

**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, 2009

or

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

**Owens-Illinois Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other  
jurisdiction of  
incorporation or  
organization)

**33-13061**  
(Commission  
File No.)

**34-1559348**  
(IRS Employer  
Identification No.)

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

**43551-2999**  
(Zip Code)

**567-336-5000**  
(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

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

Owens-Illinois Group, Inc. \$.01 par value common stock – 100 shares at September 30, 2009.

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Part I — FINANCIAL INFORMATION

**Item 1. Financial Statements.**

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

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

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OWENS-ILLINOIS GROUP, INC.  
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS  
(Dollars in millions)

	Three months ended September 30,	
	2009	2008
Net sales	\$ 1,874.6	\$ 2,008.6
Manufacturing, shipping, and delivery expense	(1,425.9)	(1,601.3)
Gross profit	448.7	407.3
Selling and administrative expense	(128.2)	(120.8)
Research, development, and engineering expense	(14.3)	(17.1)
Interest expense	(58.6)	(66.3)
Interest income	6.1	10.4
Equity earnings	11.9	12.9
Royalties and net technical assistance	3.4	5.0
Other income	2.4	1.9
Other expense	(78.6)	(94.5)
Earnings from continuing operations before income taxes	192.8	138.8
Provision for income taxes	(63.8)	(42.2)
Net earnings	129.0	96.6
Earnings attributable to noncontrolling interests	(2.3)	(18.0)
Net earnings attributable to the Company	<u>\$ 126.7</u>	<u>\$ 78.6</u>

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OWENS-ILLINOIS GROUP, INC.  
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS  
(Dollars in millions)

	Nine months ended September 30,	
	2009	2008
Net sales	\$ 5,200.6	\$ 6,179.7
Manufacturing, shipping, and delivery expense	(4,047.7)	(4,790.4)
Gross profit	1,152.9	1,389.3
Selling and administrative expense	(369.1)	(379.4)
Research, development, and engineering expense	(42.3)	(51.0)
Interest expense	(164.6)	(199.8)
Interest income	21.1	29.1
Equity earnings	39.6	36.7
Royalties and net technical assistance	9.7	14.8
Other income	4.9	5.1
Other expense	(157.4)	(130.3)
Earnings from continuing operations before income taxes	494.8	714.5
Provision for income taxes	(144.5)	(183.0)
Earnings from continuing operations	350.3	531.5
Gain on sale of discontinued operations	—	7.9
Net earnings	350.3	539.4

Earnings attributable to noncontrolling interests	(29.2)	(51.4)
Net earnings attributable to the Company	<u>\$ 321.1</u>	<u>\$ 488.0</u>
Amounts attributable to the Company:		
Earnings from continuing operations	\$ 321.1	\$ 480.1
Gain on sale of discontinued operations		7.9
Net earnings	<u>\$ 321.1</u>	<u>\$ 488.0</u>

See accompanying notes.

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OWENS-ILLINOIS GROUP, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in millions)

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

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CONDENSED CONSOLIDATED BALANCE SHEETS — continued

	<u>Sept. 30, 2009</u>	<u>Dec. 31, 2008</u>	<u>Sept. 30, 2008</u>
<b>Liabilities and Share Owner's Equity</b>			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 377.6	\$ 393.8	\$ 496.4
Accounts payable	816.1	838.2	901.5
Other liabilities	730.8	596.3	773.3
Total current liabilities	1,924.5	1,828.3	2,171.2
Long-term debt	3,343.9	2,931.4	2,960.6
Deferred taxes	160.1	77.6	72.1
Pension benefits	706.9	741.8	273.1
Nonpension postretirement benefits	242.5	239.7	273.5
Other liabilities	368.9	369.0	361.8

Share owners' equity:

The Company's share owner's equity: Common stock, par value \$.01 per share 1,000 shares authorized, 100 shares issued and outstanding	—	—	—
Other contributed capital	843.0	940.0	999.2
Retained earnings	2,537.6	2,216.5	2,197.4
Accumulated other comprehensive income (loss)	(1,250.5)	(1,620.6)	(320.6)
Total share owner's equity of the Company	2,130.1	1,535.9	2,876.0
Noncontrolling interests	242.9	252.8	249.1
Total share owners' equity	2,373.0	1,788.7	3,125.1
Total liabilities and share owners' equity	<u>\$ 9,119.8</u>	<u>\$ 7,976.5</u>	<u>\$ 9,237.4</u>

See accompanying notes.

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OWENS-ILLINOIS GROUP, INC.  
CONDENSED CONSOLIDATED CASH FLOWS  
(Dollars in millions)

	Nine months ended September 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 350.3	\$ 539.4
Net earnings attributable to noncontrolling interests	(29.2)	(51.4)
Gain on sale of discontinued operations		(7.9)
<b>Non-cash charges (credits):</b>		
Depreciation	274.3	339.3
Amortization of intangibles and other deferred items	18.0	21.5
Amortization of finance fees and debt discount	7.3	6.0
Deferred tax provision (benefit)	11.8	(43.1)
Restructuring and asset impairment	113.1	111.7
Other	84.2	107.2
Cash paid for restructuring activities	(42.7)	(28.0)
Change in non-current operating assets	13.1	4.5
Change in non-current liabilities	(96.8)	(73.8)
Change in components of working capital	(1.6)	(204.2)
Cash provided by operating activities	701.8	721.2
<b>Cash flows from investing activities:</b>		
Additions to property, plant, and equipment	(193.7)	(238.5)
Advances to equity affiliate - net	1.6	(8.1)
Acquisitions, net of cash acquired	(5.4)	
Net cash proceeds from divestitures and asset sales	4.4	(16.0)
Cash utilized in investing activities	(193.1)	(262.6)
<b>Cash flows from financing activities:</b>		
Additions to long-term debt	1,072.6	636.8
Repayments of long-term debt	(528.1)	(656.3)
Increase (decrease) in short-term loans	(55.1)	66.0
Payment of finance fees	(13.9)	
Net receipts (payments) for hedging activity	17.9	(47.1)
Dividends paid to noncontrolling interests	(58.3)	(46.1)
Net change in payable to parent		(250.0)
Distributions to parent	(338.2)	(131.3)
Cash provided by (utilized in) financing activities	96.9	(428.0)
Effect of exchange rate fluctuations on cash	32.0	(7.8)
Increase in cash	637.6	22.8
Cash at beginning of period	379.5	387.7
Cash at end of period	<u>\$ 1,017.1</u>	<u>\$ 410.5</u>

See accompanying notes.

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OWENS-ILLINOIS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Tabular data dollars in millions

**1. Basis of Presentation**

The Company is a 100%-owned subsidiary of Owens-Illinois, Inc. ("OI Inc."). Although OI Inc. does not conduct any operations, it has substantial obligations related to outstanding indebtedness and asbestos-related payments. OI Inc. relies primarily on distributions from its direct and indirect subsidiaries to meet these obligations.

## 2. Debt

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

	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
<b>Secured Credit Agreement:</b>			
Revolving Credit Facility:			
Revolving Loans	\$ —	\$ 18.7	\$ —
Term Loans:			
Term Loan A (225.0 million AUD)	197.9	155.7	180.2
Term Loan B	191.5	191.5	191.5
Term Loan C (110.8 million CAD)	102.5	90.9	105.5
Term Loan D (€191.5 million)	280.2	269.6	274.9
Senior Notes:			
8.25%, due 2013	461.2	461.1	450.4
6.75%, due 2014	400.0	400.0	400.0
6.75%, due 2014 (€225 million)	329.2	316.8	323.0
7.375%, due 2016	581.4		
6.875%, due 2017 (€300 million)	438.9	422.4	430.6
Payable to OI Inc.	278.4	509.5	503.6
Other	126.0	113.4	113.1
<b>Total long-term debt</b>	<b>3,387.2</b>	<b>2,949.6</b>	<b>2,972.8</b>
Less amounts due within one year	43.3	18.2	12.2
<b>Long-term debt</b>	<b>\$ 3,343.9</b>	<b>\$ 2,931.4</b>	<b>\$ 2,960.6</b>

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

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

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

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

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

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

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

The carrying amounts reported for the accounts receivable securitization programs, and certain long-term debt obligations subject to frequently redetermined interest rates, approximate fair value. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

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

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Principal Amount (millions of dollars)	Indicated Market Price	Fair Value (millions of dollars)
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Senior Notes:				
8.25%, due 2013	\$	450.0	102.65	\$ 461.9
6.75%, due 2014		400.0	99.13	396.5
6.75%, due 2014 (€225 million)		329.2	99.50	327.6
7.375%, due 2016		600.0	102.25	613.5
6.875%, due 2017 (€300 million)		438.9	98.33	431.6
Payable to OI Inc.		278.1	100.50	279.5

### 3. Supplemental Cash Flow Information

	Nine months ended September 30,	
	2009	2008
Interest paid in cash	\$ 131.7	\$ 174.6
Income taxes paid in cash	123.5	106.6

Cash interest for 2009 includes note repurchase premiums and the proceeds from the settlement of interest rate swaps related to the May tender of the Company's 7.50% Senior Debentures due May 2010.

### 4. Share Owners' Equity

The activity in share owners' equity for the three months ended September 30, 2009 and 2008 is as follows:

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	Share Owner's Equity of the Company				
	Total Share Owners' Equity	Other Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests
Balance on July 1, 2009	\$ 2,091.6	\$ 872.8	\$ 2,410.9	\$ (1,424.4)	\$ 232.3
Net distribution to parent	(29.8)	(29.8)			
Comprehensive income:					
Net earnings	129.0		126.7		2.3
Foreign currency translation adjustments	158.4			147.2	11.2
Pension and other postretirement benefit adjustments, net of tax	10.8			10.8	
Change in fair value of derivative instruments, net of tax	15.9			15.9	
Total comprehensive income	314.1				
Dividends paid to noncontrolling interests on subsidiary common stock	(2.9)				(2.9)
Balance on September 30, 2009	<u>\$ 2,373.0</u>	<u>\$ 843.0</u>	<u>\$ 2,537.6</u>	<u>\$ (1,250.5)</u>	<u>\$ 242.9</u>
	Share Owner's Equity of the Company				
	Total Share Owners' Equity	Other Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests
Balance on July 1, 2008	\$ 3,447.6	\$ 1,028.4	\$ 2,118.8	\$ 43.0	\$ 257.4
Net distribution to parent	(29.2)	(29.2)			
Comprehensive income:					
Net earnings	96.6		78.6		18.0
Foreign currency translation adjustments	(335.2)			(313.4)	(21.8)
Pension and other postretirement benefit adjustments, net of tax	6.8			6.8	
Change in fair value of derivative instruments, net of tax	(57.0)			(57.0)	
Total comprehensive loss	(288.8)				
Dividends paid to noncontrolling interests on subsidiary common stock	(4.5)				(4.5)
Balance on September 30, 2008	<u>\$ 3,125.1</u>	<u>\$ 999.2</u>	<u>\$ 2,197.4</u>	<u>\$ (320.6)</u>	<u>\$ 249.1</u>

