UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

or

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-9576

OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**22-2781933** (IRS Employer Identification No.)
One SeaGate, Toledo, Ohio (Address of principal executive offices)	**43666** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange
Convertible Preferred Stock, $.01 par value, $50 liquidation preference	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No ☒

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 o No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ☒

The aggregate market value (based on the consolidated tape closing price on June 30, 2005) of the voting and non-voting stock beneficially held by non-affiliates of Owens-Illinois, Inc. was approximately $2,378,430,000. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers of the Company. Such interpretation is not intended to be, and should not be construed to be, an

admission by Owens-Illinois, Inc. or such directors or executive officers of the Company that such directors and executive officers of the Company are "affiliates" of Owens-Illinois, Inc., as that term is defined under the Securities Act of 1934.

The number of shares of common stock, $.01 par value of Owens-Illinois, Inc. outstanding as of January 31, 2006 was 152,961,486.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Owens-Illinois, Inc. Proxy Statement for The Annual Meeting of Share Owners To Be Held Wednesday, May 3, 2006 ("Proxy Statement") are incorporated by reference into Part III hereof.

TABLE OF GUARANTORS

Exact Name of Registrant As Specified In Its Charter	State/Country of Incorporation or Organization	Primary Standard Industrial Classification Code Number	I.R.S Employee Identification Number
Owens-Illinois Group, Inc	Delaware	6719	34-1559348
Owens-Brockway Packaging, Inc	Delaware	6719	34-1559346

The address, including zip code, and telephone number, of each additional registrant's principal executive office is One Seagate, Toledo, Ohio 43666; (419) 247-5000. These companies are listed as guarantors of the debt securities of the registrant. The consolidating condensed financial statements of the Company depicting separately its guarantor and non-guarantor subsidiaries are presented in the notes to the consolidated financial statements. All of the equity securities of each of the guarantors set forth in the table above are owned, either directly or indirectly, by Owens-Illinois, Inc.

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PART I

ITEM 1. BUSINESS

General Development of Business

Owens-Illinois, Inc. (the "Company"), through its subsidiaries, is the successor to a business established in 1903. The Company is one of the world's leading manufacturers of packaging products based on sales revenue and is the largest manufacturer of glass containers in the world, with leading positions in Europe, North America, Asia Pacific and South America. The Company is also a leading manufacturer of healthcare packaging including plastic prescription containers and medical devices, and plastic closure systems including tamper-evident caps and child-resistant closures, with operations in the United States, Mexico, Puerto Rico, Brazil, Hungary and Singapore.

Strategy and Competitive Strengths

The Company is pursuing a strategy aimed at leveraging its global capabilities, broadening its market base and focusing on modern management technologies and fundamentals including incentive compensation linked to cash flows and fact-based, data-driven decision making.

The Company's current priorities include the following:

- Achieve successful European integration
- Implement global procurement initiatives
- Build modest growth momentum
- Improve liquidity and reduce leverage
- Improve system cost and capital capabilities
- Increase prices near term to offset inflationary pressures

The Company's current core competitive strengths are:

- Global leadership in manufacturing glass containers
- Technological leadership and worldwide licensee network—glass and plastic closures
- Long-standing relationships with industry-leading consumer products companies
- Low-cost production of glass containers
- Leading healthcare packaging businesses
- New leadership team with turnaround and transformation agenda
- Experienced and motivated management team and work force

Consistent with its vision to become the world's leading packaging company, the Company has acquired 17 glass container businesses in 22 countries since 1990, including businesses in Europe, North America, Asia Pacific and South America. These acquisitions include the purchase of BSN Glasspack, S.A., on June 21, 2004 for a total consideration of approximately $1.3 billion (the "BSN Acquisition"). In the

BSN Acquisition, the Company acquired 19 manufacturing plants in France, Germany, the Netherlands and Spain. Through these acquisitions, the Company has enhanced its global presence in order to better serve the needs of its multi-national customers. Through global leveraging, we have also achieved purchasing and cost reduction synergies.

The Company has 84 glass manufacturing plants in 20 countries and 22 plastics packaging facilities, 13 of which are in the United States.

Technology Leader

The Company believes it is a technological leader in the worldwide glass container and plastics packaging segments of the rigid packaging market in which it competes. During the five years ended December 31, 2005, on a continuing operations basis, the Company invested more than $1.7 billion in capital expenditures (excluding acquisitions) and more than $281 million in research, development and engineering to, among other things, improve labor and machine productivity, increase capacity in growing markets and commercialize technology into new products.

Worldwide Corporate Headquarters

The principal executive office of the Company is located at One SeaGate, Toledo, Ohio 43666; the telephone number is (419) 247-5000. The Company's website is www.o-i.com. The Company's annual report and SEC filings can be obtained from this site at no cost. The Company's Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the Compensation, Nominating/Corporate Governance, Audit Committee are available on the Investor Relations section of the Company's website. Copies of these documents are available in print to share owners upon request, addressed to the Corporate Secretary at the address above.

Financial Information about Product Segments

Information as to sales, earnings from continuing operations before interest income, interest expense, provision for income taxes and minority share owners' interests in earnings of subsidiaries and excluding amounts related to certain items that management considers not representative of ongoing operations ("Segment Operating Profit"), and total assets by product segment is included in Note 20 to the Consolidated Financial Statements.

Narrative Description of Business

The Company has two product segments: (1) Glass Containers and (2) Plastics Packaging. Below is a description of these segments and information to the extent material to understanding the Company's business taken as a whole.

Products and Services, Customers, Markets and Competitive Conditions, and Methods of Distribution

GLASS CONTAINERS PRODUCT SEGMENT

The Company is the largest manufacturer of glass containers in the world. The Company is the leading glass container manufacturer in 19 of the 22 countries where it competes in the glass container segment of the rigid packaging market, including the U.S., and the sole manufacturer of glass containers in 8 of these countries. On a continuing operations basis, worldwide glass container sales represented 89%, 88%, and 84%, of the Company's consolidated net sales for the years ended December 31, 2005, 2004, and 2003, respectively.

Products and Services

The Company produces glass containers for beer and ready-to-drink low alcohol refreshers, spirits, wine, food, tea, juice and pharmaceuticals. The Company also produces glass containers for soft drinks and other non-alcoholic beverages, principally outside the U.S. The Company manufactures these products in a wide range of sizes, shapes and colors. The Company is active in new product development and glass container innovation.

