.6)
Collateral deposits for certain derivative instruments	(47.0)	
Convertible preferred stock dividends	(16.1)	(16.1)
Treasury shares repurchased		(5.2)
Issuance of common stock and other	6.1	1.1
Cash utilized in financing activities	(59.2)	(517.4)
Effect of exchange rate fluctuations on cash	(4.4)	(29.0)
Increase (decrease) in cash	21.5	(55.4)
Cash at beginning of period	155.6	229.7
Cash at end of period	$ 177.1	$ 174.3

See accompanying notes.

OWENS-ILLINOIS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Tabular data in millions of dollars,
except share and per share amounts

1. Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share:

	Three months ended September 30,	
	2002	**2001**
Numerator:		
Net earnings	$ 97.9	$ 69.4
Convertible preferred stock dividends	(5.4)	(5.4)
Numerator for basic earnings per share—income available to common share owners	$ 92.5	$ 64.0
Denominator:		
Denominator for basic earnings per share—weighted average shares outstanding	146,749,200	141,146,848
Effect of dilutive securities:		
Stock options and other	724,657	81,198
Denominator for diluted earnings per share—adjusted weighted average shares outstanding	147,473,857	141,228,046
Basic earnings per share	$ 0.63	$ 0.44
Diluted earnings per share	$ 0.63	$ 0.44

The convertible preferred stock was not included in the computation of the three months ended September 30, 2002 and 2001 diluted earnings per share since the result would have been antidilutive. Options to purchase 7,124,574 and 7,783,729 weighted average shares of common stock which were outstanding during the three months ended September 30, 2002 and 2001, 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.

	Nine months ended September 30,	
	2002	2001
Numerator:		
Earnings (loss) before extraordinary items and cumulative effect of accounting change	$ (43.8)	$ 365.9
Convertible preferred stock dividends	(16.1)	(16.1)
Numerator for basic earnings (loss) per share—income (loss) available to common share owners	(59.9)	349.8
Effect of dilutive securities—convertible preferred stock dividends		16.1
Numerator for diluted earnings per share—income available to common share owners after assumed exchanges of preferred stock for common stock	$ (59.9)	$ 365.9
Denominator:		
Denominator for basic earnings (loss) per share—weighted average shares outstanding	146,560,311	145,224,536
Effect of dilutive securities:		
Stock options and other		215,347
Exchangeable preferred stock		6,933
Convertible preferred stock		8,589,355
Dilutive potential common shares		8,811,635
Denominator for diluted earnings (loss) per share—adjusted weighted average shares and assumed exchanges of preferred stock for common stock	146,560,311	154,036,171
Basic earnings (loss) per share	$ (0.41)	$ 2.41
Diluted earnings (loss) per share	$ (0.41)	$ 2.38

For the nine months ended September 30, 2002, diluted earnings per share of common stock are equal to basic earnings per share of common stock due to the net loss. Options to purchase 7,785,507 weighted average shares of common stock which were outstanding during the nine months ended September 30, 2001 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.

2. Inventories

Major classes of inventories are as follows:

	Sept. 30, 2002	Dec. 31, 2001	Sept. 30, 2001
Finished goods	$ 643.5	$ 641.8	$ 596.4
Work in process	7.1	6.2	8.1
Raw materials	118.3	125.3	120.0
Operating supplies	72.2	63.4	68.4
	$ 841.1	$ 836.7	$ 792.9

3. Long-Term Debt

The following table summarizes the Company's consolidated long-term debt:

	Sept. 30, 2002	Dec. 31, 2001	Sept. 30, 2001
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	$ 2,414.9	$ 2,410.4	$ 2,288.8
Term Loan	65.0	1,045.0	1,045.0

Senior Secured Notes:			
8.875%, due 2009	1,000.0		
Senior Notes:			
7.85%, due 2004	300.0	300.0	300.0
7.15%, due 2005	350.0	350.0	350.0
8.10%, due 2007	300.0	300.0	300.0
7.35%, due 2008	250.0	250.0	250.0
Senior Debentures:			
7.50%, due 2010	250.0	250.0	250.0
7.80%, due 2018	250.0	250.0	250.0
Other	163.8	205.1	199.8
	5,343.7	5,360.5	5,233.6
Less amounts due within one year	22.6	30.8	29.7
Long-term debt	$ 5,321.1	$ 5,329.7	$ 5,203.9

At September 30, 2002, the Company's subsidiary borrowers had unused credit of $479.1 million available under the Secured Credit Agreement.

The weighted average interest rate on borrowings outstanding under the Revolving Credit Facility at September 30, 2002 was 3.84%. Including the effects of cross-currency swap agreements related to Revolving Credit Facility borrowings by the Company's Australian, U.K., and Canadian subsidiaries, the weighted average interest rate was 5.10%.

The weighted average interest rate on borrowings outstanding under the Term Loan at September 30, 2002 was 4.34%.

During January 2002, a subsidiary of the Company completed a $1.0 billion private placement of senior secured notes. The notes bear interest at $8^7/8$% and are due February 15, 2009. The notes are guaranteed by substantially all of the Company's domestic subsidiaries. The assets of substantially all of the Company's domestic subsidiaries are pledged as security for the notes. The issuing subsidiary used

the net cash proceeds from the notes to reduce the outstanding Term Loan under the Agreement by $980.0 million. As a result, the Company wrote off unamortized deferred financing fees in January 2002 related to the Term Loan and recorded an extraordinary charge of $10.9 million less applicable income taxes of $4.2 million. The indenture for the notes restricts, among other things, the ability of the Company's subsidiaries to borrow money, pay dividends on, or redeem or repurchase stock, make investments, create liens, enter into certain transactions with affiliates, and sell certain assets or merge with or into other companies.

During November 2002, a subsidiary of the Company completed a $450 million private placement of senior secured notes. The notes bear interest at $8^3/4$% and are due November 15, 2012. The notes are guaranteed by substantially all of the Company's domestic subsidiaries. The assets of substantially all of the Company's domestic subsidiaries are pledged as security for the notes. The issuing subsidiary used the net cash proceeds from the notes to repay the remaining $65 million of the outstanding term loan under the Agreement and the remaining $376 million was used to reduce the outstanding revolver under the Agreement. As such, the Company wrote off unamortized deferred financing fees in November 2002 related to the term loan and recorded an extraordinary charge of $3.2 million less applicable income taxes of $1.2 million. The indenture for the new notes has the same restrictions as the senior secured notes issued in January 2002.

4. Financial Information for Subsidiary Guarantors and Non-Guarantors

During 2001, the Company amended the indentures governing the six series of senior notes and debentures in order to secure the Company's obligations under the indentures and the securities with a second lien on the intercompany debt and capital stock held by the two principal subsidiaries that own its glass container and plastics packaging businesses. In addition, the amendments also implemented a previously announced offer by the two principal subsidiaries to guarantee the senior notes and debentures on a subordinated basis.

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc. which issued the six series of senior notes and debentures (the "Parent"); (2) the two subsidiaries which have guaranteed the senior notes and debentures on a subordinated basis (the "Guarantor Subsidiaries"); and (3) all other subsidiaries (the "Non-Guarantor Subsidiaries"). The Guarantor Subsidiaries are wholly-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.

Wholly-owned subsidiaries are presented on the equity basis of accounting. 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 inter-company balances and transactions.

	September 30, 2002				
	Parent	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Balance Sheet					
Current assets:					

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Accounts receivable	$ —	$ —	$ 787.4	$ —	$ 787.4
Inventories			841.1		841.1
Other current assets	71.8		352.8		424.6
Total current assets	71.8	—	1,981.3	—	2,053.1
Investments in and advances to subsidiaries	3,704.8	2,004.8		(5,709.6)	—
Goodwill			2,636.3		2,636.3
Other non-current assets	13.8		1,921.6		1,935.4
Total other assets	3,718.6	2,004.8	4,557.9	(5,709.6)	4,571.7
Property, plant and equipment, net			3,212.0		3,212.0
Total assets	$ 3,790.4	$ 2,004.8	$ 9,751.2	$ (5,709.6)	$ 9,836.8
Current liabilities:					
Accounts payable and accrued liabilities	$ —	$ —	$ 995.8	$ —	$ 995.8
Current portion of asbestos liability	205.0				205.0
Short-term loans and long-term debt due within one year			64.9		64.9
Total current liabilities	205.0	—	1,060.7	—	1,265.7
Long-term debt	1,700.0		5,321.1	(1,700.0)	5,321.1
Asbestos-related liabilities	401.4				401.4
Other non-current liabilities and minority interests	(135.7)		1,364.6		1,228.9
Capital structure	1,619.7	2,004.8	2,004.8	(4,009.6)	1,619.7
Total liabilities and share owners' equity	$ 3,790.4	$ 2,004.8	$ 9,751.2	$ (5,709.6)	$ 9,836.8

	December 31, 2001				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets:					
Accounts receivable	$ —	$ —	$ 754.5	$ —	$ 754.5
Inventories			836.7		836.7
Other current assets	77.0		319.0		396.0
Total current assets	77.0	—	1,910.2	—	1,987.2
Investments in and advances to subsidiaries	4,022.0	2,322.0		(6,344.0)	—
Goodwill			2,995.3		2,995.3
Other non-current assets	37.0		1,827.2		1,864.2
Total other assets	4,059.0	2,322.0	4,822.5	(6,344.0)	4,859.5
Property, plant and equipment, net			3,259.9		3,259.9
Total assets	$ 4,136.0	$ 2,322.0	$ 9,992.6	$ (6,344.0)	$ 10,106.6
Current liabilities:					
Accounts payable and accrued liabilities	$ —	$ —	$ 940.3	$ —	$ 940.3
Current portion of asbestos liability	220.0				220.0
Short-term loans and long-term debt due within one year			71.2		71.2
Total current liabilities	220.0	—	1,011.5	—	1,231.5
Long-term debt	1,700.0		5,329.7	(1,700.0)	5,329.7
Asbestos-related liabilities	78.8				78.8
Other non-current liabilities and minority interests	(14.6)		1,329.4		1,314.8
Capital structure	2,151.8	2,322.0	2,322.0	(4,644.0)	2,151.8
Total liabilities and share owners' equity	$ 4,136.0	$ 2,322.0	$ 9,992.6	$ (6,344.0)	$ 10,106.6