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The activity in share owners' equity for the nine months ended September 30, 2009 and 2008 is as follows:

	Share Owner's Equity of the Company				
	Total Share Owners' Equity	Other Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests

Balance on January 1, 2009	\$ 1,788.7	\$ 940.0	\$ 2,216.5	\$ (1,620.6)	\$ 252.8
Net distribution to parent	(97.0)	(97.0)			
Comprehensive income:					
Net earnings	350.3		321.1		29.2
Foreign currency translation adjustments	338.1			318.9	19.2
Pension and other postretirement benefit adjustments, net of tax	26.5			26.5	
Change in fair value of derivative instruments, net of tax	24.7			24.7	
Total comprehensive income	739.6				
Dividends paid to noncontrolling interests on subsidiary common stock	(58.3)				(58.3)
Balance on September 30, 2009	<u>\$ 2,373.0</u>	<u>\$ 843.0</u>	<u>\$ 2,537.6</u>	<u>\$ (1,250.5)</u>	<u>\$ 242.9</u>
	<b>Share Owner's Equity of the Company</b>				
	<b>Total Share Owners' Equity</b>	<b>Other Contributed Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Non-controlling Interests</b>
Balance on January 1, 2008	\$ 2,894.6	\$ 1,110.4	\$ 1,709.4	\$ (176.9)	\$ 251.7
Net distribution to parent	(111.2)	(111.2)			
Comprehensive income:					
Net earnings	539.4		488.0		51.4
Foreign currency translation adjustments	(160.3)			(152.4)	(7.9)
Pension and other postretirement benefit adjustments, net of tax	24.8			24.8	
Change in fair value of derivative instruments, net of tax	(16.1)			(16.1)	
Total comprehensive income	387.8				
Dividends paid to noncontrolling interests on subsidiary common stock	(46.1)				(46.1)
Balance on September 30, 2008	<u>\$ 3,125.1</u>	<u>\$ 999.2</u>	<u>\$ 2,197.4</u>	<u>\$ (320.6)</u>	<u>\$ 249.1</u>

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## 5. Inventories

Major classes of inventory are as follows:

	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Finished goods	\$ 862.5	\$ 831.7	\$ 974.0
Work in process	1.1	0.8	1.2
Raw materials	116.9	109.8	101.8
Operating supplies	54.9	57.2	64.2
	<u>\$ 1,035.4</u>	<u>\$ 999.5</u>	<u>\$ 1,141.2</u>

## 6. Contingencies

OI Inc. is one of a number of defendants 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 OI Inc.'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. OI Inc. 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 in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of September 30, 2009, OI Inc. has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 7,000 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2008, approximately 84% of plaintiffs either do not specify the monetary damages sought, or in the case of court filings, claim an amount sufficient to invoke the jurisdictional minimum of the trial court. Approximately 15% of plaintiffs specifically plead damages of \$15 million or less, and fewer than 1% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages \$100 million or greater but less than \$122 million.

As indicated by the foregoing summary, current pleading practice permits considerable variation in the assertion of monetary damages. OI Inc.'s experience resolving hundreds of thousands of asbestos claims and lawsuits over an extended period, demonstrates that the monetary relief which may be alleged in a complaint bears little relevance to a claim's merits or disposition value. Rather, the amount potentially recoverable is determined by such factors as the plaintiff's severity of disease, the product identification evidence against specific defendants, the defenses available to those defendants, the specific jurisdiction in which the claim is made, and the plaintiff's history of smoking or exposure to other possible disease-causative factors.

In addition to the pending claims set forth above, OI Inc. 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 OI Inc.'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. OI Inc. believes that as of September 30, 2009 there are approximately 760 claims against other defendants which are likely to be asserted some time in the future against OI Inc. These claims are not included in the pending "lawsuits and claims" totals set forth above.

OI Inc. 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, OI Inc. believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, OI Inc. as of September 30, 2009, has disposed of the asbestos claims of approximately 374,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$7,400. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$33.2 million at September 30, 2009 (\$34.0 million at December 31, 2008) and are included in the foregoing average indemnity payment per claim. OI Inc.'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 OI Inc.'s objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Failure of claimants to meet certain medical and product exposure criteria in OI Inc.'s administrative claims handling agreements has generally reduced the number of marginal or suspect claims that would otherwise have been received. This may have the effect of increasing OI Inc.'s per-claim average indemnity payment over time.

OI Inc. believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot be estimated with certainty. Beginning with the initial liability of \$975 million established in 1993, OI Inc. has accrued a total of approximately \$3.47 billion through 2008, before insurance recoveries, for its asbestos-related liability. OI Inc.'s ability reasonably to estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the inherent uncertainty of future disease incidence and claiming patterns, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the use of mass 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 significant number of co-defendants that have filed for bankruptcy.

OI Inc. 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 OI Inc. The material components of OI Inc.'s accrued liability are based on amounts estimated by OI Inc. in connection with its annual comprehensive review and consist of the following: (i) the reasonably probable contingent liability for asbestos claims already asserted against OI Inc.; (ii) 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 contingent liability for asbestos claims not yet asserted against OI Inc., but which OI Inc. believes it is reasonably probable will be asserted in the next several years, to the degree that an estimation as to future claims is possible, and (iv) the legal defense costs likely to be incurred in connection with the foregoing types of claims.

The significant assumptions underlying the material components of OI Inc.'s accrual are:

- a) the extent to which settlements are limited to claimants who were exposed to OI Inc.'s asbestos-containing insulation prior to its exit from that business in 1958;
- b) the extent to which claims are resolved under OI Inc.'s administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the extent to which OI Inc.'s accelerated settlements in 2007 and 2008 impact the number and type of future claims and lawsuits;
- d) the extent of decrease or increase in the incidence of serious disease cases and claiming patterns for such cases;
- e) the extent to which OI Inc. is able to defend itself successfully at trial;
- f) the extent to which courts and legislatures eliminate, reduce or permit the diversion of financial resources for unimpaired claimants

and so-called forum shopping;

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

h) the number and timing of additional co-defendant bankruptcies; and

i) the extent to which co-defendant bankruptcy trusts direct resources to resolve claims that are also presented to OI Inc. and the timing of the payments made by the bankruptcy trusts.



As noted above, OI Inc. conducts a comprehensive review of its asbestos-related liabilities and costs annually in connection with finalizing and reporting its annual results of operations, unless significant changes in trends or new developments warrant an earlier review. If the results of an annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then OI Inc. will record an appropriate charge to increase the accrued liability. OI Inc. believes that an estimation of the reasonably probable amount of the contingent liability for claims not yet asserted against OI Inc. is not possible beyond a period of several years. Therefore, while the results of future annual comprehensive reviews cannot be determined, OI Inc. expects the addition of one year to the estimation period will result in an annual charge.

The ultimate legal and financial liability of OI Inc. with respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot be estimated with certainty. OI Inc.'s reported results of operations for 2008 were materially affected by the \$250.0 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect OI Inc.'s results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and will continue to affect the Company's and OI Inc.'s cost of borrowing and the 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 fund OI Inc.'s asbestos-related payments and to fund the Company's working capital and capital expenditure requirements on a short-term and long-term basis.

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Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are non-routine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events. The ultimate legal and financial liability of the Company with respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot be estimated with certainty. However, the Company believes, based on its examination and review of such matters and experience to date, that such ultimate liability will not have a material adverse effect on its results of operations, cash flows or financial condition.

## 7. Segment Information

The Company has four reportable segments based on its four geographic locations: (1) Europe; (2) North America; (3) South America; (4) Asia Pacific. These four segments are aligned with the Company's internal approach to managing, reporting, and evaluating performance of its global glass operations. Certain assets and activities not directly related to one of the regions or to glass manufacturing are reported with Retained Corporate Costs and Other. These include licensing, equipment manufacturing, global engineering, and non-glass equity investments. Retained Corporate Costs and Other also includes certain headquarters administrative and facilities costs and certain incentive compensation and other benefit plan costs that are global in nature and are not allocable to the reportable segments.

The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses Segment Operating Profit, in combination with selected cash flow information, to evaluate performance and to allocate resources.

Segment Operating Profit for reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Financial information for the three-month periods ended September 30, 2009 and 2008 regarding the Company's reportable segments is as follows:

	2009	2008
Net sales:		
Europe	\$ 785.9	\$ 869.7
North America	538.5	580.6
South America	290.5	299.1
Asia Pacific	252.1	248.7
Reportable segment totals	1,867.0	1,998.1
Other	7.6	10.5
Net sales	<u>\$ 1,874.6</u>	<u>\$ 2,008.6</u>

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	2009	2008
Segment Operating Profit:		
Europe	\$ 128.4	\$ 114.8
North America	82.9	41.7
South America	63.6	92.4
Asia Pacific	41.7	38.7
Reportable segment totals	316.6	287.6
Items excluded from Segment Operating Profit:		
Retained corporate costs and other	(13.8)	(2.3)
Restructuring and asset impairments	(57.5)	(90.6)
Interest income	6.1	10.4
Interest expense	(58.6)	(66.3)
Earnings from continuing operations before income taxes	<u>\$ 192.8</u>	<u>\$ 138.8</u>

Financial information for the nine-month periods ended September 30, 2009 and 2008 regarding the Company's reportable segments is as follows:

	2009	2008
<b>Net sales:</b>		
Europe	\$ 2,192.7	\$ 2,804.3
North America	1,593.2	1,717.8
South America	754.4	847.4
Asia Pacific	626.9	741.0
<b>Reportable segment totals</b>	<b>5,167.2</b>	<b>6,110.5</b>
Other	33.4	69.2
<b>Net sales</b>	<b>\$ 5,200.6</b>	<b>\$ 6,179.7</b>
	2009	2008
<b>Segment Operating Profit:</b>		
Europe	\$ 293.0	\$ 458.2
North America	248.7	165.2
South America	180.6	251.5
Asia Pacific	78.1	124.9
<b>Reportable segment totals</b>	<b>800.4</b>	<b>999.8</b>
<b>Items excluded from Segment Operating Profit:</b>		
Retained corporate costs and other	(49.0)	(2.9)
Restructuring and asset impairments	(113.1)	(111.7)
Interest income	21.1	29.1
Interest expense	(164.6)	(199.8)
<b>Earnings from continuing operations before income taxes</b>	<b>\$ 494.8</b>	<b>\$ 714.5</b>

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

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	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008
<b>Total assets:</b>			
Europe	\$ 4,046.5	\$ 3,758.4	\$ 4,045.4
North America	1,919.3	1,802.9	1,942.3
South America	1,086.1	976.2	990.8
Asia Pacific	1,658.9	1,239.6	1,469.2
<b>Reportable segment totals</b>	<b>8,710.8</b>	<b>7,777.1</b>	<b>8,447.7</b>
Other	409.0	199.4	789.7
<b>Consolidated totals</b>	<b>\$ 9,119.8</b>	<b>\$ 7,976.5</b>	<b>\$ 9,237.4</b>

## 8. Other Expense

During the third quarter of 2009, the Company recorded charges totaling \$57.5 million (\$36.0 million after tax amount attributable to the Company), for restructuring and asset impairment. The total of all such charges for the nine months ended September 30, 2009 was \$113.1 million (\$88.9 million after tax amount attributable to the Company). The charges reflect the additional decisions reached in the Company's ongoing strategic review of its global manufacturing footprint. See Note 9 for additional information.