Customers

In most of the countries where the Company competes, it has the leading position in the glass container segment of the rigid packaging market based on sales revenue. The largest customers include many of the leading manufacturers and marketers of glass packaged products in the world. In the U.S., the majority of customers for glass containers are brewers, wine vintners, distillers and food producers. The Company also produces glass containers for soft drinks, principally outside the U.S. The largest U.S. glass container customers include (in alphabetical order) Anheuser-Busch, Diageo, H.J. Heinz, Molson/Coors, Novartis, Pepsico, SABMiller, and Saxco-Demptos, Inc. The largest glass container customers outside the U.S. include (in alphabetical order) Diageo, Foster's, Heineken, InBev, Scottish & Newcastle, Lion Nathan, Molson/Coors and SABMiller. The Company is the major glass container supplier to some of these customers.

The Company sells most of its glass container products directly to customers under annual or multi-year supply agreements. The Company also sells some of its products through distributors. Glass containers are typically scheduled for production in order to maintain reasonable inventories in relation to customers' forecasts of their quarterly requirements.

Markets and Competitive Conditions

The principal markets for glass container products made by the Company are in Europe, North America, Asia Pacific, and South America. The Company believes it is the low-cost producer in the glass container segment of the rigid packaging market in most of the countries in which it competes. Much of this cost advantage is due to proprietary equipment and process technology used by the Company. The Company's machine development activities and systematic upgrading of production equipment in the 1990's and early 2000's have given it low-cost leadership in the glass container segment in most of the countries in which it competes, a key strength to competing successfully in the rigid packaging market.

The Company has the leading share of the glass container segment of the U.S. rigid packaging market based on sales revenue by domestic producers in the U.S. The principal glass container competitors in the U.S. are Saint-Gobain Containers, Inc., a wholly-owned subsidiary of Compagnie de Saint-Gobain, and Anchor Glass Container Corporation. In addition, imports from Mexico and other countries increasingly compete in U.S. glass container segments. Additionally, a few major consumer packaged goods companies also self-manufacture glass containers.

In supplying glass containers outside of the U.S., the Company competes directly with Compagnie de Saint-Gobain in Europe and Brazil, Ardagh plc in the U.K., Vetropak in the Czech Republic and Amcor Limited in Australia. In other locations in Europe, the Company competes indirectly with a variety of glass container firms including Compagnie de Saint-Gobain, Vetropak and Rexam plc. Except as mentioned above, the Company does not compete with any large, multi-national glass container manufacturers in South America or the Asia Pacific region.

In addition to competing with other large, well-established manufacturers in the glass container segment, the Company competes with manufacturers of other forms of rigid packaging, principally aluminum cans and plastic containers, on the basis of quality, price and service. The principal competitors producing metal containers are Amcor, Crown Cork & Seal Company, Inc., Rexam plc, Ball Corporation and Silgan Holdings Inc. The principal competitors producing plastic containers are Consolidated Container Holdings, LLC, Graham Packaging Company, Plastipak Packaging, Inc. and Silgan Holdings Inc. The Company also competes with manufacturers of non-rigid packaging alternatives, including flexible pouches and aseptic cartons.

The Company's unit shipments of glass containers in countries outside of the U.S. have grown substantially from levels of the early 1990's. The Company has added to its international operations by acquiring glass container companies, many of which have leading positions in growing or established markets, increasing capacity at select foreign subsidiaries, and maintaining the global network of glass container companies that license its technology. In many developing countries, the Company's international glass operations have benefited in the last ten years from increased consumer spending power, a trend toward the privatization of industry, a favorable climate for foreign investment, lowering of trade barriers and global expansion programs by multi-national consumer companies.

North America. In addition to the glass container operations in the U.S., the Company's subsidiary in Canada is the sole manufacturer of glass containers in that country.

South America. The Company is the sole manufacturer of glass containers in Colombia, Ecuador and Peru. In both Brazil and Venezuela, the Company is the leading manufacturer of glass containers. In South America, there is a large infrastructure for returnable/refillable glass containers. However, with improving economic conditions in South America after the recessions of the late 1990's, unit sales of non-returnable glass containers have grown in Venezuela, Colombia and Brazil.

Europe. The Company's European glass container business, headquartered in Switzerland, has consolidated manufacturing operations in 11 countries and is the largest in Europe. The Company's subsidiary in France is a leading producer of wine and champagne bottles and is the sole supplier of glass containers to Scottish & Newcastle, France's leading brewer. In Italy, the Company's wholly-owned subsidiary is the leading manufacturer of glass containers and operates 13 glass container plants. In Germany, the Company's key customers include Scottish & Newcastle and Nestle Europe. In the Netherlands, the Company is one of the leading suppliers of glass containers to Heineken. The Company's subsidiary in the U.K. is a leading manufacturer of glass containers for the U.K. spirits business. In Spain, the Company serves the market for olives in the Sevilla area and the market for wine bottles in the Barcelona and southern France area. In Poland, the Company is the leading glass container manufacturer and currently operates two plants. The Company's subsidiary in the Czech Republic is the leading glass container manufacturer in that country and also ships a portion of its beer bottle production to Germany. In Hungary, the Company is the sole glass container manufacturer and serves the Hungarian food industry. In Finland and the Baltic country of Estonia, the Company is the only manufacturer of glass containers. The Company coordinates production activities between Finland and Estonia in order to efficiently serve the Finnish, Baltic and Russian markets. In recent years, Western European brewers have been establishing beer production facilities in Central Europe and the Russian Republic. Because these new beer plants use high-speed filling lines, they require high quality glass containers in order to operate properly. The Company believes it is well positioned to meet this growing demand. In October 2005 the Company entered a joint venture with the Ost Group, one of Russia's largest spirits producers, by purchasing a minority interest in Ost Tara, which is a glass manufacturing facility near Moscow.

Asia Pacific. The Company has glass operations in four countries in the Asia Pacific region: Australia, New Zealand, Indonesia and China. In the Asia Pacific region, the Company is the leading manufacturer

of glass containers in most of the countries in which it competes. In Australia, the Company's subsidiary operates four glass container plants, including a plant focused on serving the needs of the growing Australian wine industry. In New Zealand, the Company is the sole glass container manufacturer. In Indonesia, the Company supplies the Indonesian market and exports glass containers for food and pharmaceutical products to Australian customers. In China, the glass container segments of the packaging market are regional and highly fragmented with a number of local competitors. The Company has three modern glass container plants in China manufacturing high-quality beer bottles to serve Foster's as well as Anheuser-Busch, which is now producing Budweiser® in and for the Chinese market. In December 2005, the Company acquired the business and assets of Tianjin New World Glass Containers Co. Ltd., of the People's Republic of China, for approximately $9 million USD. The acquisition will be operated as a joint venture in which the Company holds a 95 % equity interest. The business produces containers for the beer and wine industries in northeast China.