	September 30, 2001				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets:					
Accounts receivable	$ —	$ —	$ 870.9	$ —	$ 870.9
Inventories			792.9		792.9
Other current assets	83.2		309.5		392.7
Total current assets	83.2	—	1,973.3	—	2,056.5
Investments in and advances to subsidiaries	4,024.6	2,324.6		(6,349.2)	—
Goodwill			2,919.3		2,919.3
Other non-current assets	42.5		1,818.4		1,860.9
Total other assets	4,067.1	2,324.6	4,737.7	(6,349.2)	4,780.2
Property, plant and equipment, net			3,089.7		3,089.7
Total assets	$ 4,150.3	$ 2,324.6	$ 9,800.7	$ (6,349.2)	$ 9,926.4
Current liabilities:					
Accounts payable and accrued liabilities	$ —	$ —	$ 905.8	$ —	$ 905.8
Current portion of asbestos liability	220.0				220.0
Short-term loans and long-term debt due within one year			108.6		108.6
Total current liabilities	220.0	—	1,014.4	—	1,234.4
Long-term debt	1,700.0		5,203.9	(1,700.0)	5,203.9
Asbestos-related liabilities	137.9				137.9
Other non-current liabilities and minority interests	(36.0)		1,257.8		1,221.8
Capital structure	2,128.4	2,324.6	2,324.6	(4,649.2)	2,128.4
Total liabilities and share owners' equity	$ 4,150.3	$ 2,324.6	$ 9,800.7	$ (6,349.2)	$ 9,926.4

	Three months ended September 30, 2002				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 1,472.1	$ —	$ 1,472.1
External interest income			5.9		5.9
Intercompany interest income	33.1	33.1		(66.2)	—
Equity earnings from subsidiaries	97.9	97.9		(195.8)	—
Other equity earnings			7.6		7.6
Other revenue			15.0		15.0
Total revenue	131.0	131.0	1,500.6	(262.0)	1,500.6
Manufacturing, shipping, and delivery			1,137.7		1,137.7
Research, engineering, selling, administrative, and other			105.1		105.1
External interest expense	33.1		73.8		106.9
Intercompany interest expense		33.1	33.1	(66.2)	—
Total costs and expense	33.1	33.1	1,349.7	(66.2)	1,349.7
Earnings before items below	97.9	97.9	150.9	(195.8)	150.9
Provision for income taxes			47.7		47.7
Minority share owners' interests in earnings of subsidiaries			5.3		5.3
Net income	$ 97.9	$ 97.9	$ 97.9	$ (195.8)	$ 97.9

	Three months ended September 30, 2001				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 1,360.2	$ —	$ 1,360.2
External interest income			6.3		6.3
Intercompany interest income	33.0	33.0		(66.0)	—
Equity earnings from subsidiaries	69.4	69.4		(138.8)	—
Other equity earnings			4.8		4.8
Other revenue			12.5		12.5
Total revenue	102.4	102.4	1,383.8	(204.8)	1,383.8
Manufacturing, shipping, and delivery			1,036.9		1,036.9
Research, engineering, selling, administrative, and other			118.2		118.2
External interest expense	33.0		72.1		105.1
Intercompany interest expense		33.0	33.0	(66.0)	—
Total costs and expense	33.0	33.0	1,260.2	(66.0)	1,260.2
Earnings before items below	69.4	69.4	123.6	(138.8)	123.6
Provision for income taxes			47.6		47.6
Minority share owners' interests in earnings of subsidiaries			6.6		6.6
Net income	$ 69.4	$ 69.4	$ 69.4	$ (138.8)	$ 69.4

	Nine months ended September 30, 2002				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 4,280.3	$ —	$ 4,280.3
External interest income			17.8		17.8
Intercompany interest income	99.4	99.4		(198.8)	—
Equity earnings (loss) from subsidiares	265.0	(201.7)		(63.3)	—
Other equity earnings			19.8		19.8
Other revenue			44.0		44.0
Total revenue	364.4	(102.3)	4,361.9	(262.1)	4,361.9
Manufacturing, shipping, and delivery			3,310.6		3,310.6
Research, engineering, selling, administrative, and other	475.0		327.2		802.2
External interest expense	99.4		214.6		314.0
Intercompany interest expense		99.4	99.4	(198.8)	—
Total costs and expense	574.4	99.4	3,951.8	(198.8)	4,426.8
Earnings (loss) before items below	(210.0)	(201.7)	410.1	(63.3)	(64.9)
Provision (credit) for income taxes	(166.2)		129.5		(36.7)
Minority share owners' interests in earnings of subsidiaries			15.6		15.6
Earnings (loss) before extraordinary item and cumulative effect of accounting change	(43.8)	(201.7)	265.0	(63.3)	(43.8)
Extraordinary charge	(6.7)		(6.7)	6.7	(6.7)
Cumulative effect of accounting change	(460.0)		(460.0)	460.0	(460.0)
Net loss	$ (510.5)	$ (201.7)	$ (201.7)	$ 403.4	$ (510.5)

	Nine months ended September 30, 2001				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 4,056.1	$ —	$ 4,056.1
External interest income			21.2		21.2
Intercompany interest income	166.6	166.6		(333.2)	—
Equity earnings from subsidiaries	365.9	361.8		(727.7)	—
Other equity earnings			13.7		13.7
Other revenue			550.6		550.6
Total revenue	532.5	528.4	4,641.6	(1,060.9)	4,641.6
Manufacturing, shipping, and delivery			3,147.9		3,147.9
Research, engineering, selling, administrative, and other			511.6		511.6
External interest expense	166.6		168.9		335.5
Intercompany interest expense		166.6	166.6	(333.2)	—
Total costs and expense	166.6	166.6	3,995.0	(333.2)	3,995.0
Earnings before items below	365.9	361.8	646.6	(727.7)	646.6
Provision for income taxes			267.9		267.9
Minority share owners' interests in earnings of subsidiaries			12.8		12.8
Earnings before extraordinary item	365.9	361.8	365.9	(727.7)	365.9
Extraordinary charge	(4.1)		(4.1)	4.1	(4.1)
Net income	$ 361.8	$ 361.8	$ 361.8	$ (723.6)	$ 361.8

	Nine months ended September 30, 2002				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows					
Cash provided by (used in) operating activities	$ (144.2)	$ —	$ 553.3	$ —	$ 409.1
Cash used in investing activities			(324.0)		(324.0)
Cash provided by (used in) financing activities	144.2		(203.4)		(59.2)
Effect of exchange rate change on cash			(4.4)		(4.4)
Net change in cash	—	—	21.5	—	21.5
Cash at beginning of period			155.6		155.6
Cash at end of period	$ —	$ —	$ 177.1	$ —	$ 177.1

	Nine months ended September 30, 2001				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows					
Cash provided by (used in) operating activities	$ (28.6)	$ —	$ 300.4	$ —	$ 271.8
Cash provided by investing activities			219.2		219.2
Cash provided by (used in) financing activities	28.6		(546.0)		(517.4)
Effect of exchange rate change on cash			(29.0)		(29.0)
Net change in cash	—	—	(55.4)	—	(55.4)
Cash at beginning of period			229.7		229.7
Cash at end of period	$ —	$ —	$ 174.3	$ —	$ 174.3

5. Cash Flow Information

Interest paid in cash aggregated $264.7 million and $279.0 million for the nine months ended September 30, 2002 and 2001, respectively. Income taxes paid in cash totaled $25.2 million and $45.1 million for the nine months ended September 30, 2002 and 2001, respectively.

6. Comprehensive Income

The components of comprehensive income (loss) are: (a) net earnings (loss); (b) change in fair value of certain derivative adjustments; and, (c) foreign currency translation adjustments. Total comprehensive income for the three month periods ended September 30, 2002 and 2001 amounted to $44.5 million and $79.6 million, respectively. Total comprehensive income (loss) for the nine month periods ended September 30, 2002 and 2001 amounted to $(523.0) million and $258.4 million, respectively.

7. Contingencies

The Company is one of a number of defendants (typically from 20 to 100 or more) in a substantial number of lawsuits filed in numerous state and federal courts by persons alleging bodily injury

(including death) as a result of exposure to dust from asbestos fibers. 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 traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and punitive damages in various amounts (herein referred to as "asbestos claims").

As of September 30, 2002, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 23,000 plaintiffs and claimants. The total amount of relief sought by plaintiffs and claimants cannot be determined because the amount is often not required to be stated in an initial claim or lawsuit and because settlements are often reached before claims and lawsuits advance to the point where such amounts would be required to be specified.

Additionally, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of September 30, 2002 there are no more than 19,000 of such preexisting but presently unasserted claims against the Company that are not included in the total of pending claims specified in the preceding paragraph. The Company further believes that the bankruptcies of additional co-defendants, as discussed below, have resulted in an acceleration of the presentation and disposition of a number of these previously withheld preexisting claims under such agreements, which claims would otherwise have been presented and disposed of over the next several years. This acceleration is reflected in an increased number of pending asbestos claims and, to the extent disposed, contributes to an increase in asbestos-related payments which is expected to continue in the near term.

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.

Since receiving its first asbestos claim, the Company, as of September 30, 2002, has disposed of the asbestos claims of approximately 282,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $5,500. The Company's indemnity payments for these claims 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. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to the Company that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. The Company expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution. In this regard, although the average of such payments has been somewhat higher following the implementation of the claims-handling agreements in the mid-1990s, the annual average amount has not varied materially from year to year in recent years.