Charges for similar actions during the third quarter of 2008 totaled \$90.6 million (\$79.7 million after tax amount attributable to the Company). The total of all such charges for the nine months ended September 30, 2008 was \$110.8 million (\$92.7 million after tax amount attributable to the Company). See Note 9 for additional information.

During the first nine months of 2008, the Company also recorded an additional \$0.9 million (pretax and after tax amount attributable to the Company), related to the impairment of the Company's equity investment in the South American Segment's 50%-owned Caribbean affiliate.

During the three months ended September 30, 2009, the Company entered into a series of parallel market transactions to exchange Venezuelan bolivars into U.S. dollars. In the parallel market, bolivars are valued significantly lower than the official government rate, giving rise to exchange losses from such transactions. As a result, the Company recognized foreign currency exchange losses of \$14.7 million in the quarter.

## 9. Restructuring Accruals

Beginning in 2007, the Company commenced a strategic review of its global profitability and manufacturing footprint. The combined 2007, 2008 and 2009 charges, amounting to \$300.8 million (\$239.2 million after tax amount attributable to the Company) reflect the decisions reached through September 30, 2009 in the Company's ongoing strategic review of its global manufacturing footprint. The related curtailment of plant capacity and realignment of selected operations will result in an overall reduction in the Company's workforce of approximately 2,500 jobs. Amounts recorded by the Company do not include any gains that may be realized upon the ultimate sale or disposition of closed facilities.

The Company's decisions to curtail selected production capacity have resulted in write downs of certain long-lived assets to the extent their carrying amounts exceeded fair value less cost to sell. The Company classified the significant assumptions used to determine the fair value of the impaired assets, which was not material, as "Level 3" in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

The Company also recorded liabilities for certain employee separation costs to be paid under contractual arrangements and other exit costs.

### 2007

During the third and fourth quarters of 2007, the Company recorded charges totaling \$55.3 million (\$40.2 million after tax), for restructuring and asset impairment in Europe and North America. The curtailment of plant capacity resulted in elimination of approximately 560 jobs and a corresponding reduction in the Company's workforce.

### 2008

During 2008, the Company recorded charges totaling \$132.4 million (\$110.1 million after tax amount attributable to the Company), for restructuring and asset impairment across all segments as well as in Retained Corporate Costs and Other. The curtailment of plant capacity and realignment of selected operations resulted in elimination of approximately 1,240 jobs and a corresponding reduction in the Company's workforce.

### 2009

During the first three quarters of 2009, the Company recorded charges totaling \$113.1 million (\$88.9 million after tax amount attributable to the Company), for restructuring and asset impairment in Europe, North America and South America. The charges in 2009 also include \$8.7 million for the settlement of pension liabilities related to previously closed facilities. The curtailment of plant capacity will result in elimination of approximately 700 jobs and a corresponding reduction in the Company's workforce.

The Company expects that the majority of the remaining estimated cash expenditures related to the above charges will be paid out by the end of 2009.

Selected information related to the restructuring accrual is as follows:

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	Employee Costs	Asset Impairment	Other	Total
2007 Charges	\$ 26.1	\$ 22.3	\$ 6.9	\$ 55.3
Write-down of assets to net realizable value	—	(22.3)	(2.4)	(24.7)
Balance at December 31, 2007	26.1	—	4.5	30.6
2008 charges	70.1	32.5	29.8	132.4
Write-down of assets to net realizable value	—	(32.5)	(4.7)	(37.2)
Net cash paid, principally severance and related benefits	(35.6)	—	(7.2)	(42.8)
Other, principally foreign exchange translation	(13.0)	—	(6.1)	(19.1)
Balance at December 31, 2008	47.6	—	16.3	63.9
First quarter 2009 charges	19.1	29.3	2.0	50.4
Write-down of assets to net realizable value	—	(29.3)	—	(29.3)
Net cash paid, principally severance and related benefits	(18.9)	—	(1.3)	(20.2)
Other, principally foreign exchange translation	(1.7)	—	(0.5)	(2.2)
Balance at March 31, 2009	46.1	—	16.5	62.6
Second quarter 2009 charges	4.6	0.6	—	5.2
Write-down of assets to net realizable value	—	(0.6)	—	(0.6)
Net cash paid, principally severance and related benefits	(12.5)	—	(0.5)	(13.0)
Other, principally foreign exchange translation	3.4	—	1.3	4.7
Balance at June 30, 2009	41.6	—	17.3	58.9
Third quarter 2009 charges	40.1	15.4	2.0	57.5
Write-down of assets to net realizable value	—	(15.4)	—	(15.4)
Net cash paid, principally severance and related benefits	(8.4)	—	(1.1)	(9.5)
Non-cash settlement of pension liability	(8.7)	—	—	(8.7)
Other, principally foreign exchange translation	1.9	—	0.9	2.8
Balance at September 30, 2009	\$ 66.5	\$ —	\$ 19.1	\$ 85.6

## 10. Derivative Instruments

The Company has certain derivative assets and liabilities which consist of interest rate swaps, natural gas forwards, and foreign exchange option and forward contracts. The Company records derivative assets and liabilities at fair value and classifies them as "Level 2" in the fair value hierarchy.

### Interest Rate Swaps Designated as Fair Value Hedges

In the fourth quarter of 2003 and the first quarter of 2004, the Company entered into a series of interest rate swap agreements with a total notional amount of \$700 million that were to mature in 2010 and 2013. The swaps were executed in order to: (i) convert a portion of the senior notes and senior debentures fixed-rate debt into floating-rate debt; (ii) maintain a capital structure containing appropriate amounts of fixed and floating-rate debt; and (iii) reduce net interest payments and expense in the near-term.

The Company's fixed-to-floating interest rate swaps were accounted for as fair value hedges. Because the relevant terms of the swap agreements matched the corresponding terms of the notes, there was no hedge ineffectiveness. Accordingly, the Company recorded the net of the fair market values of the swaps as a long-term asset (liability) along with a corresponding net increase (decrease) in the carrying value of the hedged debt.

For derivative instruments that are designated and qualify as fair value hedges, the change in the fair value of the derivative instrument related to the future cash flows (gain or loss on the

derivative) as well as the offsetting change in the fair value of the hedged item attributable to the hedged risk are recognized in current earnings. The Company includes the gain or loss on the hedged items (i.e. long-term debt) in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps.

During the second quarter of 2009, the Company completed a tender offer for its \$250 million senior debentures due 2010. As a result of the tender offer, the Company extinguished \$221.9 million of the senior debentures and terminated the related interest rate swap agreements for proceeds of \$5.0 million. The Company recognized \$4.4 million of the proceeds as a reduction to interest expense upon the termination of the interest rate swap agreements, while the remaining \$0.6 million was recorded as an adjustment to debt and is being recognized as a reduction to interest expense over the remaining life of the outstanding senior debentures due 2010. See Note 2 for additional information.

During the second quarter of 2009, the Company's interest rate swaps related to the \$450 million senior notes due 2013 were terminated. The Company received proceeds of \$12.4 million which were recorded as an adjustment to debt and will be recognized as a reduction to interest expense over the remaining life of the senior notes due 2013.

As of September 30, 2009, the balance of unamortized proceeds from terminated interest rate swaps included in long-term debt is \$11.6 million.

The effect of the interest rate swaps on the results of operations for the three and nine months ended September 30, 2009 and 2008 is as follows:

	Amount of Gain (Loss) Recognized in Interest Expense			
	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Interest Rate Swaps		\$ 6.5	\$ (11.0)	\$ 1.2
Related long-term debt		(6.5)	11.0	(1.2)
Proceeds recognized and amortized for terminated interest rate swaps	\$ 0.9		5.7	
Net impact on interest expense	\$ 0.9	\$ —	\$ 5.7	\$ —

#### Commodity Futures Contracts Designated as Cash Flow Hedges

The Company enters into commodity futures contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market with respect to its forecasted usage requirements over the next twelve to twenty-four months and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements over that period. At September 30, 2009, the Company had entered into commodity futures contracts covering approximately 6,600,000 MM BTUs over that period.

The Company accounts for the above futures contracts as cash flow hedges at September 30, 2009 and recognizes them on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in the Accumulated Other Comprehensive Income component of share

owners' equity ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. At September 30, 2009, an unrecognized loss of \$12.8 million (pretax and after tax) related to the commodity futures contracts was included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and nine months ended September 30, 2009 and 2008 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended September 30, 2009 and 2008 is as follows:

Amount of Loss Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping, and delivery) (Effective Portion)	
2009	2008	2009	2008
\$ (0.9)	\$ (52.3)	\$ (16.8)	\$ 4.7

The effect of the commodity futures contracts on the results of operations for the nine months ended September 30, 2009 and 2008 is as follows:

Amount of Loss Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (reported in manufacturing, shipping, and delivery) (Effective Portion)	
2009	2008	2009	2008
\$ (21.9)	\$ (4.4)	\$ (46.6)	\$ 11.7

*Senior Notes Designated as Net Investment Hedge*

During December 2004, a U.S. subsidiary of the Company issued Senior Notes totaling €225 million. These notes were designated by the Company's subsidiary as a hedge of a portion of its net investment in a non-U.S. subsidiary with a Euro functional currency. Because the amount of the Senior Notes matches the hedged portion of the net investment, there is no hedge ineffectiveness. Accordingly, the Company recorded the impact of changes in the foreign currency exchange rate on the Euro-denominated notes in OCI. The amount recorded in OCI will be reclassified into earnings when the Company sells or liquidates its net investment in the non-U.S. subsidiary.

The effect of the net investment hedge on the results of operations for the three months ended September 30, 2009 and 2008 is as follows:

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Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
2009	2008		2009	2008
\$ (11.7)	\$ 32.8	N/A	\$ —	\$ —

The effect of the net investment hedge on the results of operations for the nine months ended September 30, 2009 and 2008 is as follows:

Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
2009	2008		2009	2008
\$ (13.0)	\$ 8.3	N/A	\$ —	\$ —

*Forward Exchange Contracts not Designated as Hedging Instruments*

The Company's subsidiaries may enter into short-term forward exchange or option agreements to purchase foreign currencies at set rates in the future. These agreements are used to limit exposure to fluctuations in foreign currency exchange rates for significant planned purchases of fixed assets or commodities that are denominated in currencies other than the subsidiaries' functional currency. Subsidiaries may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables and payables, not denominated in, or indexed to, their functional currencies. The Company records these short-term forward exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At September 30, 2009, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$735 million related primarily to intercompany transactions and loans.