The Company continues to focus on serving the needs of leading multi-national consumer companies as they pursue international growth opportunities. The Company believes that it is often the glass container partner of choice for such multi-national consumer companies due to its leadership in glass technology and its status as a high quality producer in most of the markets it serves.

Manufacturing

The Company believes it is the low-cost producer in the glass container segment of the North American rigid packaging market, as well as the low-cost producer in most of the international glass segments in which it competes. Much of this cost advantage is due to the Company's proprietary equipment and process technology. The Company believes its proprietary high volume glass forming machines, developed and refined by its engineering group, are significantly more efficient and productive than those used by competitors. The Company's machine development activities and systematic upgrading of production equipment has given it low-cost leadership in the glass container segment in most of the countries in which it competes, a key strength to competing successfully in the rigid packaging market.

Since the early 1990's, the Company has more than doubled its overall glass container labor and machine productivity in the U.S., as measured by output produced per man-hour. By applying its technology and worldwide "best practices" during this period, the Company decreased the number of production employees required per glass-forming machine line in the U.S. by over 35%, and increased the daily output of glass-forming machines by approximately 40%. The Company has achieved similar productivity improvements in its operations around the world. The Company also operates several machine and mold shops that manufacture high-productivity glass-forming machines, molds and related equipment.

Methods of Distribution

Due to the significance of transportation costs and the importance of timely delivery, glass container manufacturing facilities are generally located close to customers. In the U.S., most of the Company's glass container products are shipped by common carrier to customers within a 250-mile radius of a given production site. In addition, the Company's glass container operations outside the U.S. export some products to customers beyond their national boundaries, which may include transportation by rail and ocean delivery in combination with common carriers.

Suppliers and Raw Materials

The primary raw materials used in the Company's glass container operations are sand, soda ash, limestone and recycled glass. Each of these materials, as well as the other raw materials used to

manufacture glass containers, has historically been available in adequate supply from multiple sources. For certain raw materials, however, there may be temporary shortages due to weather or other factors, including disruptions in supply caused by raw material transportation or production delays.

Energy

The Company's glass container operations require a continuous supply of significant amounts of energy, principally natural gas, fuel oil, and electrical power. Adequate supplies of energy are generally available to the Company at all of its manufacturing locations. Energy costs typically account for 15-20% of the Company's total manufacturing costs, depending on the factory location and its particular energy requirements. The percentage of total cost related to energy can vary significantly because of volatility in market prices, particularly for natural gas in particularly volatile markets such as North America. In order to limit the effects of fluctuations in market prices for natural gas and fuel oil, the Company uses commodity futures contracts related to its forecasted requirements, principally in North America and Europe. The objective of these futures contracts is to reduce the potential volatility in cash flows due to changing market prices. The Company continually evaluates the energy markets with respect to its forecasted energy requirements in order to optimize its use of commodity futures contracts. If energy costs increase substantially in the future, the Company could experience a corresponding increase in operating costs, which may not be fully recoverable through increased selling prices.

Glass Recycling

The Company is an important contributor to the recycling effort in the U.S. and abroad and continues to melt substantial recycled glass tonnage in its glass furnaces. If sufficient high-quality recycled glass were available on a consistent basis, the Company has the technology to operate using 100% recycled glass. Using recycled glass in the manufacturing process reduces energy costs and prolongs the operating life of the glass melting furnaces.

PLASTICS PACKAGING PRODUCT SEGMENT

The Company is a leading manufacturer in North America of plastic packaging including healthcare containers, prescription containers, and closures. The Company also has plastics packaging operations in South America, Europe, Singapore, and Australia. On a continuing operations basis, plastics packaging sales represented 11%, 12% and 16% of the Company's consolidated net sales for the years ended December 31, 2005, 2004 and 2003, respectively.

Manufacturing and Products

The exact type of manufacturing process the Company uses is dependent on the plastic product type and package requirements. Injection blow-molding and injection molding are plastics manufacturing processes where plastic resin in the form of pellets or powder is melted and then injected or otherwise forced under pressure into a mold. The mold is then cooled and the product is removed from the mold.

The Company's healthcare container unit manufactures injection blow molded plastic containers for pharmaceutical manufacturers and over-the-counter products. These products are sold primarily to pharmaceutical manufacturers and over-the-counter producers.

The prescription products unit manufactures injection-molded plastic prescription containers. These products are sold primarily to drug wholesalers and major drug chains. Containers for prescriptions include vials, ovals, closures, ointment jars, dropper bottles and automation friendly prescription containers.

Injection-molding is used in the manufacture of plastic closures, deodorant canisters, ink cartridges and vials. The Company develops and produces injection-molded plastic closures and closure systems, which typically incorporate functional features such as tamper evidence and child resistance or dispensing. Other products include injection-molded containers for deodorant and toothpaste.

Compression-molding, an alternative to injection-molding which has advantages in high volume applications, is used in manufacturing plastic closures for carbonated soft drink and other beverage closures that require tamper evidence.

Customers

The Company's largest customers for plastic healthcare containers include (in alphabetical order) Alcon, Bausch & Lomb, Bristol Myers Squib, Hospira, McNeil, and Pfizer. The Company's largest customers for prescription containers include (in alphabetical order) Albertsons, Kroger, McKesson, Medco Health Solutions, Rite-Aid and Walgreen. The Company's largest customers for plastic closures include (in alphabetical order) Coca-Cola Enterprises, Cott Beverages, Nestle USA., Pepsico and Proctor & Gamble.

The Company sells most plastic healthcare containers, prescription containers and closures directly to customers under annual or multi-year supply agreements. These supply agreements typically allow a pass-through of resin price increases and decreases, except for the prescription containers business. The Company also sells some of its products through distributors.

Markets and Competitive Conditions

Major markets for the Company's plastics packaging include consumer products and healthcare products.