The Company believes that its ultimate asbestos-related contingent liability (i.e., its indemnity or other claim disposition costs plus related legal fees) cannot be estimated with certainty. In 1993, the

Company established a liability of $975 million to cover indemnity payments and legal fees associated with the resolution of outstanding and expected future asbestos lawsuits and claims. In 1998, an additional liability of $250 million was established. During the third quarter of 2000, the Company established an additional liability of $550 million to cover the Company's estimated indemnity payments and legal fees arising from outstanding asbestos personal injury lawsuits and claims and asbestos personal injury lawsuits and claims expected to be filed in the ensuing several years. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy. Since the beginning of 2000, A. P. Green Industries, Inc., Armstrong World Industries, Babcock & Wilcox, Federal-Mogul Corporation, Fibreboard Corporation, G-I Holdings (GAF), Harbison-Walker Refractories

Group, Kaiser Aluminum Corporation, North American Refractories Co., Owens Corning, Pittsburgh-Corning, Plibrico Company, Porter Hayden Company, USG Corporation, W. R. Grace & Co. and several other smaller companies have sought protection under Chapter 11 of the Bankruptcy Code.

The Company has continued to monitor trends which 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 Company expects that the gross amount of total asbestos-related payments will be moderately lower in 2002 compared to 2001 and will continue to decline thereafter as the preexisting but presently unasserted claims withheld under the claims handling agreements are presented to the Company and as the number of potential future claimants continues to decrease. However, the trend toward lower aggregate annual payments has not occurred as soon as had been anticipated when the additional liability was established in 2000. In addition, the number of claims and lawsuits filed against the Company has exceeded the number anticipated at that time. In early March 2002, the Company initiated a comprehensive review to determine whether further adjustment of asbestos-related liabilities was appropriate. At the conclusion of this review in April, the Company determined that an additional charge of $475 million would be appropriate to adjust the reserve for estimated future asbestos-related costs. The material components of the Company's accrual, including this additional accrued amount, are the following: (i) the Company's estimate at that date of the reasonably probable contingent liability for asbestos claims already asserted against the Company, (ii) the Company's estimate at that date of the contingent liability for preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel, (iii) the Company's estimate at that time of the contingent liability for asbestos claims not yet asserted against the Company, but which the Company believes it is reasonably probable will be asserted in the future, to the degree that such an estimation as to future claims is possible, and (iv) the Company's estimate of 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 reduction in the inventory of pending serious disease cases;

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d) the extent to which the Company is able to successfully defend itself at trial;

e) the extent of actions by courts to eliminate or reduce the diversion of financial resources for unimpaired claimants and so-called forum shopping;

f) the extent to which additional defendants with substantial resources and assets are required to participate significantly in the resolution of future asbestos cases and claims;

g) the number and timing of co-defendant bankruptcies; and

h) the extent to which the resolution of co-defendant bankruptcies divert resources to unimpaired claimants.

The Company believes that any possible loss or range of loss in addition to the foregoing charge cannot be reasonably estimated. While the Company cannot reasonably estimate the precise timing of payment, the Company believes that its liabilities for the next several years will not exceed the amount accrued based on its expectation of moderate declines in annual spending for asbestos-related costs.

The Company has previously pursued recovery of its losses from third parties, particularly its insurance carriers, and has largely resolved all of its significant coverage claims. The Company expects some further recovery from deferred payment provisions of existing settlement agreements and from pursuing certain additional reimbursement claims. However, the Company does not expect to recover additional material amounts in excess of the recorded receivable of $13.8 million at September 30, 2002.

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 nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief.

The ultimate legal and financial liability of the Company in respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot be estimated with certainty. The Company's reported results of operations for 2002 have been materially affected by the $475 million first quarter charge and asbestos-related payments continue to be substantial. Any possible future additional accrual would likewise materially affect the Company's results of operations in the period in which it might be recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and will 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.

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8. Segment Information

The Company operates in the rigid packaging industry. The Company has two reportable product segments within the rigid packaging industry: (1) Glass Containers and (2) Plastics Packaging. The Plastics Packaging segment consists of two business units—consumer products (plastic containers and closures) and prescription products. The Other segment consisted of the Company's labels and carriers products business unit, substantially all of which was divested in early 2001.

The Company evaluates performance and allocates resources based on earnings before interest income, interest expense, provision for income taxes, minority share owners' interests in earnings of subsidiaries, and extraordinary charges, (collectively "EBIT") excluding unusual items. EBIT for product segments includes an allocation of corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Financial information for the three-month periods ended September 30, 2002 and 2001 regarding the Company's product segments is as follows (certain amounts from prior year have been reclassified to conform to current year presentation based on changes in internal management reporting):

	Glass Containers	Plastics Packaging	Total Product Segments	Eliminations and Other Retained Items	Consolidated Totals
Net sales:					
September 30, 2002	$ 1,019.8	$ 452.3	$ 1,472.1		$ 1,472.1
September 30, 2001	898.4	461.8	1,360.2		1,360.2
EBIT, excluding goodwill amortization (see Note 9):					
September 30, 2002	$ 205.5	$ 64.9	$ 270.4	$ (18.5)	$ 251.9
September 30, 2001	176.9	83.7	260.6	(15.2)	245.4

The reconciliation of EBIT to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the three-month periods ended September 30, 2002 and 2001 is as follows:

	Sept. 30, 2002	Sept. 30, 2001
EBIT, excluding unusual items and goodwill amortization, for reportable segments	$ 270.4	$ 260.6
Eliminations and other retained items	(18.5)	(15.2)
Amortization of goodwill		(23.0)
Net interest expense	(101.0)	(98.8)
Total	$ 150.9	$ 123.6

Financial information for the nine-month periods ended September 30, 2002 and 2001 regarding the Company's product segments is as follows (certain amounts from prior year have been reclassified to conform to current year presentation based on changes in internal management reporting):

	Glass Containers	Plastics Packaging	Other	Total Product Segments	Eliminations and Other Retained Items	Consoli-dated Totals
Net sales:						
September 30, 2002	$ 2,916.2	$ 1,364.1	$ —	$ 4,280.3		$ 4,280.3
September 30, 2001	2,639.9	1,411.7	4.5	4,056.1		4,056.1
EBIT, excluding unusual items and goodwill amortization (see Note 9):						
September 30, 2002	$ 549.5	$ 217.9	$ —	$ 767.4	$ (61.1)	$ 706.3
September 30, 2001	473.9	242.1	0.2	716.2	(37.2)	679.0
Unusual items:						
September 30, 2002						
Adjustment of reserve for future asbestos-related costs					$ (475.0)	$ (475.0)
September 30, 2001						
Gain on the sale of a minerals business in Australia	$ 10.3			$ 10.3		10.3
Gain on the sale of the Company's label business			$ 2.8	2.8		2.8
Gain on the sale of the Company's Harbor Capital business					457.3	457.3
Restructuring and impairment charges	(64.3)	$ (15.6)		(79.9)		(79.9)
Special employee benefit programs	(7.6)	(3.5)		(11.1)	(19.8)	(30.9)
Charges related to certain contingencies		(8.5)		(8.5)		(8.5)

The reconciliation of EBIT to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the nine-month periods ended September 30, 2002 and 2001 is as follows:

	Sept. 30, 2002	Sept. 30, 2001
EBIT, excluding unusual items and goodwill amortization, for reportable segments	$ 767.4	$ 716.2
Unusual items excluded from reportable segment information		(86.4)

Eliminations and other retained items	(61.1)	(37.2)
Unusual items excluded from eliminations and other retained items	(475.0)	437.5
Amortization of goodwill		(69.2)
Net interest expense	(296.2)	(314.3)
Total	$ (64.9)	$ 646.6

9. New Accounting Standards

FAS No. 142. On January 1, 2002, the Company adopted Financial Accounting Standards ("FAS") No. 142, "Goodwill and Other Intangible Assets". As required by FAS No. 142, the Company is no longer amortizing goodwill, but will be reviewing goodwill annually (or more frequently if impairment indicators arise) for impairment.

During the first quarter of 2002, the Company completed an impairment test under FAS No. 142 using the business enterprise value ("BEV") of each reporting unit. BEV's were calculated as of the measurement date, January 1, 2002, by determining the present value of debt-free, after-tax future cash flows, discounted at the weighted average cost of capital of a hypothetical third party buyer. The BEV of each reporting unit was then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment existed under FAS No. 142. Based on this comparison, the Company determined that an impairment existed in its consumer products reporting unit of the Plastics Packaging segment. The consumer products reporting unit operates in a highly competitive and fragmented industry. Excess capacity in this industry had created downward pricing pressure. The Company lowered its earnings and cash flow projections for this unit for several years following the measurement date which resulted in a lower BEV. Following a review of the valuation of the assets of the consumer products reporting unit, the Company recorded an impairment charge of $460.0 million to reduce the reported value of its goodwill. As required by FAS No. 142, the transitional impairment loss has been recognized as the cumulative effect of a change in method of accounting.

The following earnings and earnings per share data for 2001 have been presented on an adjusted basis to eliminate goodwill amortization of $23.0 and $69.2 million, or $0.16 and $0.48 per share for the three and nine months ended September 30, 2001, respectively, as required by FAS No. 142. The earnings and earnings per share data for 2002 have been presented to provide comparative data to the 2001 adjusted earnings and earning per share data.

	Three months ended September 30,	
	2002	2001
	(Actual)	(Adjusted)
Net earnings	$ 97.9	$ 92.4
Per share—basic	0.63	0.60
Per share—diluted	0.63	0.60

	Nine months ended September 30,	
	2002	2001
	(Actual)	(Adjusted)
Earnings (loss) before extraordinary items and cumulative effect of accounting change	$ (43.8)	$ 435.1
Per share—basic	(0.41)	2.89
Per share—diluted	(0.41)	2.86
Net earnings (loss)	$ (510.5)	$ 431.0
Per share—basic	(3.60)	2.86
Per share—diluted	(3.60)	2.83

FAS No. 143. In June 2001, the Financial Accounting Standards Board ("FASB") issued FAS No. 143, "Accounting for Asset Retirement Obligations". FAS 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. FAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 and will be adopted by the Company on January 1, 2003. The Company believes that the adoption of FAS No. 143 will not have an impact on the reported results of operations or financial position of the Company.