The effect of the forward exchange contracts on the results of operations for the three months ended September 30, 2009 and 2008 is as follows:

Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts	
	2009	2008
Other expense	\$ (9.1)	\$ 16.9

The effect of the forward exchange contracts on the results of operations for the nine months ended September 30, 2009 and 2008 is as follows:

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Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts	
	2009	2008
Other expense	\$ 2.6	\$ (13.4)

*Balance Sheet Classification*

The Company records the fair values of derivative financial instruments on the balance sheet as follows: (1) receivables if the instrument has a positive fair value and maturity within one year, (2) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, (3) accounts payable and other current liabilities if the instrument has a negative fair value and maturity within one year, and (4) other liabilities if the instrument has a negative fair value and maturity after one year. The following table shows the amount and classification of the Company's derivatives as of September 30, 2009 and 2008:

	2009		2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives:				
Derivatives designated as hedging instruments				
Interest rate swaps			Receivables	\$ 0.1
Interest rate swaps			Deposits, receivables, and other assets	4.5
Commodity futures contracts	Deposits, receivables, and other assets	\$ 0.3		
Commodity futures contracts	Other liabilities	0.6		
Total derivatives designated as hedging instruments		0.9		4.6

Derivatives not designated as hedging instruments				
Foreign exchange contracts	Receivables	6.9	Receivables	28.0
Foreign exchange contracts			Deposits, receivables, and other assets	1.5
Total derivatives not designated as hedging instruments		<u>6.9</u>		<u>29.5</u>
Total asset derivatives		<u>\$ 7.8</u>		<u>\$ 34.1</u>
Liability Derivatives:				
Derivatives designated as hedging instruments				
Commodity futures contracts	Other liabilities	\$ 13.7	Other liabilities (current)	\$ 17.6
Commodity futures contracts			Other liabilities	3.1
Total derivatives designated as hedging instruments		<u>13.7</u>		<u>20.7</u>
Derivatives not designated as hedging instruments				
Foreign exchange contracts	Other liabilities (current)	14.6	Other liabilities (current)	2.1
Foreign exchange contracts			Other liabilities	7.5
Total derivatives not designated as hedging instruments		<u>14.6</u>		<u>9.6</u>
Total liability derivatives		<u>\$ 28.3</u>		<u>\$ 30.3</u>

## 11. Pensions Benefit Plans and Other Postretirement Benefits

The components of the net periodic pension cost (income) for the three months ended September 30, 2009 and 2008 are as follows:

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	2009	2008
Service cost	\$ 10.7	\$ 11.8
Interest cost	54.0	54.1
Expected asset return	(69.9)	(80.0)
Settlement cost	8.7	
Amortization:		
Loss	11.1	7.7
Prior service credit	(0.3)	(0.2)
Net amortization	<u>10.8</u>	<u>7.5</u>
Net periodic pension (income) cost	<u>\$ 14.3</u>	<u>\$ (6.6)</u>

The components of the net periodic pension cost (income) for the nine months ended September 30, 2009 and 2008 are as follows:

	2009	2008
Service cost	\$ 31.0	\$ 36.1
Interest cost	158.7	164.5
Expected asset return	(206.2)	(242.4)
Settlement cost	8.7	
Amortization:		
Loss	32.9	23.2
Prior service credit	(0.7)	(0.6)
Net amortization	<u>32.2</u>	<u>22.6</u>
Net periodic pension (income) cost	<u>\$ 24.4</u>	<u>\$ (19.2)</u>

The components of the net postretirement benefit cost for the three months ended September 30, 2009 and 2008 are as follows:

	2009	2008
Service cost	\$ 0.4	\$ 0.5
Interest cost	4.1	4.3
Amortization:		
Prior service credit	(0.8)	(0.8)
Loss	1.0	1.6
Net amortization	<u>0.2</u>	<u>0.8</u>
Net postretirement benefit cost	<u>\$ 4.7</u>	<u>\$ 5.6</u>

The components of the net postretirement benefit cost for the nine months ended September 30, 2009 and 2008 are as follows:

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2009

2008

Service cost	\$	1.3	\$	1.7
Interest cost		12.2		13.0
Amortization:				
Prior service credit		(2.4)		(2.3)
Loss		2.9		4.7
Net amortization		0.5		2.4
Net postretirement benefit cost	\$	14.0	\$	17.1

## 12. Noncontrolling Interests

Effective January 1, 2009, the Company adopted the provisions of a new accounting standard which established accounting and reporting requirements for the noncontrolling interests in a subsidiary and the deconsolidation of a subsidiary. An entity is required to present consolidated net income attributable to the parent and to the noncontrolling interests separately on the face of the consolidated financial statements. The new provisions clarify that noncontrolling interests in a subsidiary should be accounted for as a component of equity separate from the parent's equity, rather than in liabilities. The format of the Company's condensed consolidated results of operations for the three and nine months ended September 30, 2008, condensed consolidated cash flows for the nine months ended September 30, 2008, and condensed consolidated balance sheets at September 30, 2008 and December 31, 2008 have been reclassified to conform to the new presentation which is required to be applied retrospectively. The cash flow presentation was also revised to reflect dividends paid to noncontrolling interests as a cash flow from financing activities. Previously these cash flows had been reported as an operating activity.

## 13. New Accounting Standards

In December 2008, the FASB issued a new standard which requires additional annual disclosures about the fair value of postretirement benefit plan assets to provide users of financial statements with useful, transparent and timely information about the asset portfolios. This new requirement is effective for years ending after December 15, 2009. Adoption will have no impact on the Company's results of operations, financial position or cash flows.

In June 2009, the FASB issued a new standard which amends certain guidance for determining whether an entity is a variable interest entity (VIE). An enterprise is required to perform an analysis to determine whether the Company's variable interests give it a controlling financial interest in a VIE. A company would be required to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance. In addition, the new provisions require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. The new provisions are effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact of this Statement.

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## 14. Discontinued Operations

The gain on sale of discontinued operations of \$7.9 million reported in 2008 relates to an adjustment of the 2007 gain on the sale of the plastics packaging business mainly related to finalizing certain tax allocations and an adjustment to the selling price in accordance with procedures set forth in the final contract.

## 15. Financial Information for Subsidiary Guarantors and Non-Guarantors

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois Group, Inc. (the "Parent"); (2) Owens-Brockway Glass Container Inc. (the "Issuer"); (3) those domestic subsidiaries that guarantee the 7 3/8%, 8 1/4%, 6 3/4%, 6 3/4% Euro Senior Notes of the Issuer (the "Guarantor Subsidiaries"); and (4) all other subsidiaries (the "Non-Guarantor Subsidiaries"). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Parent and their guarantees are full, unconditional and joint and several. The Parent is also a guarantor, and its guarantee is full, unconditional and joint and several.

100% owned subsidiaries of the Parent and of the Issuer 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 intercompany balances and transactions.

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Balance Sheet	September 30, 2009					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:						
Accounts receivable	\$ —	\$ 109.9	\$ (11.3)	\$ 1,048.0	\$ —	\$ 1,146.6
Inventories		153.5	0.4	882.9	(1.4)	1,035.4
Other current assets		3.3	230.3	829.3	0.6	1,063.5
Total current assets	—	266.7	219.4	2,760.2	(0.8)	3,245.5
Investments in and advances to subsidiaries	2,651.1	3,714.9	(33.5)		(6,332.5)	—
Goodwill		560.8	9.4	1,812.1		2,382.3



Other non-current assets		135.3	85.9	558.4	2.5	782.1
Total other assets	2,651.1	4,411.0	61.8	2,370.5	(6,330.0)	3,164.4
Property, plant and equipment, net		606.7	45.9	2,057.3		2,709.9
Total assets	\$ 2,651.1	\$ 5,284.4	\$ 327.1	\$ 7,188.0	\$ (6,330.8)	\$ 9,119.8
Current liabilities :						
Accounts payable and accrued liabilities	\$ —	\$ 348.3	\$ 45.9	\$ 1,146.4	\$ 6.3	\$ 1,546.9
Short-term loans and long-term debt due within one year	28.1	0.4		349.1		377.6
Total current liabilities	28.1	348.7	45.9	1,495.5	6.3	1,924.5
Long-term debt	250.0	1,963.2	18.0	1,112.7		3,343.9
Other non-current liabilities		48.9	535.6	893.9		1,478.4
Investments by and advances from parent		2,923.6	(272.4)	3,685.9	(6,337.1)	—
Share owner's equity	2,373.0					2,373.0
Total liabilities and share owner's equity	\$ 2,651.1	\$ 5,284.4	\$ 327.1	\$ 7,188.0	\$ (6,330.8)	\$ 9,119.8

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Balance Sheet	December 31, 2008					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:						
Accounts receivable	\$ —	\$ 67.2	\$ 25.7	\$ 895.9	\$ —	\$ 988.8
Inventories		154.2	0.4	846.3	(1.4)	999.5
Other current assets		4.8	10.7	439.1	1.8	456.4
Total current assets	—	226.2	36.8	2,181.3	0.4	2,444.7
Investments in and advances to subsidiaries	2,288.7	2,767.9	210.1		(5,266.7)	—
Goodwill		560.8	9.5	1,637.2		2,207.5
Other non-current assets		170.7	60.2	448.6	(0.8)	678.7
Total other assets	2,288.7	3,499.4	279.8	2,085.8	(5,267.5)	2,886.2
Property, plant and equipment, net		641.4	44.3	1,959.9		2,645.6
Total assets	\$ 2,288.7	\$ 4,367.0	\$ 360.9	\$ 6,227.0	\$ (5,267.1)	\$ 7,976.5
Current liabilities :						
Accounts payable and accrued liabilities	\$ —	\$ 321.3	\$ 47.5	\$ 1,066.0	\$ (0.4)	\$ 1,434.4
Short-term loans and long-term debt due within one year		0.1		393.8		393.9
Total current liabilities	—	321.4	47.5	1,459.8	(0.4)	1,828.3
Long-term debt	500.0	1,397.4	18.2	1,015.8		2,931.4
Other non-current liabilities		58.9	595.8	777.4	(4.0)	1,428.1
Investments by and advances from parent		2,589.3	(300.6)	2,974.0	(5,262.7)	—
Share owner's equity	1,788.7					1,788.7
Total liabilities and share owner's equity	\$ 2,288.7	\$ 4,367.0	\$ 360.9	\$ 6,227.0	\$ (5,267.1)	\$ 7,976.5

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Balance Sheet	September 30, 2008					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:						