The Company competes with other manufacturers in the plastics packaging segment on the basis of quality, price, service and product design. The principal competitors producing plastics packaging are Amcor, Consolidated Container Holdings, LLC, Berry Plastics, Plastipak Packaging, Inc., and Silgan Holdings Inc. The Company emphasizes proprietary technology and products, new package development and packaging innovation. The plastic closures segment is divided into various categories in which several suppliers compete for business on the basis of quality, price, service and product design. The principal competitors producing plastic closures are Alcoa, Aptar, Berry Plastics and Rexam.

In addition to competing with other established manufacturers in the plastics packaging segment, the Company competes with manufacturers of other forms of rigid packaging, principally aluminum cans and glass containers, on the basis of quality, price, and service. The principal competitors producing metal containers are Crown Holdings, Inc., Rexam plc, Ball Corporation and Silgan Holdings Inc. The principal competitors producing glass containers in the U.S. are Saint-Gobain Containers, Inc., a wholly-owned subsidiary of Compagnie de Saint-Gobain, and Anchor Glass Container Corporation. The Company also

competes with manufacturers of non-rigid packaging alternatives, including flexibles for food and beverages and blister packs, in serving the packaging needs of healthcare customers.

Methods of Distribution

In the U.S., most of the Company's plastic containers, plastic closures and plastic prescription containers are shipped by common carrier. In addition, the Company's plastics packaging operations outside the U.S. export some products to customers beyond their national boundaries, which may include transportation by rail and ocean delivery in combination with common carriers.

Suppliers and Raw Materials

The Company manufactures plastic healthcare containers, closures and prescription containers using HDPE, polypropylene, PET and various other plastic resins. The Company also purchases large quantities of batch colorants, corrugated materials and labels. In general, these raw materials are available in adequate supply from multiple sources. However, for certain raw materials, there may be temporary shortages due to market conditions and other factors.

Worldwide suppliers of plastic resins used in the production of plastics packaging include Chevron Phillips, ExxonMobil, and Total Petrochemicals. Historically, prices for plastic resins have been subject to dramatic fluctuations. However, resin cost pass-through provisions are typical in the Company's supply contracts with its plastics packaging customers.

With the exception of PolyOne, Ampacet and Clariant, each of which does business worldwide, most suppliers of batch colorants are regional in scope. Historically, prices for these raw materials have been subject to dramatic fluctuations. However, cost recovery for batch colorants is included in resin pass-through provisions which are typical of the Company's supply contracts with its plastics packaging customers.

Domestic suppliers of corrugated materials include Georgia-Pacific, International Paper, Smurfit-Stone Container, Temple-Inland, and Weyerhauser. Historically, prices for corrugated materials have not been subject to dramatic fluctuations, except for temporary spikes or troughs from time to time.

Recycling

Recycling content legislation, which has been enacted in several states, requires that a certain specified minimum percentage of recycled plastic be included in certain new plastics packaging. The Company has met such legislated standards in part due to its material process technology. In addition, its plastics packaging manufacturing plants also recycle virtually all of the internal scrap generated in the production process.

ADDITIONAL INFORMATION

Technical Assistance License Agreements

The Company has agreements to license its proprietary glass container technology and provide technical assistance to 22 companies in 20 countries. In plastics packaging, the Company has such agreements with 12 companies in 9 countries. These agreements cover areas ranging from manufacturing and engineering assistance to support in functions such as marketing, sales and administration. The worldwide licensee network provides a stream of revenue to support the Company's development activities and gives it the opportunity to participate in the rigid packaging market in countries where it does not already have a direct presence. In addition, the Company's technical agreements enable it to apply "best practices" developed by its worldwide licensee network. In the years 2005, 2004 and 2003, the Company earned $16.9 million, $21.1 million and $17.5 million, respectively, in royalties and net technical assistance revenue on a continuing operations basis.

Research and Development

The Company believes it is a technological leader in the worldwide glass container segment of the rigid packaging market. Research, development, and engineering constitute important parts of the Company's

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technical activities. On a continuing operations basis, research, development, and engineering expenditures were $65.4 million, $59.0 million, and $64.6 million for 2005, 2004, and 2003, respectively. The Company's research, development and engineering activities include new products, manufacturing process control, automatic inspection and further automation of manufacturing activities.

Environmental and Other Governmental Regulation

The Company's worldwide operations, in common with those of the industry generally, are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. Capital expenditures for property, plant and equipment for environmental control activities were not material during 2005.

In the U.S., Canada, Europe and elsewhere, a number of government authorities have adopted or are considering legal requirements that would mandate certain rates of recycling, the use of recycled materials, or limitations on or preferences for certain types of packaging. The Company believes that governments worldwide will continue to develop and enact legal requirements seeking to, or having the effect of, guiding customer and end-consumer packaging choices.

In North America, sales of beverage containers are affected by governmental regulation of packaging, including deposit return laws. As of January 1, 2006, there were 11 U.S. states with bottle deposit laws in effect, requiring consumer deposits of between 4 and 15 cents, USD, depending on the size of the container. In Canada, there are 8 provinces with consumer deposits between 5 and 20 cents Canadian, depending on the size of the container. In Europe a

number of countries have some form of consumer deposit law in effect, including Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Norway, Sweden and Switzerland. The structure and enforcement of such laws and regulations can impact the sales of beverage containers in a given jurisdiction. Such laws and regulations also impact the availability of post-consumer recycled glass for the Company to use in container production.

A number of U.S. states and Canadian provinces have recently considered or are now considering laws and regulations to encourage curbside, deposit return, and on-premise recycling. Although there is no clear trend in the direction of these state and provincial laws and regulations, the Company believes that U.S. states and Canadian provinces, as well as municipalities within those jurisdictions, will continue to adopt recycling laws which will affect supplies of post-consumer glass cullet. As a large user of post-consumer cullet for bottle to bottle production, O-I has an interest in laws and regulations impacting supplies of such material in its markets.

The European Union Emissions Trading Scheme ("EUETS") commenced January 1, 2005. The EU has committed to Kyoto Protocol emissions reduction targets and the EUETS is intended to facilitate such reduction. The Company's manufacturing installations which operate in EU countries will need to restrict the volume of their CO2 emissions to the level of their individually allocated Emissions Allowances as set by country regulators. If the actual level of emissions for any installation exceeds its allocated allowance, additional allowances can be bought on the market to cover deficits, while if the actual level of emissions for such installation is less than its allocation, the excess allowances can be sold on the same market. The Company is now engaged in independent verification of its 2005 year end position, comparing actual emissions against allowances, and has until the end of April 2006 to balance its position. The Company will comply with this scheme while continuing to monitor its operations in relation to environmental impacts and considering investments in environmentally friendly and emissions reduction projects. No material effect is anticipated as a result of the EUETS.