FAS No. 144. In August 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets". FAS No. 144 addresses financial accounting and reporting for the

impairment of long-lived assets and for long-lived assets to be disposed of. FAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and was adopted by the Company on January 1, 2002. The adoption of FAS No. 144 did not have an impact on the reported results of operations or financial position of the Company.

FAS No. 145. In April 2002, the FASB issued FAS No. 145, "Rescission of FASB Statements No. 4, No. 44, and No. 64, Amendment of FASB Statement No. 13, and Technical Corrections". Among other things, FAS No. 145 requires gains and losses from early extinguishment of debt to be included in income from continuing operations instead of being classified as extraordinary items as previously required by generally accepted accounting principles. FAS No. 145 is effective for fiscal years beginning after May 15, 2002 and will be adopted by the Company on January 1, 2003. Any gain or loss on early extinguishment of debt that was classified as an extraordinary item in periods prior to adoption must be reclassified into income from continuing operations. The adoption of FAS No. 145 will require the $6.7 million and $4.1 million of extraordinary charges for the nine months ended September 30, 2002 and 2001, respectively, to be reclassified to interest expense and the provision for income taxes.

FAS No. 146. In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". FAS No. 146 requires that a liability for costs associated with exit or disposal activities be recognized when the liability is incurred. The statement further requires that fair value be used for initial measurement of the liability. FAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company believes that the adoption of FAS No. 146 will not have a material impact on the reported results of operations or financial position of the Company.

10. Restructuring Accruals

During the second quarter of 2001, the Company recorded charges of $79.9 million for a restructuring program and impairment at certain of the Company's international and domestic operations. The charge includes the impairment of assets at the Company's affiliate in Puerto Rico and the consolidation of manufacturing capacity and the closing of a facility in Venezuela. The program also includes consolidation of capacity at certain other international and domestic facilities in response to decisions about pricing and market strategy. The total planned reduction in workforce will involve approximately 400 employees. The Company expects its actions related to these restructuring and impairment charges to be completed during the next several quarters. During the fourth quarter of 2001, the Company recorded additional restructuring charges of $7.4 million, as well as reversing $5.2 million of second quarter charges. Also during the fourth quarter of 2001, the Company recorded a charge of $7.9 million related to restructuring manufacturing capacity in the medical devices business.

The Company also has remaining restructuring accruals related to a capacity realignment program initiated in 2000. The program principally involved the closing of three U.S. glass container plants. The Company expects that it will continue to make cash payments over the next several quarters for on-going costs related to the closing of these facilities.

Selected information relating to the above restructuring accruals follows:

Remaining accruals as of June 30, 2002	$	14.9
Write-down of assets to net realizable value		(2.4)
Net cash paid		(2.7)
Remaining accruals as of September 30, 2002	$	9.8

11. Derivative Instruments

Under the terms of the April 2001 Secured Credit Agreement, international affiliates are only permitted to borrow in U.S. dollars. In order to manage the international affiliates' exposure to

fluctuating foreign exchange rates, the Company's affiliates in Australia and the United Kingdom have entered into currency swaps for the principal portion of their initial borrowings under the Agreement and for their interest payments due under the Agreement.

As of September 30, 2002, the Company's affiliate in Australia has swapped $650.0 million of borrowings into $1,275.0 million Australian dollars. This swap matures on March 31, 2003, with interest resets every 90 days. The interest reset terms of the swap approximate the terms of the U.S. dollar borrowings. This derivative instrument swaps both the interest and principal from U.S. dollars to Australian dollars and also swaps the interest rate from a U.S.-based rate to an Australian-based rate. The Company's affiliate in the United Kingdom has swapped $200.0 million of borrowings into 139.0 million British pounds. This swap also matures on March 31, 2003, with interest resets every 90 days. This derivative instrument swaps both the interest and principal from U.S. dollars to British pounds and also swaps the interest rate from a U.S.-based rate to a British-based rate.

On October 1, 2001, the Company completed the acquisition of the Canadian glass container assets of Consumers Packaging Inc. for a purchase price of approximately $150 million. The Company financed this purchase through borrowings under the Secured Credit Agreement, of which $100 million was transferred to Canada through intercompany loans in U.S. dollars with the remaining $50 million being transferred as equity. The Company's affiliate in Canada has entered into swap transactions to manage the affiliate's exposure to fluctuating foreign exchange rates by swapping the principal and interest portion of the intercompany loan. At September 30, 2002, the Canadian affiliate has swapped $90.0 million of borrowings into $142.0 million Canadian dollars. This swap matures on October 1, 2003. This derivative instrument swaps both the interest and principal from U.S. dollars to Canadian dollars and also swaps the interest rate from a U.S.-based rate to a Canadian-based rate. The affiliate has also entered in forward exchange contracts which effectively swap $10.0 million of borrowings into $16.0 million Canadian dollars. These hedges swap both the interest and principal from U.S. dollars to Canadian dollars and mature monthly.

The Company recognizes the above derivatives on the balance sheet at fair value. The Company accounts for the above swaps as fair value hedges. As such, the changes in the value of the swaps are included in other expense and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings. For the nine months ended September 30, 2002, the amount not offset was immaterial.

The Company also uses commodity futures contracts related to forecasted natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid and the potential volatility in earnings or cash flows from future market price movements. The Company has entered into commodity futures contracts for approximately 50% of its North American natural gas usage (approximately 960 million BTUs) through the first quarter of 2003.

The Company accounts for the above futures contracts 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 accumulated other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. The ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge is recognized in current earnings.

The above futures contracts are accounted for as cash flow hedges at September 30, 2002. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting anticipated cash flows of the hedged transactions. For hedged forecasted transactions, hedge accounting will be discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses will be recorded to earnings immediately.

At September 30, 2002, an unrealized net gain of $1.8 million, after tax of $1.0 million, related to these commodity futures contracts was included in OCI. There was no ineffectiveness recognized during the nine months ended September 30, 2002.

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

Results of Operations—Third Quarter 2002 compared with Third Quarter 2001

The Company recorded net earnings of $97.9 million for the third quarter of 2002 compared to net earnings of $69.4 million for the third quarter of 2001. The Company's third quarter 2002 net earnings of $97.9 million increased $5.5 million, or 6.0% from 2001 third quarter earnings, excluding goodwill amortization, of $92.4 million. Consolidated EBIT for the third quarter of 2002 was $251.9 million, an increase of $6.5 million, or 2.6%, compared to third quarter 2001 EBIT, excluding goodwill amortization, of $245.4 million. The increase was principally due to higher EBIT for the Glass Containers segment, partially offset by lower EBIT for the Plastics Packaging segment and from lower EBIT from other retained items, as further discussed below. Interest expense, net of interest income, increased $2.2 million from the 2001 period. The effects of lower short-term variable interest rates were more than offset by the January 2002 issuance of $1.0 billion principal amount of $8^{7}/8$% Senior Secured Notes due 2009. Proceeds from the Senior Secured Notes were used to reduce a variable-rate term loan under the Secured Credit Agreement.

Capsule segment results (in millions of dollars) for the third quarter of 2002 and 2001 were as follows:

	Net Sales (Unaffiliated customers)		EBIT(a)	
	2002	**2001**	**2002**	**2001(b)**
Glass Containers	$ 1,019.8	$ 898.4	$ 205.5	$ 176.9
Plastics Packaging	452.3	461.8	64.9	83.7
Segment totals	1,472.1	1,360.2	270.4	260.6
Eliminations and other retained items			(18.5)	(15.2)
Consolidated EBIT before goodwill amortization			251.9	245.4
Amortization of goodwill				(23.0)
Consolidated totals	$ 1,472.1	$ 1,360.2	$ 251.9	$ 222.4

(a) EBIT consists of consolidated earnings before interest income, interest expense, provision for income taxes, and minority share owners' interests in earnings of subsidiaries.

(b) In accordance with FAS No. 142, goodwill is no longer amortized beginning in 2002. In order to facilitate comparisons, goodwill amortization for 2001 has been reclassified out of the Glass Containers and Plastics Packaging segments and reported separately.

Consolidated net sales for the third quarter of 2002 increased $111.9 million, or 8.2%, over the prior year. Net sales of the Glass Containers segment increased $121.4 million, or 13.5%, over 2001. In North America, the additional sales from the October 2001 acquisition of the Canadian glass container operations and increased shipments of containers for liquor and wine were partially offset by decreased shipments of containers for food, teas, and juices in the U.S. The combined U.S. dollar sales of the segment's other foreign affiliates increased from the prior year. Increased shipments throughout most of Europe and the Asia Pacific region and favorable currency translation rates throughout most of Europe and the Asia Pacific region were partially offset by unfavorable currency translation rates throughout most of South America and the absence of the glass container operations in India. The effect of changing foreign currency exchange rates increased U.S. dollar sales of the segment's foreign affiliates in Europe and the Asia Pacific region by approximately $31 million. The effect of changing foreign currency exchange rates decreased U.S. dollar sales of the segment's foreign affiliates in South America by approximately $18 million. Net sales of the Plastics Packaging segment decreased $9.5 million, or 2.1%, from 2001. Increased shipments of plastic containers for food, bottled water,

juice and health and personal care and closures for juice and other beverages were more than offset by lower unit pricing in some product lines and the absence of sales from several small businesses that were sold over the past twelve months.