Accounts receivable	\$	—	\$	115.9	\$	29.2	\$	1,049.0	\$	—	\$	1,194.1
Inventories				175.9		0.4		964.9		—		1,141.2
Other current assets				1.0		67.1		433.7				501.8
<b>Total current assets</b>		<b>—</b>		<b>292.8</b>		<b>96.7</b>		<b>2,447.6</b>		<b>—</b>		<b>2,837.1</b>
Investments in and advances to subsidiaries		3,625.1		3,409.8		(100.2)				(6,934.7)		—
Goodwill				560.8		9.5		1,763.0				2,333.3
Other non-current assets				139.4		639.9		540.2		(1.4)		1,318.1
<b>Total other assets</b>		<b>3,625.1</b>		<b>4,110.0</b>		<b>549.2</b>		<b>2,303.2</b>		<b>(6,936.1)</b>		<b>3,651.4</b>
Property, plant and equipment, net				631.9		44.7		2,072.3				2,748.9
<b>Total assets</b>	<b>\$</b>	<b>3,625.1</b>	<b>\$</b>	<b>5,034.7</b>	<b>\$</b>	<b>690.6</b>	<b>\$</b>	<b>6,823.1</b>	<b>\$</b>	<b>(6,936.1)</b>	<b>\$</b>	<b>9,237.4</b>

**Current liabilities :**

Accounts payable and accrued liabilities	\$	—	\$	341.5	\$	79.8	\$	1,218.7	\$	34.8	\$	1,674.8
Short-term loans and long-term debt due within one year				0.1				496.3				496.4
<b>Total current liabilities</b>		<b>—</b>		<b>341.6</b>		<b>79.8</b>		<b>1,715.0</b>		<b>34.8</b>		<b>2,171.2</b>
Long-term debt		500.0		1,368.5		18.4		1,073.7				2,960.6
Other non-current liabilities				41.8		250.1		692.5		(3.9)		980.5
Investments by and advances from parent				3,282.8		342.3		3,341.9		(6,967.0)		—
Share owners' equity		3,125.1										3,125.1
<b>Total liabilities and share owners' equity</b>	<b>\$</b>	<b>3,625.1</b>	<b>\$</b>	<b>5,034.7</b>	<b>\$</b>	<b>690.6</b>	<b>\$</b>	<b>6,823.1</b>	<b>\$</b>	<b>(6,936.1)</b>	<b>\$</b>	<b>9,237.4</b>

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**Three months ended September 30, 2009**

<b>Results of Operations</b>	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>						
Net sales	\$	—	\$	498.0	\$	—	\$	1,390.9	\$	(14.3)	\$	1,874.6
Manufacturing, shipping, and delivery				(406.1)		1.5		(1,049.6)		28.3		(1,425.9)
Gross profit		—		91.9		1.5		341.3		14.0		448.7
Research, engineering, selling, administrative, and other				(41.5)		(21.0)		(158.6)				(221.1)
Net intercompany interest		(5.4)		(34.6)		(0.3)		(18.3)				(58.6)
Other interest expense		5.4		(13.0)		9.3		(1.7)				—
Interest income								6.1				6.1
Equity earnings from subsidiaries		126.7		138.2		(32.6)				(232.3)		—
Other equity earnings				2.8		6.1		3.0				11.9
Other revenue				17.2		0.3		2.3		(14.0)		5.8
Earnings (loss) before income taxes		126.7		161.0		(36.7)		174.1		(232.3)		192.8
Provision for income taxes				(1.9)		5.2		(67.1)				(63.8)
Net earnings (loss)		126.7		159.1		(31.5)		107.0		(232.3)		129.0
Net (earnings) loss attributable to noncontrolling interests						2.7		(1.5)		(3.5)		(2.3)
Net earnings (loss) attributable to the Company	<b>\$</b>	<b>126.7</b>	<b>\$</b>	<b>159.1</b>	<b>\$</b>	<b>(28.8)</b>	<b>\$</b>	<b>105.5</b>	<b>\$</b>	<b>(235.8)</b>	<b>\$</b>	<b>126.7</b>

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**Three months ended September 30, 2008**

<b>Results of Operations</b>	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>						
Net sales	\$	—	\$	510.6	\$	—	\$	1,523.5	\$	(25.5)	\$	2,008.6
Manufacturing, shipping, and delivery				(456.3)		(5.1)		(1,184.5)		44.6		(1,601.3)
Gross profit		—		54.3		(5.1)		339.0		19.1		407.3

Research, engineering, selling, administrative, and other		(34.8)	(13.5)	(184.1)		(232.4)
Net intercompany interest	9.7	(27.1)	19.9	(2.5)		—
Other interest expense	(9.7)	(24.4)	(0.2)	(32.0)		(66.3)
Interest income			0.3	10.1		10.4
Equity earnings from subsidiaries	78.6	100.3	(33.9)		(145.0)	—
Other equity earnings		3.1	6.2	3.6		12.9
Other revenue		23.5	0.3	1.7	(18.6)	6.9
<b>Earnings (loss) from continuing operations</b>						
before income taxes	78.6	94.9	(26.0)	135.8	(144.5)	138.8
Provision for income taxes		2.1	6.0	(50.3)		(42.2)
Net earnings (loss)	78.6	97.0	(20.0)	85.5	(144.5)	96.6
Net (earnings) loss attributable to noncontrolling interest			3.5	(19.1)	(2.4)	(18.0)
<b>Net earnings (loss) attributable to the Company</b>	<b>\$ 78.6</b>	<b>\$ 97.0</b>	<b>\$ (16.5)</b>	<b>\$ 66.4</b>	<b>\$ (146.9)</b>	<b>\$ 78.6</b>

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Results of Operations	Nine months ended September 30, 2009					
	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 1,471.6	\$ —	\$ 3,772.3	\$ (43.3)	\$ 5,200.6
Manufacturing, shipping, and delivery		(1,188.5)	3.3	(2,947.3)	84.8	(4,047.7)
Gross profit	—	283.1	3.3	825.0	41.5	1,152.9
Research, engineering, selling, administrative, and other		(112.5)	(68.6)	(387.7)		(568.8)
Net intercompany interest	(33.6)	(73.5)	(1.0)	(56.5)		(164.6)
Other interest expense	33.6	(52.9)	24.4	(5.1)		—
Interest income			0.1	21.0		21.1
Equity earnings from subsidiaries	321.1	321.9	(74.1)		(568.9)	—
Other equity earnings		10.4	19.9	9.3		39.6
Other revenue		49.7	0.6	4.8	(40.5)	14.6
Earnings (loss) before income taxes	321.1	426.2	(95.4)	410.8	(567.9)	494.8
Provision for income taxes		(6.9)	2.2	(139.8)		(144.5)
Net earnings (loss)	321.1	419.3	(93.2)	271.0	(567.9)	350.3
Net (earnings) loss attributable to noncontrolling interests			8.8	(23.4)	(14.6)	(29.2)
<b>Net earnings (loss) attributable to the Company</b>	<b>\$ 321.1</b>	<b>\$ 419.3</b>	<b>\$ (84.4)</b>	<b>\$ 247.6</b>	<b>\$ (582.5)</b>	<b>\$ 321.1</b>

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Results of Operations	Nine months ended September 30, 2008					
	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 1,524.2	\$ —	\$ 4,751.2	\$ (95.7)	\$ 6,179.7
Manufacturing, shipping, and delivery		(1,316.0)	0.2	(3,623.1)	148.5	(4,790.4)
Gross profit	—	208.2	0.2	1,128.1	52.8	1,389.3
Research, engineering, selling, administrative, and other		(50.6)	(50.5)	(459.6)		(560.7)
Net intercompany interest	36.1	(76.8)	54.8	(14.1)		—
Other interest expense	(36.1)	(67.5)	(1.2)	(95.0)		(199.8)
Interest income			2.1	27.0		29.1
Equity earnings from subsidiaries	480.1	449.1	(75.1)		(854.1)	—
Other equity earnings		10.5	16.8	9.4		36.7
Other revenue		65.2	0.4	5.5	(51.2)	19.9

Earnings (loss) from continuing operations before income taxes	480.1	538.1	(52.5)	601.3	(852.5)	714.5
Provision for income taxes		(4.6)	(2.4)	(176.0)		(183.0)
Earnings (loss) from continuing operations	480.1	533.5	(54.9)	425.3	(852.5)	531.5
Net earnings of discontinued operations	7.9		7.9		(7.9)	7.9
Net earnings (loss)	488.0	533.5	(47.0)	425.3	(860.4)	539.4
Net (earnings) loss attributable to noncontrolling interest			8.9	(51.3)	(9.0)	(51.4)
Net earnings (loss) attributable to the Company	<u>\$ 488.0</u>	<u>\$ 533.5</u>	<u>\$ (38.1)</u>	<u>\$ 374.0</u>	<u>\$ (869.4)</u>	<u>\$ 488.0</u>

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Cash Flows	Nine months ended September 30, 2009					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (utilized in) operating activities	\$ —	\$ 206.1	\$ (18.3)	\$ 517.0	\$ (3.0)	\$ 701.8
Investing Activities:						
Additions to property, plant, and equipment -		(34.3)	(3.9)	(155.5)		(193.7)
Advance to equity affiliate			1.6			1.6
Acquisitions, net of cash acquired				(5.4)		(5.4)
Proceeds from sales		4.2		0.2		4.4
Cash utilized in investing activities	—	(30.1)	(2.3)	(160.7)	—	(193.1)
Financing Activities:						
Net distribution to OI Inc.	(338.2)					(338.2)
Change in intercompany transactions	338.2	(723.8)	240.4	143.4	1.8	—
Change in short term debt				(55.1)		(55.1)
Payments of long term debt		(448.3)	(0.7)	(79.1)		(528.1)
Borrowings of long term debt		1,010.0		62.6		1,072.6
Dividends paid to noncontrolling interests				(58.3)		(58.3)
Payment of finance fees		(13.9)				(13.9)
Net receipts for hedging activity				17.9		17.9
Cash provided by (utilized in) financing activities	—	(176.0)	239.7	31.4	1.8	96.9
Effect of exchange rate change on cash				32.0		32.0
Net change in cash	—	—	219.1	419.7	(1.2)	637.6
Cash at beginning of period			4.4	373.9	1.2	379.5
Cash at end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 223.5</u>	<u>\$ 793.6</u>	<u>\$ —</u>	<u>\$ 1,017.1</u>

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Cash Flows	Nine months ended September 30, 2008					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (utilized in) operating activities	\$ —	\$ 64.5	\$ (20.8)	\$ 643.3	\$ 34.2	\$ 721.2
Investing Activities:						
Additions to property, plant, and equipment -		(59.8)	(0.3)	(178.4)		(238.5)
Advance to equity affiliate			(8.1)			(8.1)
Proceeds from sales		0.4	(16.9)	0.5		(16.0)
Cash utilized in investing activities	—	(59.4)	(25.3)	(177.9)	—	(262.6)
Financing Activities:						
Net distribution to OI Inc.	(381.3)					(381.3)
Change in intercompany transactions	381.3	(5.1)	61.3	(402.6)	(34.9)	—
Change in short term debt				66.0		66.0
Payments of long term debt		(35.0)	(0.6)	(620.7)		(656.3)
Borrowings of long term debt		35.0		601.8		636.8
Dividends paid to noncontrolling interests				(46.1)		(46.1)

Net payments for hedging activity				(47.1)		(47.1)
Cash provided by (utilized in) financing activities	—	(5.1)	60.7	(448.7)	(34.9)	(428.0)
Effect of exchange rate change on cash				(7.8)		(7.8)
Net change in cash	—	—	14.6	8.9	(0.7)	22.8
Cash at beginning of period			43.8	343.2	0.7	387.7
Cash at end of period	\$ —	\$ —	\$ 58.4	\$ 352.1	\$ —	\$ 410.5

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

Following are the Company's net sales by segment and Segment Operating Profit for the three and nine months ended September 30, 2009 and 2008. The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The segment data presented below is prepared in accordance with general accounting principles for segment reporting. The line titled 'reportable segment totals', however, is a non-GAAP measure when presented outside of the financial statement footnotes. Management has included 'reportable segment totals' below to facilitate the discussion and analysis of financial condition and results of operations. The Company's management uses Segment Operating Profit, in combination with selected cash flow information, to evaluate performance and to allocate resources.