The Company is unable to predict what environmental legal requirements may be adopted in the future. The Company has made significant expenditures for environmental improvements at certain of its factories over the last several years; however, these expenditures did not have a material adverse affect on the Company's results of operations. The compliance costs associated with environmental legal requirements may continue to result in future additional costs to operations.

Intellectual Property Rights

The Company has a large number of patents which relate to a wide variety of products and processes, has a substantial number of patent applications pending, and is licensed under several patents of others. While in the aggregate the Company's patents are of material importance to its businesses, the Company does not consider that any patent or group of patents relating to a particular product or process is of material importance when judged from the standpoint of any segment or its businesses as a whole.

The Company has a number of intellectual property rights, comprised of both patented and proprietary technology, that make the Company's glass forming machines more efficient and productive than those used by our competitors. In addition, the efficiency of the Company's glass forming machines is enhanced by the Company's overall approach to cost efficient manufacturing technology, which extends from batch house to warehouse. This technology is proprietary to the Company through a combination of issued patents, pending applications, copyrights, trade secret and proprietary know-how.

Upstream of the glass forming machines, there is technology to deliver molten glass to the forming machine at high rates of flow and fully conditioned to be homogeneous in consistency, viscosity and temperature for efficient forming into glass containers. The Company has proprietary know-how in (a) the batch house, where raw materials are stored, measured and mixed, (b) the furnace control system and furnace combustion, and (c) the forehearth and feeding system to deliver such homogeneous glass to the forming machines.

In the Company's glass container manufacturing processes, computer control and electro-mechanical mechanisms are commonly used for a wide variety of applications in the forming machines and auxiliary processes. Various patents held by the Company are directed to the electro-mechanical mechanisms and related technologies used to control sections of the machines. Additional U.S. patents held by the Company and various pending applications are directed to the technology used by the Company for the systems that control the operation of the forming machines and many of the component mechanisms that are embodied in the machine systems.

Downstream of the glass forming machines, there is patented and unpatented technology for ware handling, annealing, coating and inspection, which further enhance the overall efficiency of the manufacturing process.

While the above patents and intellectual property rights are representative of the technology used in the Company's glass manufacturing operations, there are numerous other pending patent applications, trade secrets and other proprietary know-how and technology, as supplemented by administrative and operational best practices, which contribute to the Company's competitive advantage. As noted above, however, the Company does not consider that any patent or group of patents relating to a particular product or process is of material importance when judged from the standpoint of any segment or its businesses as a whole.

Seasonality

Sales of particular glass container and plastics packaging products such as beer, food and beverage containers and closures for beverages are seasonal. Shipments in the U.S. and Europe are typically greater in the second and third quarters of the year, while shipments in South America and the Asia Pacific region are typically greater in the first and fourth quarters of the year.

Employees

The Company's worldwide operations employed approximately 28,200 persons as of December 31, 2005. Approximately 66% of North American employees are hourly workers covered by collective bargaining agreements. The principal collective bargaining agreement, which at December 31, 2005, covered approximately 72% of the Company's union-affiliated employees in North America. will expire on March 31, 2008. In addition, a large number of the Company's employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the U.S.

Such employment rights require the Company to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. The Company considers its employee relations to be good and does not anticipate any material work stoppages in the near term.

Executive Officers of the Registrant

Name and Age	Position
Steven R. McCracken (52)	Chairman and Chief Executive Officer since April 2004. He previously served as President of Invista, the global fibers and related intermediates business subsidiary of E. I. DuPont de Nemours and Company (“DuPont”) 2003-2004, Vice President of DuPont Group 2000-2003; Vice President and General Manager of DuPont Lycra ® 1997-2000.
Edward C. White (58)	Chief Financial Officer since 2005; Senior Vice President and Director of Sales and Marketing for O-I Europe 2004-2005; Senior Vice President since 2003; Senior Vice President of Finance and Administration 2003-2004; Controller 1999-2004; Vice President 2002-2003; Vice President and Director of Finance, Planning, and Administration - International Operations 1997-1999.
John Bachey (57)	Vice President since 1997; Vice President of Glass Container Sales and Marketing since 2000; General Manager, European and Latin American Plastics Operations 1999-2000; General Manager, Europe and Latin America, Continental PET Technologies 1998-1999.
James W. Baehren (55)	Chief Administrative Officer since 2004; Senior Vice President and General Counsel since 2003;

	Corporate Secretary since 1998; Vice President and Director of Finance 2001-2003; Associate General Counsel 1996-2001.
Joseph V. Conda (64)	President of Healthcare Packaging since 2004; Vice President since 1998; Vice President and General Manager of Prescription Products 2000-2004; Vice President of Glass Container Sales and Marketing 1997-2000.
L. Richard Crawford (45)	President, Latin America Glass since 2005; Vice President, Director of Operations and Technology for O-I Europe 2004-2005; Vice President of Global Glass Technology 2002-2004; Vice President, Manufacturing Manager of Domestic Glass Container 2000-2002; Vice President of Domestic Glass Container and Area Manufacturing Manager, West Coast 1997-2000.
Jeffrey A. Denker (58)	Vice President since 2005; Treasurer since 1998; Assistant Treasurer 1988-1998; Director of International Finance 1987-1998.
Gerard D. Doyle (51)	Vice President and Chief Information Officer since 2004; CIO, ACI Packaging, O-I subsidiary in Australia 1996-2004.
Robert E. Lachmiller (52)	Vice President since 2003; Vice President, Global Operations and Technology since 2004; Vice President and Manufacturing Manager of Glass Container North America 2002-2004; Area Manufacturing Manager of Glass Container North America 1997-2002.
Matthew G. Longthorne (39)	President, North America Glass since 2005; Vice President and Corporate Controller 2004-2005; Glass Containers Vice President 2000-2004; Director of Finance and Administration, Glass Container North America 1999-2004.
Stephen P. Malia (51)	Senior Vice President, Chief Human Resources Officer since 2004; Senior Vice President, Human Resources, IMC Global Inc. 2000-2004.
Michael D. McDaniel (57)	Vice President since 1992; Vice President, President of Closure and Specialty Products since 2001; Vice President and General Manager of Continental PET Technologies 1998-2001; Vice President and General Manager of Closure and Specialty Products 1991-1998.