Consolidated EBIT for the third quarter of 2002 increased $6.5 million, or 2.6%, to $251.9 million from the 2001 adjusted EBIT of $245.4 million, adjusted to exclude goodwill amortization. EBIT of the Glass Containers segment increased $28.6 million to $205.5 million, compared to adjusted EBIT of $176.9 million in 2001. The combined U.S. dollar EBIT of the segment's foreign affiliates increased from prior year. Increased shipments throughout most of Europe and the Asia Pacific region and moderately improved pricing in Europe were partially offset by lower shipments in Brazil and Colombia, unfavorable currency translation rates in South America and a special tax assessment on the equity value of the segment's Colombian affiliate. In North America, Glass Container EBIT increased over 2001 principally as a result of the addition of the Canadian glass container operations in the fourth quarter of 2001, moderately improved pricing, and the recognition of the remaining deferred income associated with the early termination of an energy supply agreement, partially offset by the conversion of certain food and beverage containers to plastic packaging. EBIT of the Plastics Packaging segment decreased $18.8 million, or 22.5%, to $64.9 million compared to adjusted EBIT of $83.7 million in 2001. Increased shipments of plastic containers for food, bottled water, juice and health and personal care and closures for juice and other beverages were more than offset by lower unit pricing in some product lines, a $4.1 million unfavorable accounting adjustment at one of the segment's foreign affiliates largely due to the write down of inventories to net realizable value, and discontinued production for a major customer in the advanced technology systems business as the customer moves production from the U.S. to the Far East. The Company is commissioning a new factory in the Far East to continue to supply this customer and expects this new factory to be fully operational early in 2003. The Plastics Packaging segment operates in a number of highly competitive markets and has incurred significant pricing pressure in some product lines which the Company expects to partially offset by increased unit volume, improved productivity and reduced costs.

First Nine Months 2002 compared with First Nine Months 2001

The Company recorded a loss before extraordinary items and cumulative effect of accounting change of $43.8 million for the first nine months of 2002 compared to earnings before extraordinary items of $365.9 million for the first nine months of 2001. The net loss for the first nine months of 2002 of $510.5 million reflects $6.7 million of an extraordinary charge from the early extinguishment of debt and $460.0 million from the cumulative effect the change in accounting for goodwill. Net earnings of $361.8 million for 2001 reflect $4.1 million of an extraordinary charge from the early extinguishment of debt. Excluding the effects of the 2002 extraordinary item, cumulative effect of accounting change, and the unusual charge of $475.0 million for estimated future asbestos-related costs, the Company's first nine months 2002 net earnings of $265.0 million increased $28.9 million, or 12.2% from the first nine months 2001 earnings, excluding extraordinary and unusual items and goodwill amortization, of $236.1 million. Consolidated EBIT for the first nine months of 2002, excluding the asbestos-related charge, was $706.3 million, an increase of $27.3 million, or 4.0%, compared to the first nine months 2001 EBIT, excluding unusual items and goodwill amortization, of $679.0 million. The increase is principally due to higher EBIT for the Glass Containers segment, partially offset by lower EBIT for the Plastics Packaging segment and lower EBIT from eliminations and other retained items, as further discussed below. Interest expense, net of interest income and the 2001 unusual expense of $4.0 million, decreased $14.1 million from the 2001 period. The effects of lower short-term variable interest rates were partially offset by the January 2002 issuance of $1.0 billion principal amount of $8^7/8$% Senior Secured Notes due 2009. Proceeds from the Senior Secured Notes were used to reduce a variable-rate term loan under the Secured Credit Agreement. Excluding the effect of the asbestos-related charge, the Company's estimated effective tax rate for the first nine months of 2002 was 31.6%. This compares with a rate of 31.3% for the first nine months of 2001, and 30.3% for the full year of 2001, adjusted to

exclude the effects of goodwill amortization and unusual items. The increase in the 2002 estimated rate compared to the full year of 2001 is primarily the result of decreased international and domestic tax benefits and credits and a shift in estimated international earnings toward countries with higher effective tax rates.

Capsule segment results (in millions of dollars) for the first nine months of 2002 and 2001 were as follows:

	Net sales (Unaffiliated customers)		EBIT(a)	
	2002	2001	2002	2001(c)(d)
Glass Containers	$ 2,916.2	$ 2,639.9	$ 549.5	$ 412.3
Plastics Packaging	1,364.1	1,411.7	217.9	214.5
Other		4.5		3.0
Segment totals	4,280.3	4,056.1	767.4	629.8
Eliminations and other retained items			(536.1)(b)	400.3
Consolidated EBIT before goodwill amortization			231.3	1,030.1
Amortization of goodwill				(69.2)
Consolidated totals	$ 4,280.3	$ 4,056.1	$ 231.3	$ 960.9

(a) EBIT consists of consolidated earnings before interest income, interest expense, provision for income taxes, and minority share owners' interests in earnings of subsidiaries, extraordinary items and cumulative effect of accounting change.

(b) EBIT for 2002 includes a charge of $475.0 million related to adjustment of the reserve for estimated future asbestos-related costs.

(c) Amount for the nine months ended September 30, 2001 included a net gain of $351.1 million related to the following: (1) a gain of $457.3 million related to the sale of the Company's Harbor Capital business; (2) charges of $79.9 million related to restructuring and impairment charges at certain of the Company's international glass operations, principally Venezuela and Puerto Rico, as well as certain other domestic and international operations; (3) charges of $30.9 million related to special employee benefit programs; (4) a charge of $8.5 million for certain contingencies; (5) a gain of $10.3 million from the sale of a minerals business in Australia; and (6) a gain of $2.8 million from the sale of the Company's labels business.

Such charges (gains) are included as follows in consolidated EBIT for the nine months ended September 30, 2001:

Glass Containers	$ 61.6
Plastics Packaging	27.6
Other	(2.8)
Total Product Segments	86.4
Eliminations and other retained items	(437.5)
Consolidated Totals	$ (351.1)

(d)

In accordance with FAS No. 142, goodwill is no longer amortized beginning in 2002. In order to facilitate comparisons, goodwill amortization for 2001 has been reclassified out of the Glass Containers and Plastics Packaging segments and reported separately.

Consolidated net sales for the first nine months of 2002 increased $224.2 million, or 5.5%, over the prior year. Net sales of the Glass Containers segment increased $276.3 million, or 10.5%, over 2001. In

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North America, the additional sales from the October 2001 acquisition of the Canadian glass container operations and increased shipments of containers for liquor and wine and were partially offset by decreased shipments of containers for food, teas, and juices. The combined U.S. dollar sales of the segment's other foreign affiliates increased from the prior year. Increased shipments throughout most of Europe and the Asia Pacific region and favorable currency translation rates throughout most of Europe and the Asia Pacific region were partially offset by unfavorable currency translation rates throughout most of South America and the absence of the glass container operations in India. The effect of changing foreign currency exchange rates increased U.S. dollar sales of the segment's foreign affiliates in Europe and the Asia Pacific region by approximately $49 million. The effect of changing foreign currency exchange rates decreased U.S. dollar sales of the segment's foreign affiliates in South America by approximately $43 million. Net sales of the Plastics Packaging segment decreased $47.6 million, or 3.4%, from 2001. Increased shipments of plastic containers for food, bottled water, juice and health and personal care and closures for juice and other beverages, were more than offset by lower unit pricing in some product lines, and the effects of lower resin costs on pass-through arrangements with customers. The effects of lower resin cost pass-throughs decreased sales approximately $20 million compared to the first nine months of 2001.

Excluding the effects of the 2002 and 2001 unusual items, consolidated EBIT for the first nine months of 2002 increased $27.3 million, or 4.0%, to $706.3 million from the 2001 adjusted EBIT of $679.0 million, adjusted to exclude goodwill amortization. EBIT of the Glass Containers segment increased $75.6 million to $549.5 million, compared to adjusted EBIT of $473.9 million in 2001. The combined U.S. dollar EBIT of the segment's foreign affiliates increased from prior year. Increased shipments throughout most of Europe and the Asia Pacific region and moderately improved pricing in some regions were partially offset by lower shipments in Brazil and Colombia and unfavorable currency translation rates throughout most of South America. In North America, Glass Container EBIT increased over 2001 principally as a result of the addition of the Canadian glass container operations in the fourth quarter of 2001, moderately improved pricing, increased shipments of containers for liquor and wine and the recognition of the remaining deferred income associated with the early termination of an energy supply agreement, partially offset by the conversion of certain food and beverage containers to plastic packaging. EBIT of the Plastics Packaging segment decreased $24.2 million, or 10.0%, to $217.9 million compared to adjusted EBIT of $242.1 million in 2001. Increased shipments of plastic containers for food, bottled water, juice and health and personal care and closures for juice and other beverages as well as improved manufacturing performance were more than offset by lower unit pricing in some product lines, a $4.1 million unfavorable accounting adjustment at one of the segment's foreign affiliates largely due to the write down of inventories to net realizable value, and discontinued production for a major customer in the advanced technology systems business as the customer moves production from the U.S. to the Far East as previously discussed. EBIT from eliminations and other retained items, excluding the 2002 and 2001 unusual items, decreased $23.9 million from 2001 reflecting lower net financial services income due to the sale of the Company's Harbor Capital Advisors business in the second quarter of 2001 as well as higher information systems spending and certain employee benefit costs.

Results for the first nine months of 2002 included a pretax charge of $475.0 million ($308.8 million after tax) related to the adjustment of the reserve for estimated future asbestos-related costs.

Results for the first nine months of 2001 included the following unusual items: (1) a gain of $457.3 million ($284.4 million after tax) related to the sale of the Company's Harbor Capital Advisors business; (2) pretax gains totaling $13.1 million ($12.0 million after tax) related to the sale of the Company's label business and the sale of a minerals business in Australia; (3) charges of $79.9 million ($63.9 million after tax and minority share owners' interests) related to restructuring and impairment charges at certain of the Company's international glass operations, principally Venezuela and Puerto Rico, as well as certain other domestic and international operations; (4) charges of $30.9 million

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($19.4 million after tax) related to special employee benefit programs; (5) a charge of $8.5 million ($5.3 million after tax) for certain contingencies; (6) a $6.0 million charge to adjust tax liabilities in Italy as a result of recent legislation; and (7) a net interest charge of $4.0 million ($2.8 million after tax) related to interest on the resolution of the transfer of pension assets and liabilities for a previous acquisition and divestiture.