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2009	2008	2009	2008
Net Sales:				
Europe	\$ 785.9	\$ 869.7	\$ 2,192.7	\$ 2,804.3
North America	538.5	580.6	1,593.2	1,717.8
South America	290.5	299.1	754.4	847.4
Asia Pacific	252.1	248.7	626.9	741.0
Reportable segment totals	1,867.0	1,998.1	5,167.2	6,110.5
Other	7.6	10.5	33.4	69.2
Net Sales	\$ 1,874.6	\$ 2,008.6	\$ 5,200.6	\$ 6,179.7

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	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2009	2008	2009	2008
Segment Operating Profit:				
Europe	\$ 128.4	\$ 114.8	\$ 293.0	\$ 458.2
North America	82.9	41.7	248.7	165.2
South America	63.6	92.4	180.6	251.5
Asia Pacific	41.7	38.7	78.1	124.9
Reportable segment totals	316.6	287.6	800.4	999.8
Items excluded from Segment Operating Profit:				
Retained corporate costs and other	(13.8)	(2.3)	(49.0)	(2.9)
Restructuring and asset impairments	(57.5)	(90.6)	(113.1)	(111.7)
Interest income	6.1	10.4	21.1	29.1
Interest expense	(58.6)	(66.3)	(164.6)	(199.8)
Earnings from continuing operations before income taxes	192.8	138.8	494.8	714.5
Provision for income taxes	(63.8)	(42.2)	(144.5)	(183.0)
Earnings from continuing operations	129.0	96.6	350.3	531.5
Gain on sale of discontinued operations				7.9
Net earnings	129.0	96.6	350.3	539.4
Net earnings attributable to noncontrolling interests	(2.3)	(18.0)	(29.2)	(51.4)
Net earnings attributable to the Company	\$ 126.7	\$ 78.6	\$ 321.1	\$ 488.0
Net earnings from continuing operations attributable to the Company	\$ 126.7	\$ 78.6	\$ 321.1	\$ 480.1

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

### Executive Overview – Quarters ended September 30, 2009 and 2008

Net sales were \$134.0 million lower than the prior year principally resulting from decreased shipments and the unfavorable effect of foreign currency exchange rates, partially offset by higher selling prices and improved mix.

Segment Operating Profit for reportable segments was \$29.0 million higher than the prior year. The increase was mainly attributable to higher selling prices, improved mix, reduced warehouse, delivery and production costs, and lower energy costs. The Company also recognized savings of approximately \$34 million from permanent curtailment of plant capacity and realignment of selected operations. Partially offsetting these benefits were lower sales volume and higher unabsorbed fixed costs of approximately \$61 million, primarily due to temporary production curtailments. The Company also recognized \$14.7 million of foreign currency exchange losses in the third quarter of 2009 related to cash remittances out of Venezuela as part of the Company's cash management strategy.

Interest expense for the third quarter of 2009 was \$58.6 million compared with \$66.3 million for the third quarter of 2008. The decrease is principally due to lower variable interest rates under the Company's bank credit agreement as well as favorable foreign currency exchange rates.

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Interest income for the third quarter of 2009 was \$6.1 million compared with \$10.4 million for the third quarter of 2008.

Net earnings from continuing operations attributable to the Company for 2009 were \$126.7 million compared with \$78.6 million for 2008. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased net earnings in 2009 by \$36.0 million and decreased net earnings in 2008 by \$75.1 million.

Capital spending for property, plant and equipment was \$69.6 million for 2009 compared with \$109.5 million for 2008.

#### **Executive Overview –Nine Months ended September 30, 2009 and 2008**

Net sales were \$979.1 million lower than the prior year principally resulting from decreased shipments and the unfavorable effect of foreign currency exchange rates, partially offset by higher selling prices and improved mix.

Segment Operating Profit for reportable segments was \$199.4 million lower than the prior year. The decrease was mainly attributable to lower sales volume and increased manufacturing and delivery costs resulting from higher unabsorbed fixed costs of approximately \$256 million, as compared to the first nine months of 2008, primarily from production curtailments as well as inflationary cost increases. The Company also recognized \$14.7 million of foreign currency exchange losses in 2009 related to cash remittances out of Venezuela as part of the Company's cash management strategy. Partially offsetting these costs were higher selling prices and savings from permanent curtailment of plant capacity and realignment of selected operations.

Interest expense for the first nine months of 2009 was \$164.6 million compared with \$199.8 million for the first nine months of 2008. The 2009 amount includes \$5.2 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees, net of a gain from the termination of the interest rate swap agreement following the May tender for the 7.50% Senior Debentures due May 2010. Excluding these amounts, interest expense for the first nine months of 2009 decreased \$40.4 million from the first nine months of 2008. The decrease is principally due to lower variable interest rates under the Company's bank credit agreement as well as favorable foreign currency exchange rates.

Interest income for the first nine months of 2009 was \$21.1 million compared with \$29.1 million for the first nine months of 2008.

Net earnings from continuing operations attributable to the Company for 2009 were \$321.1 million compared with \$480.1 million for 2008. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased net earnings in 2009 by \$94.1 million and decreased net earnings in 2008 by \$89.0 million.

Capital spending for property, plant and equipment was \$193.7 million for 2009 compared with \$238.5 million for 2008.

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#### **Results of Operations –Third Quarter of 2009 compared with Third Quarter of 2008**

##### *Net Sales*

The Company's net sales in the third quarter of 2009 were \$1,874.6 million compared with \$2,008.6 million for the third quarter of 2008, a decrease of \$134.0 million, or 6.7%. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

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

Net sales - 2008		\$ 1,998.1
Decreased sales volume	\$ (150.0)	
Net effect of price and mix	91.0	
Effects of changing foreign currency rates	(72.1)	
Total effect on net sales		(131.1)
Net sales - 2009		<u>\$ 1,867.0</u>

##### *Segment Operating Profit*

Operating Profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained Corporate Costs and Other. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

Segment Operating Profit of reportable segments in the third quarter of 2009 was \$316.6 million compared to \$287.6 million for the third quarter of 2008, an increase of \$29.0 million, or 10.1%.

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

Segment Operating Profit - 2008		\$ 287.6
Decreased sales volume	\$ (57.0)	
Net effect of price and mix	91.0	
Effects of changing foreign currency rates	(10.0)	
Manufacturing and delivery	24.0	
Operating expenses	(4.0)	
Other	(15.0)	
		<u>29.0</u>
Total net effect on Segment Operating Profit		29.0
Segment Operating Profit - 2009		<u>\$ 316.6</u>

#### *Interest Expense*

Interest expense for the third quarter of 2009 was \$58.6 million compared with \$66.3 million for the third quarter of 2008. The decrease is principally due to lower variable interest rates under the Company's bank credit agreement as well as favorable foreign currency exchange rates.

#### *Interest Income*

Interest income for the third quarter of 2009 was \$6.1 million compared with \$10.4 million for the third quarter of 2008. The decrease is principally due to lower interest rates on investments, which more than offset the additional interest earned on the Company's higher cash balance.

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

Net earnings attributable to noncontrolling interests in the third quarter of 2009 was \$2.3 million compared with \$18.0 million in the third quarter of 2008. Net earnings attributable to noncontrolling interests was reduced by \$8.0 million in the third quarter of 2009 and increased by \$1.6 million in the third quarter of 2008 related to restructuring and asset impairment charges recorded in each period. Excluding these amounts, net earnings attributable to noncontrolling interests in the third quarter of 2009 decreased \$6.1 million compared with the third quarter of 2008. The decrease is primarily a result of lower segment operating profit in the Company's South American segment in 2009.

### **Results of Operations –First nine months of 2009 compared with first nine months of 2008**

#### *Net Sales*

The Company's net sales in the first nine months of 2009 were \$5,200.6 million compared with \$6,179.7 million for the first nine months of 2008, a decrease of \$979.1 million, or 15.8%. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

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

Net sales - 2008		\$ 6,110.5
Decreased sales volume	\$ (717.0)	
Net effect of price and mix	300.0	
Effects of changing foreign currency rates	(526.3)	
		<u>(943.3)</u>
Total effect on net sales		(943.3)
Net sales - 2009		<u>\$ 5,167.2</u>

#### *Segment Operating Profit*

Operating Profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained Corporate Costs and Other. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

Segment Operating Profit of reportable segments in the first nine months of 2009 was \$800.4 million compared to \$999.8 million for the first nine months of 2008, a decrease of \$199.4 million, or 19.9%.

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

Segment Operating Profit - 2008		\$ 999.8
Decreased sales volume	\$ (245.0)	
Net effect of price and mix	300.0	
Effects of changing foreign currency rates	(62.0)	

Manufacturing and delivery	(173.0)
Operating expenses	(5.0)
Other	(14.4)
<b>Total net effect on Segment Operating Profit</b>	<b>(199.4)</b>
Segment Operating Profit - 2009	\$ 800.4

#### *Interest Expense*

Interest expense for the first nine months of 2009 was \$164.6 million compared with \$199.8 million for the first nine months of 2008. The 2009 amount includes \$5.2 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees, net of a gain from the termination of the interest rate swap agreement following the May tender for the 7.50% Senior Debentures due May 2010. Excluding these amounts, interest expense for the first nine months of 2009 decreased \$40.4 million from the first nine months of 2008. The decrease is principally due to lower variable interest rates under the Company's bank credit agreement as well as favorable foreign currency exchange rates.