Philip McWeeny (66)	Vice President and General Counsel- Corporate and Assistant Secretary since 1988.

Gilberto Restrepo (65)	Senior Vice President since 2003; President of O-I Europe since 2004; General Manager of Latin American Glass Container Operations 2000-2004; Vice President of International Operations and General Manager, Western Region – Latin America 1997-2000; President of Cristaleria Peldar, S.A. since 1982.
Gregory W.J. Ridder (46)	President, OI Asia Pacific since 2006; Chief Financial Officer, OI Asia Pacific 1999-2005; Group Business Development Manager 1995-1999.
Raymond C. Schlaff (50)	Vice President, Chief Procurement Officer since 2004; Vice President, Global Supply Chain, Tyco Plastics and Adhesives business of Tyco International Ltd. 2003-2004; Group Vice President, Managing Director, Nalco Europe, a division of Ondeo Nalco Company 2002- 2003; Vice President, Global Supply Chain, Ondeo Nalco Company 2001-2002; Vice President, Global Procurement, Ondeo Nalco Company 2000- 2001.

Financial Information about Foreign and Domestic Operations

Information as to net sales, Segment Operating Profit, and assets of the Company's product and geographic segments is included in Note 20 to the Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

Asbestos-Related Contingent Liability – The Company has made, and will continue to make, substantial payments to satisfy claims of persons alleging exposure to asbestos-containing products and may need to record additional charges in the future for estimated asbestos-related costs. These substantial payments have affected and may continue to affect the Company's cost of borrowing and the ability to pursue acquisitions.

The Company 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 the Company's former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

The Company 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, the Company has accrued a total of approximately $2.99 billion through 2005, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy.

The Company conducted a comprehensive review of its asbestos-related liabilities and costs in connection with finalizing and reporting its results of operations for the year ended December 31, 2005 and concluded that an increase in its reserve for future asbestos-related costs in the amount of $135.0 million was required.

The ultimate amount of distributions which may be required to be made by the Company to fund the Company's asbestos-related payments cannot be estimated with certainty. The Company's reported results of operations for 2005 were materially affected by the $135.0 million fourth quarter charge and asbestos-related payments continue to be substantial. Any future additional charge may likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and may continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions.

Substantial Leverage – The Company's substantial indebtedness could adversely affect the Company's financial health.

The Company has a significant amount of debt. As of December 31, 2005, the Company had $5.3 billion of total debt outstanding. The Company's substantial indebtedness could result in the following consequences:

- Increase vulnerability to general adverse economic and industry conditions;
- Increase vulnerability to interest rate increases for the portion of the unhedged and fixed rate borrowing swapped into variable rates;
- Require the Company to dedicate a substantial portion of cash flow from operations to payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions, development efforts and other general corporate purposes;
- Limit flexibility in planning for, or reacting to the Company's competitors that have less debt; and
- Limit, along with the financial and other restrictive covenants in the documents governing our indebtedness, among other things, the ability to borrow additional funds.

Ability to Service Debt—To service its indebtedness, the Company will require a significant amount of cash. The Company's ability to generate cash depends on many factors beyond its control.

The Company's ability to make payments on and to refinance its indebtedness and to fund working capital, capital expenditures, acquisitions, development efforts and other general corporate purposes depends on its ability to generate cash in the future. The Company has no assurance that it will generate sufficient cash flow from operations, or that future borrowings will be available under the secured credit agreement, in an amount sufficient to enable the Company to

pay its indebtedness, or to fund other liquidity needs. If short term interest rates increase, the Company's debt service cost will increase because some of its debt is subject to short term variable interest rates. At December 31, 2005, the Company's

debt subject to variable interest rates, including fixed rate debt swapped to variable rate, represented approximately 45% of total debt.

The Company may need to refinance all or a portion of its indebtedness on or before maturity. If the Company is unable to generate sufficient cash flow and is unable to refinance or extend outstanding borrowings on commercially reasonable terms or at all, it may have to take one or more of the following actions:

- reduce or delay capital expenditures planned for replacements, improvements and expansions;
- sell assets;
- restructure debt; and/or
- obtain additional debt or equity financing.

The Company can provide no assurance that it could effect or implement any of these alternatives on satisfactory terms, if at all.

Debt Restrictions—The Company may not be able to finance future needs or adapt its business plans to changes because of restrictions contained in the secured credit agreement and the indentures and instruments governing other indebtedness.

The secured credit agreement, the indentures governing secured and unsecured notes and debentures, and certain of the agreements governing other indebtedness contain affirmative and negative covenants that limit the ability of the Company to take certain actions. For example, some of these indentures restrict, among other things, the ability of the issuer and its restricted subsidiaries to borrow money, pay dividends on, or redeem or repurchase its stock, make investments, create liens, enter into certain transactions with affiliates and sell certain assets or merge with or into other companies. These restrictions could adversely affect the Company's ability to operate its businesses and may limit its ability to take advantage of potential business opportunities as they arise.

Failure to comply with these or other covenants and restrictions contained in the secured credit agreement, the indentures or agreements governing other indebtedness could result in a default under those agreements, and the debt under those agreements, together with accrued interest, could then be declared immediately due and payable. If a default occurs under the secured credit agreement, the lenders could cause all of the outstanding debt obligations under such secured credit agreement to become due and payable, which would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default under the secured credit agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

International Operations – The Company is subject to risks associated with operating in foreign countries.

The Company operates manufacturing and other facilities throughout the world. Net sales from international operations totaled approximately $4.7 billion, representing approximately 67% of the Company's net sales for the year ended December 31, 2005. As a result of its international operations, the Company is subject to risks associated with operating in foreign countries, including:

- Political, social and economic instability;
- War, civil disturbance or acts of terrorism;
- Taking of property by nationalization or expropriation without fair compensation;
- Changes in government policies and regulations;

- Devaluations and fluctuations in currency exchange rates;
- Imposition of limitations on conversions of foreign currencies into dollars or remittance of dividends and other payments by foreign subsidiaries;
- Imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries;
- Hyperinflation in certain foreign countries; and
- Impositions or increase of investment and other restrictions or requirements by foreign governments.

The risks associated with operating in foreign countries may have a material adverse effect on operations.