Restructuring and Impairment Charges

The first nine months of 2001 operating results included pretax charges of $79.9 million, principally related to a restructuring program and impairment at certain of the international and domestic operations. The charge included the impairment of assets at the Company's affiliate in Puerto Rico and the consolidation of manufacturing capacity and the closing of a facility in Venezuela. The program also included consolidation of capacity at certain other international and domestic facilities in response to decisions about pricing and market strategy. The Company expects its actions related to these restructuring and impairment charges to be completed during the next several quarters. The cost savings resulting from the 2001 restructuring are not expected to be material on an annual basis.

Asbestos-Related Charge

The asbestos-related charge of $475.0 million ($308.8 million after tax) represented an adjustment of the reserve for estimated future asbestos-related costs. Following the completion of a comprehensive review of its asbestos-related liabilities and costs in April 2002, the Company concluded that an increase in the reserve was required to provide for estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims expected to be filed in the next several years. Asbestos-related cash payments were $167.4 million for the first nine months of 2002, down from $186.8 million for the first nine months of 2001. The Company expects that asbestos-related cash payments will be moderately lower in 2002 than in the prior year, when such payments totaled $245.9 million. The Company anticipates that cash flows from operations and other resources will be sufficient to meet all asbestos-related obligations.

A former business unit of the Company produced a minor amount of specialized high-temperature insulation material containing asbestos from 1948 until 1958, when the business was sold. In line with its limited involvement with an asbestos-containing product and its exit from that business over 44 years ago, the Company will continue to work aggressively to minimize the number of incoming cases and to limit payments to only those impaired claimants who were exposed to the Company's products and whose claims have merit under applicable state law. As of September 30, 2002, the number of pending asbestos-related claimants and plaintiffs decreased to approximately 23,000 from the previously reported level of approximately 27,000 at December 31, 2001.

Capital Resources and Liquidity

The Company's total debt at September 30, 2002 was $5.39 billion, compared to $5.40 billion at December 31, 2001 and $5.31 billion at September 30, 2001.

During April 2001, certain of the Company's subsidiaries entered into the Secured Credit Agreement (the "Agreement") with a group of banks, which expires on March 31, 2004. The Agreement provides for a $3.0 billion revolving credit facility and a $65.0 million (initially $1.5 billion) term loan.

At September 30, 2002, the Company had available credit totaling $3.065 billion under the Agreement, of which $479.1 million had not been utilized. At September 30, 2001, the Company had $621.4 million of credit which had not been utilized under the Agreement. The decrease is due in large part to the $150 million purchase of the Canadian glass container assets of Consumers Packaging Inc.

in October 2001. Cash provided by operating activities was $409.1 million for the first nine months 2002 compared to $271.8 million for the first nine months of 2001.

During January 2002, a subsidiary of the Company completed a $1.0 billion private placement of senior secured notes. The notes bear interest at $8\frac{7}{8}$% and are due February 15, 2009. The notes are guaranteed by substantially all of the Company's domestic subsidiaries. The assets of substantially all of the Company's domestic subsidiaries are pledged as security for the notes. The issuing subsidiary used the net cash proceeds from the notes to reduce the outstanding term loan under the Agreement by $980 million. As such, the Company wrote off unamortized deferred financing fees in January 2002 related to the term loan and recorded an extraordinary charge of $10.9 million less applicable income taxes of $4.2 million. The indenture for the notes restricts, among other things, the ability of the Company's subsidiaries to borrow money, pay dividends on, or redeem or repurchase stock, make investments, create liens, enter into certain transactions with affiliates, and sell certain assets or merge with or into other companies.

During November 2002, a subsidiary of the Company completed a $450 million private placement of senior secured notes. The notes bear interest at $8\frac{3}{4}$% and are due November 15, 2012. The notes are guaranteed by substantially all of the Company's domestic subsidiaries. The assets of substantially all of the Company's domestic subsidiaries are pledged as security for the notes. The issuing subsidiary used the net cash proceeds from the notes to repay the remaining $65 million of the outstanding term loan under the Agreement and the remaining $376 million was used to reduce the outstanding revolver under the Agreement. As such, the Company wrote off unamortized deferred financing fees in November 2002 related to the term loan and recorded an extraordinary charge of $3.2 million less applicable income taxes of $1.2 million. The indenture for the new notes has the same restrictions as the senior secured notes issued in January 2002.

The Company anticipates that cash flow from its operations and from utilization of credit available through March 2004 under the Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations. The Company expects that its total asbestos-related payments in 2002 will be moderately lower than 2001. 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, including but not limited to those related to pension benefit plans, contingencies and litigation, and goodwill. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. 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 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 Condensed Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

The Company believes that accounting for pension benefit plans, contingencies and litigation, and goodwill involves the more significant judgments and estimates used in the preparation of its consolidated financial statements:

Pension Benefit Plans

Because of their historically well-funded status, the Company's principal pension benefit plans contributed pretax credits to earnings of approximately $62.8 million for the first nine months of 2002 and approximately $72.8 million for the first nine months of 2001. The Company expects that the amount of such credits for the full year 2002 will be approximately 15% lower than the full year of 2001. The 2002 decrease in pretax pension credits is attributed to lower expected return on assets and the addition of certain pension plans from the acquisition of the Canadian glass container assets of Consumers Packaging Inc.

Future effects on operating results depend on economic conditions and investment performance. For example, a one-half percentage point change in the actuarial assumption regarding the expected return on assets would result in a change of approximately $15 million in pretax pension credits for the full year. In addition, changes in external factors, including the fair values of plan assets and the discount rate used to calculate plan liabilities, could result in balance sheet recognition of a minimum pension liability. If the plan's accumulated benefit obligations ("ABO") exceed the fair value of their assets at December 31, 2002, the Company will be required to write off most of its prepaid pension asset and record a liability equal to the excess of the ABO over the fair value of the assets. The noncash charge would result in a decrease in the Accumulated Other Comprehensive Income component of share owners' equity that would significantly reduce net worth.

Contingencies and Litigation

The Company believes that its ultimate asbestos-related contingent liability (i.e., its indemnity or other claim disposition costs plus related legal fees) cannot be estimated with certainty. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy. The Company believes that the bankruptcies of additional co-defendants have resulted in an acceleration of the presentation and disposition of a number of claims which would otherwise have been presented and disposed of over the next several years. The Company continues to monitor trends which may affect its ultimate liability and continues to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. See Note 7 to the Condensed Consolidated Financial Statements for further information.

Goodwill

Beginning in 2002, the Company will evaluate goodwill annually (or more frequently if impairment indicators arise) for impairment. Goodwill impairment testing is performed using the business enterprise value ("BEV") of each reporting unit which is calculated as of a measurement date, by determining the present value of debt-free, after tax future cash flows, discounted at the weighted average cost of capital of a hypothetical third party buyer. This BEV is then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment exists. If certain assumptions change thereby reducing the BEV, such as EBIT projections, cash flow projections, or risk adjusted cost of capital, goodwill may have to be written down. If the write down is significant, the charge would have a material adverse effect on reported results of operations and net worth.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

All borrowings under the April 2001 Secured Credit Agreement, including borrowings by foreign subsidiaries, are denominated in U.S. dollars. As described in Note 11 to the financial statements, certain amounts borrowed under the agreement by foreign subsidiaries have been swapped into the subsidiaries' functional currencies.

During January 2002, a subsidiary of the Company completed a $1.0 billion private placement of senior secured notes. The notes bear interest at $8^{7}/8$% and are due February 15, 2009. The issuing subsidiary used the net cash proceeds from the notes to reduce the outstanding term loan under the Secured Credit Agreement by $980 million. During November 2002, a subsidiary of the Company completed a $450 million private placement of senior secured notes. The notes bear interest at $8^{3}/4$% and are due November 15, 2012. The issuing subsidiary used the net cash proceeds from the notes to repay the remaining $65 million of the outstanding term loan under the Agreement and the remaining $376 million was used to reduce the outstanding revolver under the Agreement. As a result, the Company's exposure to variable interest rates has been reduced and the maturity of a significant portion of its debt has been extended. However, the higher interest rate on the notes will cause the Company to incur higher interest expense.

Forward Looking Statements

This document may contain "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. 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, (2) change 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 competitive pricing pressures, inflation or deflation, and changes in tax rates, (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, (8) transportation costs, (9) consolidation among competitors and customers, (10) the ability of the Company to integrate operations of acquired businesses, (11) unanticipated expenditures with respect to environmental, safety and health laws, (12) the performance by customers of their obligations under purchase agreements, and (13) the timing and occurrence of events which are beyond the control of the Company, including 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 intend to update any particular forward looking statements contained in this document.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures:

Based on their evaluations as of a date within 90 days of the filing date of this report, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act) are effective to ensure that information required

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to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

(b) Changes in internal controls:

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

In August 1998, the Company received a Notice of Violation from the United States Environmental Protection Agency regarding alleged opacity violations at its Oakland, California glass container plant from the period of 1994 through 1997. Certain furnaces at the plant are equipped with monitors that continuously monitor opacity. During this period, these furnaces had occasional upset and breakdown conditions that caused opacity excursions that were reported to the local air quality management district. This action by the U.S. EPA involves the same incidents that were resolved with the local air quality management district. The Company has reached a settlement in principle with the U.S. EPA under which it will pay certain monetary penalties.

In September 2001, the Virginia Department of Environmental Quality issued a Notice of Violation to the Company's plant located in Toano, Virginia, alleging violations of certain regulations in connection with certain changes that were made to the furnaces during repairs. The Company has reached a settlement in principle with the Virginia Department of Environmental Quality under which it will voluntarily install abatement equipment, agree to certain production capacity limitations that are not expected to materially impact operations, and will also pay certain monetary penalties.

The monetary penalties for the Oakland matter and the Toano matter are not expected to exceed $550,000 in the aggregate.