#### *Interest Income*

Interest income for the first nine months of 2009 was \$21.1 million compared with \$29.1 million for the first nine months of 2008. The decrease is principally due to lower interest rates on investments, which more than offset the additional interest earned on the Company's higher cash balance.

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

Net earnings attributable to noncontrolling interests in the first nine months of 2009 was \$29.2 million compared with \$51.4 million in the first nine months of 2008. Net earnings attributable to noncontrolling interests was reduced by \$8.0 million in the first nine months of 2009 related to restructuring and asset impairment charges recorded in each period. Excluding these amounts, net earnings attributable to noncontrolling interests in 2009 decreased \$14.2 million compared with 2008. The decrease is primarily a result of lower segment operating profit in the Company's South American segment in 2009.

#### *Provision for Income Taxes*

The Company's effective tax rate for the nine months ended September 30, 2009 was 29.2%, compared with 25.6% for the first nine months of 2008. The provision for 2009 includes a net benefit of \$16.1 million related to restructuring and impairment charges recorded by the Company. The provision for 2008 includes a net benefit of \$22.7 million related to tax legislation, restructuring and other. Based on the current projection for the mix of earnings for 2009, the Company expects that the full year effective tax rate will be 26% -

27% for continuing operations, excluding restructuring charges and other separately taxed items, compared to 24.0% for 2008.

#### ***Items Excluded from Reportable Segment Totals***

##### Retained Corporate Costs and Other

Retained corporate costs and other for the third quarter of 2009 was \$13.8 million compared with \$2.3 million for the third quarter of 2008, and \$49.0 million for the first nine months of 2009 compared with \$2.9 million for the first nine months of 2008. The increased expense in 2009 is mainly attributable to increased employee benefit costs. The increase is also due to lower royalty income and favorable items in 2008 that did not recur in 2009.

##### Restructuring and Asset Impairments

During the third quarter of 2009, the Company recorded charges totaling \$57.5 million (\$36.0 million after tax amount attributable to the Company), for restructuring, asset impairment and settlement of pension liabilities in Europe, North America and South America. The total of all such charges for the nine months ended September 30, 2009 was \$113.1 million (\$88.9 million after tax amount attributable to the Company). The charges reflect the additional decisions reached in the Company's ongoing strategic review of its global manufacturing footprint. See Note 9 to the Condensed Consolidated Financial Statements for additional information.

Charges for similar actions in Europe and North America during the third quarter of 2008 totaled \$90.6 million (\$79.7 million after tax amount attributable to the Company). The total of all such charges for the nine months ended September 30, 2008 was \$110.8 million (\$92.7 million after tax amount attributable to the Company). See Note 9 to the Condensed Consolidated Financial Statements for additional information.

During the first nine months of 2008, the Company also recorded an additional \$0.9 million (pretax and after tax amount attributable to the Company), related to the impairment of the Company's equity investment in the South American Segment's 50%-owned Caribbean affiliate.

##### Discontinued Operations

The gain on sale of discontinued operations of \$7.9 million reported in 2008 relates to an adjustment of the 2007 gain on the sale of the plastics packaging business mainly related to finalizing certain tax allocations and an adjustment to the selling price in accordance with procedures set forth in the final contract.

#### **Capital Resources and Liquidity**

The Company's total debt at September 30, 2009 was \$3.72 billion, compared with \$3.33 billion at December 31, 2008 and \$3.46 billion at September 30, 2008.

On June 14, 2006, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the "Agreement"). At September 30, 2009, the Agreement included a \$900.0 million revolving credit facility, a 225.0 million Australian dollar term loan, and a 110.8 million Canadian dollar term loan,



each of which has a final maturity date of June 15, 2012. It also included a \$191.5 million term loan and a €191.5 million term loan, each of which has a final maturity date of June 14, 2013.

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

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

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

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

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

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

Cash provided by operating activities in the first nine months of 2009 was \$701.8 million compared with \$721.2 million in the prior year.

Based on exchange rates at September 30, 2009, the Company expects to contribute approximately \$75 million to \$80 million to its non-U.S. defined benefit pension plans in 2009, compared with \$61.2 million in 2008. The Company is not required to make cash contributions to the U.S. defined benefit pension plans during 2009. Contributions in 2010 are dependent on future asset returns and discount rates which the Company is unable to predict. However, based on a reasonably wide range of possible future asset returns and discount rates through the end of 2009, the Company believes that contributions to its non-U.S. plans will be

moderately higher in 2010 and that it will not be required to make contributions to its U.S. plans in 2010. Depending on a number of factors, the Company may elect to contribute amounts in excess of minimum required amounts in order to improve the funded status of certain plans.

Capital spending for property, plant and equipment during the nine months ended September 30, 2009 was \$193.7 million compared with \$238.5 million in the prior year. The Company capitalized \$16.1 million and \$14.5 million in 2009 and 2008, respectively, under capital lease obligations with the related financing recorded as long-term debt. Total capital spending for the full year 2008 was \$361.7 million. Based on current exchange rates, total capital spending for 2009 is expected to be up to \$440 million depending on market conditions.

As of September 30, 2009, the Company had \$1,017.1 million in cash and cash equivalents. The increase over the December 31, 2008 balance of \$379.5 million largely represents cash provided by operating activities of \$701.8 million for the nine months ended September 30, 2009, partially offset by capital spending of \$193.7 million, and additional funds provided by the 2009 financing activities described above. Most of the cash is held in mature, liquid markets where the Company has operations, such as North America, Europe and Australia and is readily available to fund global liquidity requirements. Approximately 19% of the cash at September 30, 2009, is held in Venezuela where government restrictions on transfers of cash out of the country limit the Company's ability to immediately access cash at the government's official exchange rate of 2.15 bolivars to the U.S. dollar. The Company has been able to obtain U.S. dollars at the official rate to pay for some of its key raw materials and other imports. However, in 2009, the Venezuelan government has significantly slowed the process of exchanging bolivars to U.S. dollars at the official rate. As a result, the Company's cash balance in Venezuela has grown as earnings accumulate. The Company has the ability to access the cash in Venezuela more quickly through a market-driven parallel exchange process which, at September 30, 2009, valued the bolivar about 60% lower than the official exchange rate. During the third quarter of 2009, the Company entered into a series of parallel market transactions in order to exchange Venezuelan bolivars into U.S. dollars, and recognized foreign currency exchange losses of \$14.7 million (\$9.9 million after tax amount attributable to the Company). The Company will continue to pursue currency exchange at the official rate to pay for its imports and to remit earnings. However, it will also monitor conditions in Venezuela and presently intends to continue transferring cash generated in the country through parallel market transactions.

OI Inc. has substantial obligations related to semiannual interest payments on \$278.1 million of outstanding public debt securities. OI Inc. also makes, and expects in the future to make, substantial indemnity payments and payments for legal fees and expenses in connection with asbestos-related lawsuits and claims. OI Inc.'s asbestos-related payments were \$122.4 million and \$140.3 million for the nine months ended September 30, 2009 and 2008, respectively. OI Inc. relies primarily on distributions from the Company to meet these obligations. Based on OI Inc.'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 payments to OI Inc. for any deferred amounts of



The Company anticipates that cash flows from its operations and from utilization of credit available under the Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations on a short-term (twelve-months) and long-term basis, including payments to OI Inc., described above.

### **Critical Accounting Estimates**

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

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

The Company believes that accounting for property, plant and equipment, impairment of long-lived assets, pension benefit plans and income taxes involves the more significant judgments and estimates used in the preparation of its consolidated financial statements.

#### *Property, Plant and Equipment*

The net carrying amount of property, plant, and equipment ("PP&E") at September 30, 2009 totaled \$2,709.9 million, representing 29.7% of total assets. Depreciation expense for the nine months ended September 30, 2009 totaled \$274.3 million, representing approximately 6% of total costs and expenses. Given the significance of PP&E and associated depreciation to the Company's consolidated financial statements, the determinations of an asset's cost basis and its economic useful life are considered to be critical accounting estimates.

**Cost Basis** - PP&E is recorded at cost, which is generally objectively quantifiable when assets are purchased singly. However, when assets are purchased in groups, or as part of a business, costs assigned to PP&E are based on an estimate of fair value of each asset at the date of acquisition. These estimates are based on assumptions about asset condition, remaining useful life and market conditions, among others. The Company frequently employs expert appraisers to aid in allocating cost among assets purchased as a group.

Included in the cost basis of PP&E are those costs which substantially increase the useful lives or capacity of existing PP&E. Significant judgment is needed to determine which costs should be capitalized under these criteria and which costs should be expensed as a repair or maintenance expenditure. For example, the Company frequently incurs various costs related to its existing glass melting furnaces and forming machines and must make a determination of which costs, if any, to capitalize. The Company relies on the experience and expertise of its

operations and engineering staff to make reasonable and consistent judgments regarding increases in useful lives or capacity of PP&E.

**Estimated Useful Life** — PP&E is generally depreciated using the straight-line method, which deducts equal amounts of the cost of each asset from earnings each period over its estimated economic useful life. Economic useful life is the duration of time an asset is expected to be productively employed by the Company, which may be less than its physical life. Management's assumptions regarding the following factors, among others, affect the determination of estimated economic useful life: wear and tear, product and process obsolescence, technical standards, and changes in market demand.

The estimated economic useful life of an asset is monitored to determine its appropriateness, especially in light of changed business circumstances. For example, technological advances, excessive wear and tear, or changes in customers' requirements may result in a shorter estimated useful life than originally anticipated. In these cases, the Company depreciates the remaining net book value over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. Likewise, if the estimated useful life is increased, the adjustment to the useful life decreases depreciation expense per year on a prospective basis. Changes in economic useful life assumptions did not have a material impact on the Company's reported results in 2009, 2008 or 2007.

#### *Impairment of Long-Lived Assets*

**Property, Plant, and Equipment** — The Company tests for impairment of PP&E whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. PP&E held for use in the Company's business is grouped for impairment testing at the lowest level for which cash flows can reasonably be identified, typically a geographic region. The Company evaluates the recoverability of PP&E based on undiscounted projected cash flows, excluding interest and taxes. If an asset group is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset group's carrying amount exceeds its fair value. PP&E held for sale is reported at the lower of carrying amount or fair value less cost to sell.

Impairment testing requires estimation of the fair value of PP&E based on the discounted value of projected future cash flows generated by the asset group. The assumptions underlying cash flow projections represent management's best estimates at the time of the impairment review. Factors that management must estimate include, among other things: industry and market conditions, sales volume and prices, production costs and inflation. Changes in key assumptions or actual conditions which differ from estimates could result in an impairment charge. The Company uses reasonable and supportable

assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges.