Competition – The Company faces intense competition from other glass container producers, as well as from makers of alternative forms of packaging. Competitive pressures could adversely affect the Company's financial health.

The Company is subject to significant competition from other glass container producers, as well as from makers of alternative forms of packaging, such as aluminum cans and plastic containers. The Company competes with each rigid packaging competitor on the basis of price, quality, service and the marketing attributes of the container and the closure. Advantages or disadvantages in any of these competitive factors may be sufficient to cause the customer to consider changing suppliers and/or using an alternative form of packaging.

In addition to competing with other large, well-established manufacturers in the glass container segment, the Company competes with manufacturers of other forms of rigid packaging, principally aluminum cans and plastic containers, on the basis of quality, price and service. The Company also competes with manufacturers of non-rigid packaging alternatives, including flexible pouches and aseptic cartons, in serving the packaging needs of juice customers.

Pressures from competitors and producers of alternative forms of packaging have resulted in excess capacity in certain countries in the past and have led to significant pricing pressures in the rigid packaging market.

High Energy Costs – Higher energy costs worldwide and interrupted power supplies may have a material adverse effect on operations.

Electrical power and natural gas are vital to the Company's operations as it relies on a continuous power supply to conduct its business. In 2004 and 2005, higher energy costs worldwide negatively impacted the Company's glass container segment operating profit by $22.8 million and $75.7 million, respectively. If energy costs substantially increase in the future, the Company could experience a significant increase in operating costs, which may have a material adverse effect on operations.

Integration Risks – The Company may not be able to effectively integrate BSN or additional businesses it acquires in the future.

In addition to the BSN Acquisition, the Company is considering strategic transactions, including acquisitions that will complement, strengthen and enhance growth in its worldwide glass and plastics packaging operations. The Company is evaluating a number of these transactions on a preliminary basis but it is not certain that any of these transactions will advance beyond the preliminary stages or be completed. The BSN Acquisition and strategic transactions, including any future acquisitions, are subject to various risks and uncertainties, including:

- The inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which are located in diverse geographic regions) and achieve expected synergies;
- The potential disruption of existing business and diversion of management's attention from day-to-day operations;
- The inability to maintain uniform standards, controls, procedures and policies;
- The need or obligation to divest portions of the acquired companies; and
- The potential impairment of relationships with customers.

In addition, the Company cannot make assurances that the integration and consolidation of newly acquired businesses, including BSN, will achieve any anticipated cost savings and operating synergies.

Customer Consolidation – The continuing consolidation of the Company's customer base may intensify pricing pressures and have a material adverse effect on operations.

Since the early 1990s, many of the Company's largest customers have acquired companies with similar or complementary product lines. This consolidation has increased the concentration of the Company's business with its largest customers. In many cases, such consolidation has been accompanied by pressure from customers for lower prices, reflecting the increase in the total volume of products purchased or the elimination of a price differential between the acquiring customer and the company acquired. Increased pricing pressures from the Company's customers may have a material adverse effect on operations.

Seasonality and Raw Materials – Profitability could be affected by varied seasonal demands and the availability of raw materials.

Due principally to the seasonal nature of the brewing, iced tea and other beverage industries, in which demand is stronger during the summer months, sales of the Company's products have varied and are expected to vary by quarter. Shipments in the U.S. and Europe are typically greater in the second and third quarters of the year, while shipments in South America and the Asia Pacific region are typically greater in the first and fourth quarters of the year. Unseasonably cool weather during peak demand periods can reduce demand for certain beverages packaged in the Company's containers.

The raw materials that the Company uses have historically been available in adequate supply from multiple sources. For certain raw materials, however, there may be temporary shortages due to weather or other factors, including disruptions in supply caused by raw material transportation or production delays. These shortages, as well as material increases in the cost of any of the principal raw materials that the Company uses, may have a material adverse effect on operations.

Environmental Risks – The Company is subject to various environmental legal requirements and may be subject to new legal requirements in the future. These requirements may have a material adverse effect on operations.

The Company's operations and properties, both in the U.S. and abroad, are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. Such legal requirements frequently change and vary among jurisdictions. The Company's operations and properties, both in the U.S. and abroad, must comply with these legal requirements. These requirements may have a material adverse effect on operations.

The Company has incurred, and expects to incur, costs for its operations to comply with environmental legal requirements, and these costs could increase in the future. Many environmental legal requirements provide for substantial fines, orders (including orders to cease operations), and criminal sanctions for violations. These legal requirements may apply to conditions at properties that the Company presently or formerly owned or operated, as well as at other properties for which the Company may be responsible, including those at which wastes attributable to the Company were disposed. A significant order or judgment against the Company, the loss of a significant permit or license or the imposition of a significant fine may have a material adverse effect on operations.

A number of governmental authorities both in the U.S. and abroad have enacted, or are considering, legal requirements that would mandate certain rates of recycling, the use of recycled materials and/or limitations on certain kinds of packaging materials such as plastics. In addition, some companies with packaging needs have responded to such developments and/or perceived environmental concerns of consumers by using containers made in whole or in part of recycled materials. Such developments may reduce the demand for some of the Company's products and/or increase the Company's costs, which may have a material adverse effect on operations.

Labor Relations – Some of the Company's employees are unionized or represented by workers' councils.

The Company is party to a number of collective bargaining agreements with labor unions which at December 31, 2005, covered approximately 66% of the Company's employees in North America. The agreement covering substantially all of the Company's union-affiliated employees in its U.S. glass container operations expires in 2008. Upon the expiration of any collective bargaining agreement, if the Company is unable to negotiate acceptable contracts with labor unions, it could result in strikes by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. In addition, a large number of the Company's employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the U.S. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of the Company's employees in Europe are represented by workers' councils that must approve any changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure the Company's workforce. Although the Company believes that it has a good working relationship with its employees, if the Company's employees were to engage in a strike or other work stoppage, the Company could experience a significant disruption of operations and/or higher ongoing labor costs, which may have a material adverse effect on operations.

Accounting – The Company's financial results are based upon estimates and assumptions that may differ from actual results.

In preparing the Company's consolidated financial statements in accordance with U.S. generally accepted accounting principles, several estimates and assumptions are made that affect the accounting for and recognition of assets, liabilities, revenues and expenses. These estimates and assumptions must be made because certain information that is used in the preparation of the Company's financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Company must exercise significant judgment. The Company believes that accounting for pension benefit plans, contingencies and litigation, goodwill, and deferred tax assets involves the more significant judgments and estimates used in the preparation of its consolidated financial statements. Actual results for all estimates could differ materially from the

estimates and assumptions that the Company uses, which could have a material adverse effect on the Company's financial condition and results of operations.