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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit 4.1	Second Supplemental Indenture dated as of August 5, 2002 to the January 24, 2002 indenture between Owens-Brockway Glass Container Inc. and the trustee of the Senior Secured Notes due 2009
Exhibit 4.2	Third Amendment to Secured Credit Agreement dated as of September 27, 2002
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends

(b) Reports on Form 8-K:

On August 9, 2002, the Registrant filed a Form 8-K which included its Chief Executive Officer and Chief Financial Officer certifications as required by Section 906 of the Sarbanes-Oxley Act of 2002.

On September 3, 2002, the Registrant filed a Form 8-K which included a press release dated September 3, 2002 announcing that Gary F. Colter has been appointed to serve on the Owens-Illinois Board of Directors effective September 3, 2002.

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 November 14, 2002

By: /s/ EDWARD C. WHITE

Edward C. White,
Vice President and Controller
(Principal Accounting Officer)

CERTIFICATIONS

I, Joseph H. Lemieux, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date November 14, 2002

/s/ JOSEPH H. LEMIEUX

Joseph H. Lemieux
Chairman and Chief Executive Officer

CERTIFICATIONS

I, R. Scott Trumbull, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date November 14, 2002

/s/ R. SCOTT TRUMBULL

R. Scott Trumbull
Executive Vice President and Chief Financial Officer

INDEX TO EXHIBITS

Exhibits	
4.1	Second Supplemental Indenture dated as of August 5, 2002 to the January 24, 2002 indenture between Owens-Brockway Glass Container Inc. and the trustee of the Senior Secured Notes due 2009
4.2	Third Amendment to Secured Credit Agreement dated as of September 27, 2002
12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends

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Exhibit 4.1

OWENS-BROCKWAY GLASS CONTAINER INC.
Issuer
and
The Guarantors set forth in Annex A attached hereto

Second Supplemental Indenture
dated as of August 5, 2002
8 7/8% Senior Secured Notes due 2009

U.S. Bank National Association
Trustee

Second Supplemental Indenture, dated as of August 5, 2002 (the "*Second Supplemental Indenture*"), to the Indenture, dated as of January 24, 2002, as amended or supplemented prior to the date hereof (the "*Indenture*"), among Owens-Brockway Glass Container Inc., a Delaware corporation (the "*Company*"), the Guarantors (as defined in the Indenture) and U.S. Bank National Association, a national banking association, as Trustee (the "*Trustee*").

W I T N E S S E T H

WHEREAS, the Company duly authorized, executed and delivered to the Trustee the Indenture, pursuant to which the Company issued $1,000,000,000 principal amount of its 8?% Senior Secured Notes due 2009 (the *"Notes"*);

WHEREAS, in connection with the Company's offer to exchange the Notes for 8?% Senior Secured Notes due 2009 which have been registered under the Securities Act of 1933, the Commission has requested that the Indenture be amended to comply with Section 314(d) of the TIA;

WHEREAS, the Company, the Guarantors and the Trustee desire to amend Section 11.03 of the Indenture to comply with the TIA as requested by the Commission;

WHEREAS, Section 9.01 of the Indenture provides that the Indenture may be supplemented or amended by the Company, the Guarantors and the Trustee as to the Notes without the consent of any holder of the Notes to, *inter alia*, comply with any requirements of the Commission in connection with the qualification of the Indenture under the TIA;

WHEREAS, the conditions set forth in the Indenture for the execution and delivery of this Second Supplemental Indenture have been satisfied; and

WHEREAS, all things necessary to make this Second Supplemental Indenture a valid agreement of the Company, the Guarantors and the Trustee, in accordance with its terms, and a valid amendment of, and supplement to, the Indenture have been done.

NOW THEREFORE:

In consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledge, the Company, the Guarantors and the Trustee hereby agree as follows:

ARTICLE 1.

AMENDMENT TO THE INDENTURE

Section 1.01. Amendment to Article 11.

Section 11.03 of the Indenture is hereby amended by deleting the first sentence of the final paragraph of such Section 11.03.

ARTICLE 2.

Miscellaneous

Section 2.01. Defined Terms.

Unless otherwise provided in this Second Supplemental Indenture, all defined terms used in this Second Supplemental Indenture shall have the meanings assigned to them in the Indenture.

Section 2.02. New York Law to Govern.

THIS SECOND SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 2.03. Counterparts.

This Second Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 2.04. Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 2.05. Severability of Provisions.

In case any provision in this Second Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.06. Successors and Assigns.

All covenants and agreements in this Second Supplemental Indenture by the parties hereto shall bind their respective successors and assigns and inure to the benefit of their respective successors and assigns, whether so expressed or not.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, all as of the date first above written.

OWENS-BROCKWAY GLASS CONTAINER INC.

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: Vice President

On behalf of each entity named on the attached Annex A, in the capacity set forth for such entity on such Annex A

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: /s/ FRANK P. LESLIE

Name: Frank P. Leslie
Title: Vice President

ANNEX A

Name of Entity	Title of Officer Executing on Behalf of Such Entity
ACI America Holdings Inc.	Vice President and Secretary
Anamed International, Inc.	Vice President and Secretary
BriGam Medical, Inc.	Vice President and Secretary
BriGam Ventures, Inc.	Vice President and Secretary
BriGam, Inc.	Vice President and Secretary
Brockway Realty Corporation	Vice President and Secretary
Brockway Research, Inc.	Vice President and Secretary
Continental PET Technologies, Inc.	Vice President and Secretary
MARC Industries, Inc.	Vice President and Secretary
Martell Medical Products, Incorporated	Vice President and Secretary
NHW Auburn, LLC	Vice President and Secretary of its sole member
OB Cal South Inc.	Vice President and Secretary
OI AID STS Inc.	Vice President and Secretary

OI Auburn Inc.	Vice President and Secretary
OI Australia Inc.	Vice President and Secretary
OI Brazil Closure Inc.	Vice President and Secretary
OI California Containers Inc.	Vice President and Secretary
OI Castalia STS Inc.	Vice President and Secretary
OI Consol STS Inc.	Vice President and Secretary
OI Ecuador STS Inc.	Vice President and Secretary
OI Europe & Asia Inc.	Vice President and Secretary
OI General Finance Inc.	Vice President and Secretary
OI General FTS Inc.	Vice President and Secretary
O-I Health Care Holding Corp.	Vice President and Secretary
O-I Holding Company, Inc.	Vice President and Secretary
OI Hungary Inc.	Vice President and Secretary
OI International Holdings Inc.	Vice President and Secretary
OI Levis Park STS Inc.	Vice President and Secretary
OI Medical Holdings Inc.	Vice President and Secretary
OI Medical Inc.	Vice President and Secretary
OI Peru STS Inc.	Vice President and Secretary
OI Plastic Products FTS Inc.	Vice President and Secretary

Name of Entity	**Title of Officer Executing on Behalf of Such Entity**
OI Poland Inc.	Vice President and Secretary
OI Puerto Rico STS Inc.	Vice President and Secretary
OI Regioplast STS Inc.	Vice President and Secretary
OI Venezuela Plastic Products Inc.	Vice President and Secretary
OIB Produvisa Inc.	Vice President and Secretary
Overseas Finance Company	Vice President and Secretary
Owens-BriGam Medical Company	Vice President and Secretary of each general partner
Owens-Brockway Glass Container Trading Company	Vice President and Secretary
Owens-Brockway Packaging, Inc.	Vice President and Secretary
Owens-Brockway Plastic Products Inc.	Vice President and Secretary
Owens-Illinois Closure Inc.	Vice President and Secretary
Owens-Illinois General Inc.	Vice President and Secretary
Owens-Illinois Group, Inc.	Vice President, Director of Finance and Secretary
Owens-Illinois Prescription Products Inc.	Vice President and Secretary
Owens-Illinois Specialty Products Puerto Rico, Inc.	Vice President and Secretary
Product Design & Engineering, Inc.	Vice President and Secretary
Seagate, Inc.	Vice President and Secretary
Seagate II, Inc.	Vice President and Secretary

Seagate III, Inc.	Vice President and Secretary
Specialty Packaging Licensing Company	Vice President and Secretary
Universal Materials, Inc.	Vice President and Secretary

QuickLinks

Exhibit 4.2

OWENS-ILLINOIS GROUP, INC.
OWENS-BROCKWAY GLASS CONTAINER INC.
OI GENERAL FTS INC.
OI PLASTIC PRODUCTS FTS INC.
UNITED GLASS LIMITED
UNITED GLASS GROUP LIMITED
OWENS-ILLINOIS (AUSTRALIA) PTY LIMITED
ACI OPERATIONS PTY LIMITED
OI ITALIA S.R.L.
AZIENDE VETRARIE INDUSTRIALI RICCIARDI S.P.A.