In mid-2007, the Company began a strategic review of its global manufacturing footprint. The review is ongoing into 2009. As an initial result of this review, during 2009, 2008, and 2007, the Company recorded charges that included impairments of property, plant, and equipment across all segments including certain Retained Corporate Costs and Other activities. It is possible that the Company may conclude in the future that it will close or temporarily idle additional selected facilities or production lines and reduce headcount to increase operating performance and cash flows. As of September 30, 2009, no other decisions had been made and no events had occurred that would require an additional evaluation of possible impairment. For additional

information on charges recorded in 2009, 2008 and 2007, see Note 9 to the Condensed Consolidated Financial Statements.

**Goodwill** — Goodwill at September 30, 2009 totaled \$2,382.3 million, representing 26.1% of total assets. The Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment. The Company conducts its evaluation as of October 1 of each year. 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 projected 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 of goodwill may exist.

During the fourth quarter of 2008, the Company completed its annual testing and determined that no impairment of goodwill existed.

The testing performed as of October 1, 2008, indicated a significant excess of BEV over book value for each unit. If the Company’s projected future cash flows were substantially lower, or if the assumed weighted average cost of capital was substantially higher, the testing performed as of October 1, 2008, might have indicated an impairment of one or more of the Company’s reporting units and, as a result, the related goodwill might also have been impaired. However, less significant changes in projected future cash flows or the assumed weighted average cost of capital would not have indicated an impairment. For example, if projected future cash flows had been decreased by 5%, or if the weighted average cost of capital had been increased by 5%, or both, the resulting lower BEV’s would still have exceeded the book value of each reporting unit by a significant margin.

The Company is in the process of performing its annual impairment testing as of October 1, 2009. If the results of impairment testing indicate that a write down of goodwill is necessary, then the Company will record a charge in the fourth quarter of 2009. In the event the Company would be required to record a significant write down of goodwill, the charge could have a material adverse effect on reported results of operations and net worth.

**Other Long-Lived Assets** — Other long-lived assets include, among others, equity investments and repair parts inventories. The Company’s equity investments are non-publicly traded ventures with other companies in businesses related to those of the Company. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. In the event that a decline in fair value of an investment occurs, and the decline in value is considered to be other than temporary, an impairment loss is recognized. Summarized financial information of equity affiliates is included in Note 5 to the 2008 Annual Report on Form 10-K.

The Company carries a significant amount of repair parts inventories in order to provide a dependable supply of quality parts for servicing the Company’s PP&E, particularly its glass melting furnaces and forming machines. The Company evaluates the recoverability of repair parts inventories based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the repair parts are written down to fair value. The Company continually monitors the carrying value of repair parts for recoverability, especially in light of changing business circumstances. For example, technological advances related to, and changes in, the estimated future demand for products

produced on the equipment to which the repair parts relate may make the repair parts obsolete. In these circumstances, the Company writes down the repair parts to fair value.

#### *Pension Benefit Plans*

**Significant Estimates** - The determination of pension obligations and the related pension expense or credits to operations involves significant estimates. The most significant estimates are the discount rate used to calculate the actuarial present value of benefit obligations and the expected long-term rate of return on plan assets. The Company uses discount rates based on yields of high quality fixed rate debt securities at the end of the year. At December 31, 2008, the weighted average discount rate for all plans was 6.29%. The Company uses an expected long-term rate of return on assets that is based on both past performance of the various plans’ assets and estimated future performance of the assets. Due to the nature of the plans’ assets and the volatility of debt and equity markets, actual returns may vary significantly from year to year. The Company refers to average historical returns over longer periods (up to 10 years) in determining its expected rates of return because short-term fluctuations in market values do not reflect the rates of return the Company expects to achieve based upon its long-term investing strategy. For purposes of determining pension charges and credits in 2009, the Company’s estimated weighted average expected long-term rate of return on plan assets is 7.7% compared to 8.1% in 2008. The Company recorded pension expense (income) of \$24.4 million and \$(19.2) million for the nine months ended September 30, 2009 and 2008, respectively, from its principal defined benefit pension plans. Depending on currency translation rates, the Company expects to record approximately \$29 million of pension expense for the full year of 2009.

Future effects on reported results of operations 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 have resulted in a change of approximately \$18 million in the pretax pension expense for the full year 2009. In addition, changes in external factors, including the fair values of plan assets and the discount rates used to calculate plan liabilities, could have a significant effect on the recognition of funded status as described below.

**Recognition of Funded Status** — General accounting principles for pension benefit plans require employers to adjust the assets and liabilities related to defined benefit plans so that the amounts reflected on the balance sheet represent the overfunded or underfunded status of the plans. These funded status amounts are measured as the difference between the fair value of plan assets and actuarially calculated benefit obligations as of the balance sheet date. At

December 31, 2008, the Accumulated Other Comprehensive Loss component of share owners' equity was increased by \$1,080.1 million (\$1,025.0 million after tax) to reflect a net decrease in the funded status of the Company's plans at that date.

### *Income Taxes*

The Company accounts for income taxes as required by general accounting principles under which deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using enacted tax rates.

Management judgment is required in determining income tax expense and the related balance sheet amounts. In addition, judgments are required concerning the ultimate outcome of uncertain income tax positions. Actual income taxes paid may vary from estimates, depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns

by taxing authorities. Tax assessments may arise several years after tax returns have been filed. For the nine months ended September 30, 2009, the Company's estimated unrecognized tax benefits increased by \$14.2 million related to tax positions taken in prior years in non-U.S. jurisdictions.

Deferred tax assets are also recorded for operating losses and tax credit carryforwards. However, a valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. This assessment is dependent upon projected profitability including the effects of tax planning. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which the Company conducts its operations or otherwise incurs taxable income or losses. In the U.S., the Company has recorded significant deferred tax assets, the largest of which relate to foreign and other tax credits, the accrued liability for asbestos-related costs that are not deductible until paid, and the pension liability. The deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relate to accelerated depreciation. The Company has recorded a valuation allowance for the portion of U.S. deferred tax assets not offset by deferred tax liabilities.

### **Forward Looking Statements**

This document contains "forward looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Forward-looking statements reflect the Company's current expectations and projections about future events at the time, and thus involve uncertainty and risk. 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) changes in capital availability or cost, including interest rate fluctuations, (3) the general political, economic and competitive conditions in markets and countries where the Company has its operations, including disruptions in capital markets, disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (4) consumer preferences for alternative forms of packaging, (5) fluctuations in raw material and labor costs, (6) availability of raw materials, (7) costs and availability of energy, (8) transportation costs, (9) the ability of the Company to raise selling prices commensurate with energy and other cost increases, (10) consolidation among competitors and customers, (11) the ability of the Company to integrate operations of acquired businesses and achieve expected synergies, (12) unanticipated expenditures with respect to environmental, safety and health laws, (13) the performance by customers of their obligations under purchase agreements, and (14) the timing and occurrence of events which are beyond the control of the Company, including events related to OI Inc.'s asbestos-related claims. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward-looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward looking statements contained in this document.

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

As described in the Form 10-K, the Company is subject to foreign currency exchange rate risk with respect to earnings of operations outside the United States. In Venezuela, where currency

restrictions have been in effect for a number of years, the government controls all exchanges of bolivars into U.S. dollars at the official rate, which has remained fixed at its current level since early 2005. In 2009, increased restrictions in the currency exchange process, combined with a general decline in economic conditions in Venezuela, have contributed to a growing shortage of U.S. dollars available for exchange at the official rate. In addition, inflation in Venezuela has continued at an accelerated rate, and it is reasonably possible that Venezuela's economy may be considered highly inflationary at some time in the future. For accounting purposes, an economy is deemed to be highly inflationary when the three-year cumulative rate of inflation exceeds 100%. If the Company were to adopt the market-driven parallel exchange rate to remeasure its financial statements under a highly-inflationary basis of accounting, or if the Venezuelan government were to devalue the bolivar, then the reported results of the Company's Venezuelan operations, which represented approximately one-third of the South American Segment's operating profit for the full year 2008, would be adversely impacted. Under a highly-inflationary basis of accounting, most of the revenues and costs of the Company's Venezuelan operations would be translated at the parallel market rate, resulting in lower reported results of operations. In addition, monetary assets (such as cash and receivables) and monetary liabilities (such as payables and accruals) would be remeasured at the end of each reporting period using the parallel rate at that date. Because the parallel rate is subject to fluctuation, such remeasurement would increase the volatility of reported results of operations.

There have been no other material changes in market risk at September 30, 2009 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

### **Item 4. Controls and Procedures.**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms

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

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2009.

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2008. There has been no change in the Company's internal

controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company is undertaking the phased implementation of a global Enterprise Resource Planning software system and believes it is maintaining and monitoring appropriate internal controls during the implementation period. The Company believes that the internal control environment will be enhanced as a result of implementation.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

For further information on legal proceedings, see Note 6 to the Condensed Consolidated Financial Statements, "Contingencies," that is included in Part I of this Report and is incorporated herein by reference.

### Item 1A. Risk Factors.

There have been no material changes in risk factors at September 30, 2009 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

### Item 6. Exhibits.

Exhibit 12	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
Exhibit 32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

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

## SIGNATURES

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

OWENS-ILLINOIS GROUP, INC.

Date October 29, 2009

By /s/ Edward C. White  
Edward C. White  
President and Chief Financial Officer  
(Principal Financial Officer)

Exhibits

12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

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

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

	<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Earnings from continuing operations before income taxes	\$ 494.8	\$ 714.5
Less: Equity earnings	(39.6)	(36.7)
Add: Total fixed charges deducted from earnings	170.1	205.5
Proportional share of pre-tax earnings of 50% owned associates	11.8	10.5
Dividends received from equity investees	24.1	21.2
Earnings available for payment of fixed charges	<u>\$ 661.2</u>	<u>\$ 915.0</u>
Fixed charges (including the Company's proportional share of 50% owned associates):		
Interest expense	\$ 158.4	\$ 193.8
Portion of operating lease rental deemed to be interest	4.4	5.7
Amortization of deferred financing costs and debt discount expense	7.3	6.0
Total fixed charges deducted from earnings and fixed charges	<u>\$ 170.1</u>	<u>\$ 205.5</u>
Ratio of earnings to fixed charges	3.9	4.5

## CERTIFICATIONS

I, Albert P.L. Stroucken, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Date October 29, 2009

/s/ Albert P.L. Stroucken

Albert P.L. Stroucken  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATIONS

I, Edward C. White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Date October 29, 2009

/s/ Edward C. White

Edward C. White  
President and Chief Financial Officer  
(Principal Financial Officer)



## Certification of Principal Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Owens-Illinois Group, Inc. (the "Company") hereby certifies that to such officer's knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2009

/s/ Albert P.L. Stroucken

Albert P.L. Stroucken

Chairman and Chief Executive Officer

Owens-Illinois Group, Inc.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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## Certification of Principal Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Owens-Illinois Group, Inc. (the "Company") hereby certifies that to such officer's knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2009

/s/ Edward C. White

Edward C. White

President

Owens-Illinois Group, Inc.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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