THIRD AMENDMENT
TO SECURED CREDIT AGREEMENT
DATED AS OF SEPTEMBER 27, 2002

This **THIRD AMENDMENT TO SECURED CREDIT AGREEMENT** (this "**Amendment**") is dated as of September 27, 2002 and entered into by and among **OWENS-ILLINOIS GROUP, INC.**, a Delaware corporation ("**Company**"), **OWENS-BROCKWAY GLASS CONTAINER INC.**, a Delaware corporation ("**Owens Brockway**"), **OI GENERAL FTS INC.,** a Delaware corporation ("**O-I General FTS**"), **OI PLASTIC PRODUCTS FTS INC.**, a Delaware corporation ("**O-I Plastic**"), **UNITED GLASS LIMITED**, a corporation organized under the laws of England and Wales, **UNITED GLASS GROUP LIMITED**, a corporation organized under the laws of England and Wales, **OWENS-ILLINOIS (AUSTRALIA) PTY LIMITED**, a limited liability company organized under the laws of Australia, **ACI OPERATIONS PTY LIMITED**, a limited liability company organized under the laws of Australia, **OI ITALIA S.R.L.,** a limited liability company organized under the laws of Italy, **AZIENDE VETRARIE INDUSTRIALI RICCIARDI S.P.A.**, a joint stock company organized under the laws of Italy, **OWENS-ILLINOIS GENERAL, INC.**, a Delaware corporation, as Borrowers' Agent (in such capacity "**Borrowers' Agent**"), **THE LENDERS LISTED ON THE SIGNATURE PAGES HEREOF** (each individually a "**Lender**" and collectively, "**Lenders**") and **DEUTSCHE BANK TRUST COMPANY AMERICAS (f/k/a BANKERS TRUST COMPANY)**, as Administrative Agent (in such capacity, "**Administrative Agent**") and Collateral Agent (in such capacity, "**Collateral Agent**") for the Lenders and is made with reference to that certain Secured Credit Agreement dated as of April 23, 2001, as amended by that certain First Amendment to Secured Credit Agreement and Consent dated as of December 31, 2001, as further amended by that certain Second Amendment to Secured Credit Agreement dated as of April 19, 2002 (as so amended, the "**Credit Agreement**"), by and among the foregoing parties. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Borrowers have requested that the definition of "Consolidated Net Worth" be amended to exclude the effects of the decline in the market value of the pension assets of Holdings and its Subsidiaries for purposes of calculating a certain financial covenant in the Credit Agreement;

WHEREAS, Owens Brockway intends to issue certain senior secured notes (the "**New Senior Notes**"), constituting New Senior Debt and may in the future issue other indebtedness resulting in Net Debt Securities Proceeds other than from Receivables Sale Indebtedness (such other Indebtedness, "**Other Future Indebtedness**");

WHEREAS, Borrowers desire to agree that, upon the issuance of the New Senior Notes and any Other Future Indebtedness, and the application of the Net Debt Securities Proceeds arising therefrom

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to repay the Term Loans in full, Borrowers shall not elect to establish the Existing Senior Notes Redemption Sublimit with respect to the first $400 million of such remaining proceeds and to apply an amount equal to such first remaining proceeds to ratably reduce the Revolving Loan Commitments and to prepay the Separated Funded Loans.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO DEFINITIONS

A. *Additional Definition.* Subsection 1.1 of the Credit Agreement is hereby amended by adding the following definition to be included in the appropriate alphabetical order:

"**'Unfunded Accumulated Benefit Obligations'** means, as at any date of determination, the amount by which the accumulated benefit obligation of any Pension Plan of Holdings and its Subsidiaries and ERISA Affiliates exceeds the fair value of plan assets of such Pension Plan, calculated in accordance with GAAP and FASB 87."

B. *Modified Definition.* Subsection 1.1 of the Credit Agreement is hereby amended by modifying the following existing definition:

1. "Consolidated Net Worth" is hereby amended and restated in its entirety, as follows:

"**'Consolidated Net Worth'** means, as at any date of determination, the sum of the capital stock and additional paid-in capital plus retained earnings (or minus accumulated deficits) of Holdings and its Subsidiaries on a consolidated basis determined in conformity with GAAP; *provided* that no adjustment shall be made in Consolidated Net Worth for changes to other comprehensive income (loss) resulting from (i) the effects of foreign currency translations required or permitted by FASB 52 or (ii) the effects of adjustments relating to Unfunded Accumulated Benefit Obligations required or permitted by FASB 87, in each case for periods subsequent to December 31, 2000; *provided further* that no adjustment shall be made in Consolidated Net Worth for the effects of the 2002 Additional Asbestos Reserve."

SECTION 2. COMMITMENT REDUCTIONS AND PREPAYMENTS WITH PROCEEDS OF NEW SENIOR NOTES AND OTHER FUTURE INDEBTEDNESS.

In consideration of the amendments set forth in Section 1, above, Company and each of the Borrowers agree, and the undersigned Lenders executing and delivering this Amendment (which constitute Requisite Lenders) agree, that upon the issuance of the New Senior Notes and Other Future Indebtedness (x) Borrowers shall prepay the Term Loans as required by subsection 2.4A (ii)(e)(1) of the Credit Agreement, (y) Borrowers shall not establish any Existing Senior Notes Redemption Sublimit in respect of the first $400 million of Net Debt Securities Proceeds of the New Senior Notes and Other Future Indebtedness remaining after prepaying the Term Loans (the "Remaining Proceeds Application Amount") and (z) notwithstanding any provision of subsection 2.4A to the contrary (including, without limitation, subsections 2.4A(ii)(e) and 2.4A(iii)) an amount equal to the Remaining Proceeds Application Amount shall be applied ratably to reduce the Revolving Loan Commitments (based upon the commitment amount thereof and not on the amount of outstanding Loans thereunder) and to prepay the Separated Funded Loans (based upon the principal amount of Separated Funded Loans outstanding). Application of Net Debt Securities Proceeds made in accordance with the provisions of this Section 2 of this Amendment shall be deemed application of such proceeds as required by subsection 2.4A(ii)(e).

SECTION 3. CONDITIONS TO EFFECTIVENESS

This Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the "**Third Amendment Effective Date**"):

A. On or before the Third Amendment Effective Date, Company and each of the Borrowers shall deliver to Administrative Agent such number of originally executed copies of the following as Administrative Agent may request, each, unless otherwise noted, dated the Third Amendment Effective Date:

(i) Signature and incumbency certificates of its officers executing this Amendment; and

(ii) Executed copies of this Amendment.

B. On or before the Third Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be satisfactory in form and substance to Administrative Agent and such counsel, and Administrative Agent and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent may reasonably request.

C. Administrative Agent and Collateral Agent shall have received a written acknowledgement from each of the Subsidiary Guarantors providing that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment, that the Subsidiary Guaranty and each Collateral Document executed by such Subsidiary Guarantor shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment and such other matters as Administrative Agent may reasonably request, all in a form satisfactory to Administrative Agent.

SECTION 4. COMPANY'S REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Company and each of the Borrowers represents and warrants to each Lender that the following statements are true, correct and complete:

4.1 Corporate Power and Authority. Company and each Borrower has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "**Amended Agreement**").

4.2 Authorization of Agreements. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of Company and each Borrower.

4.3 No Conflict. The execution and delivery by Company and each Borrower of this Amendment and the performance by each Loan Party of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to Company or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of Company or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on Company or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of Company or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of Company or any of its Subsidiaries (other than Liens in favor of the Collateral Agent), or (iv) require any approval of stockholders or any approval or consent of any Person under any

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Contractual Obligation of Company or any of its Subsidiaries, other than those approvals and consents which have been obtained.

4.4 Governmental Consents. The execution and delivery by Company and each Borrower of this Amendment and the performance by Company and each Borrower of the Amended Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body, except for filings, consents or notices that have been or will be made or obtained during the period in which they are required to be obtained or made.

4.5 Binding Obligation. This Amendment and the Amended Agreement have been duly executed and delivered by Company and each Borrower and are the legally valid and binding obligations of Company and each Borrower, enforceable against Company and each Borrower in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

4.6 Incorporation of Representations and Warranties From Credit Agreement. The representations and warranties contained in Section 4 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the Third Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

4.7 Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

SECTION 5. MISCELLANEOUS

5.1 Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the Third Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Administrative Agent, Collateral Agent or any other Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

5.2 Fees and Expenses. Company acknowledges that all costs, fees and expenses as described in subsection 10.3 of the Credit Agreement incurred by Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of the Domestic Borrowers.

5.3 Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

5.4 Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

5.5 Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment shall become effective upon the execution of a counterpart hereof by Company, each Borrower and Requisite Lenders and receipt by Company and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof and satisfaction of the conditions set forth in Section 3. Delivery of an executed counterpart of a signature page of this Amendment by telecopy shall be effective as delivery of a manually executed counterpart of this Amendment.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

COMPANY: **OWENS-ILLINOIS GROUP, INC.**

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: Vice President

BORROWERS: **OWENS-BROCKWAY GLASS CONTAINER INC.**

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: Vice President

OI GENERAL FTS INC.

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: Vice President

OI PLASTIC PRODUCTS FTS INC.

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

UNITED GLASS LIMITED

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: By Power of Attorney

UNITED GLASS GROUP LIMITED

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: By Power of Attorney

OWENS-ILLINOIS (AUSTRALIA) PTY LIMITED

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: By Power of Attorney

ACI OPERATIONS PTY LIMITED

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: By Power of Attorney

OI ITALIA S.R.L.

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: By Power of Attorney

AZIENDE VETRARIE INDUSTRIALI RICCIARDI S.P.A.

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: By Power of Attorney

OWENS-ILLINOIS GENERAL INC.

By: /s/ JAMES W. BAEHREN

Name: James W. Baehren
Title: Vice President

DEUTSCHE BANK TRUST COMPANY AMERICAS
(f/k/a BANKERS TRUST COMPANY)
Individually and as Administrative Agent and
Collateral Agent

By: /s/ MARY JO JOLLY

Name: Mary Jo Jolly
Title: Assistant Vice President

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Exhibit 12

OWENS-ILLINOIS, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	Nine months ended Sept. 30, 2002	Nine months ended Sept. 30, 2001
Earnings (loss) before income taxes, and minority share owners' interests	$ (64.9)	$ 646.6
Less: Equity earnings	(19.8)	(13.7)
Add: Total fixed charges deducted from earnings	323.4	345.2
Proportional share of pre-tax earnings (loss) of 50% owned associates	10.6	8.3
Dividends received from less than 50% owned associates	7.8	7.5
Earnings (loss) available for payment of fixed charges	$ 257.1	$ 993.9
Fixed charges (including the Company's proportional share of 50% owned associates):		
Interest expense	$ 297.3	$ 322.4
Portion of operating lease rental deemed to be interest	9.4	9.6
Amortization of deferred financing costs and debt discount expense	16.7	13.2
Total fixed charges deducted from earnings and fixed charges	323.4	345.2
Preferred stock dividends (increased to assumed pre-tax amount)	23.6	27.5
Combined fixed charges and preferred stock dividends	$ 347.0	$ 372.7
Ratio of earnings to fixed charges	0.80	2.88
Ratio of earnings to combined fixed charges and preferred stock dividends	0.74	2.67