Accounting Standards – The adoption of new accounting standards or interpretations could adversely impact the Company's financial results.

The Company's implementation of and compliance with changes in accounting rules and interpretations could adversely affect its operating results or cause unanticipated fluctuations in its results in future periods. The accounting rules and regulations that the Company must comply with are complex and continually changing. Recent actions and public comments from the SEC have focused on the integrity of financial reporting generally. The Financial Accounting Standards Board, or FASB, has recently introduced several new or proposed accounting standards, or is developing new proposed standards, which would represent a significant change from current industry practices. For example, in December 2004, the FASB issued Statement No. 123 (revised 2004), "Share-Based Payment," which requires publicly traded companies to expense stock options, among other equity instruments, in the reporting period beginning January 1, 2006. FAS No. 123R requires each such company to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the company's income statement over the vesting period of the award rather than as a disclosure in the footnotes to the financial statements. FAS No. 123R will reduce the Company's reported financial results and could decrease the Company's stock price. In addition, many companies' accounting policies are being subject to heightened scrutiny by regulators and the public. While the Company believes that its financial statements have been prepared in accordance with U.S. generally accepted accounting principles, the Company cannot predict the impact of future changes to accounting principles or its accounting policies on its financial statements going forward.

Funded Status of Pension Plans – Recognition of a minimum pension liability may cause a significant reduction in net worth.

Statement of Financial Accounting Standards No. 87, "Accounting for Pensions," requires balance sheet recognition of a minimum liability if the fair value of plan assets is less than the accumulated benefit obligation ("ABO") at the end of the year. The fair values of the Company's U.S. pension plan assets exceeded the ABO at December 31, 2005; therefore, no recognition of a minimum liability was required with respect to these plans. If the ABO of any of the Company's principal pension plans in the U.S., the Netherlands and Australia exceeds the fair value of its assets at the next measurement date, the Company will be required to write off the related prepaid pension asset and record a liability equal to the excess of the ABO over the fair value of the assets of such plan. The non-cash charge would result in a decrease in the Accumulated Other Comprehensive Income component of share owners' equity that would significantly reduce net worth. Even if the fair values of the U.S. plans' assets are less than ABO at December 31, 2006, the Company believes it will not be required to make cash contributions to the U.S. plans for at least several years. The covenants under the Company's Third Amended and Restated Secured Credit Agreement would not be affected by a reduction in the Company's net worth if a significant non-cash charge was taken to write off the prepaid pension assets.

Deferred Tax Assets – Recognition of minimum pension liabilities may require a deferred tax valuation allowance.

In the U.S., the Company has recorded significant deferred tax assets, the largest of which relate to net operating losses, capital losses, tax credits and the accrued liability for asbestos-related costs that are not deductible until paid. The deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relate to the prepaid pension asset and accelerated depreciation. The Company has recorded a valuation allowance for the portion of U.S. deferred tax assets not offset by deferred tax liabilities. Should the Company be required to write off the prepaid pension assets related to the U.S.

pension plans, the related deferred tax liability would also be written off, leaving deferred tax assets amounting to approximately $262 million without a valuation allowance. It is currently likely that an additional valuation allowance would be required in that case since it is currently more likely than not that the deferred tax asset would not be realized.

Goodwill – A significant write down of goodwill would have a material adverse effect on the Company's reported results of operations and net worth.

As required by FAS No. 142, "Goodwill and Other Intangibles," the Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment using the required business valuation methods. These methods include the use of a weighted average cost of capital to calculate the present

value of the expected future cash flows of the Company's reporting units. Future changes in the cost of capital, expected cash flows, or other factors may cause the Company's goodwill to be impaired, resulting in a non-cash charge against results of operations to write down goodwill for the amount of the impairment. If a significant write down is required, the charge would have a material adverse effect on the Company's reported results of operations and net worth.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2 . PROPERTIES

The principal manufacturing facilities and other material important physical properties of the continuing operations of the Company at December 31, 2005 are listed below and grouped by product segment. All properties shown are owned in fee except where otherwise noted.

Glass Containers

North American Operations

United States

Glass Container Plants

Atlanta, GA
Auburn, NY
Brockway, PA
Charlotte, MI
Clarion, PA
Crenshaw, PA
Danville, VA
Lapel, IN
Los Angeles, CA
Muskogee, OK
Oakland, CA
Portland, OR
Streator, IL
Toano, VA
Tracy, CA
Waco, TX
Windsor, CO
Winston-Salem, NC
Zanesville, OH

Machine Shops

Brockway, PA
Godfrey, IL

Canada

Glass Container Plants

Brampton, Ontario
Lavington, British Columbia
Montreal, Quebec
Scoudouc, New Brunswick
Toronto, Ontario

Asia Pacific Operations

Australia

Glass Container Plants

Adelaide
Brisbane
Melbourne
Sydney

Mold Shop

Melbourne

China

Glass Container Plants

Guangzhou
Shanghai
Tianjin
Wuhan

Mold Shop

Tianjin

Indonesia

Glass Container Plant

Jakarta

New Zealand

Glass Container Plant

Auckland

European Operations

Czech Republic

Glass Container Plants

Sokolov
Teplice

Estonia

Glass Container Plant

Jarvakandi

Finland

Glass Container Plant

Karhula

France

Glass Container Plants

Beziers
Gironcourt
Labegude
Puy-Guillaume
Reims BSN
Vayres
Veauche
VMC Reims
Wingles

Germany

Glass Container Plants

Achern
Bernsdorf
Holzminden
Stoevesandt

Hungary

Glass Container Plant

Oroshaza

Italy

Glass Container Plants

Asti
Bari (2 plants)
Bologna
Latina
Trapani
Napoli
Pordenone
Terni
Trento (2 plants)
Treviso
Varese

Mold Shop

Napoli

Glass Recycling Plant

Alessandria

Netherlands

Glass Container Plants

Leerdam
Maastricht
Schiedam

Poland

Glass Container Plants

Antoninek
Jaroslaw

Spain

Glass Container Plants

Alcala
Barcelona

United Kingdom

Glass Container Plants

Alloa
Harlow

Sand Plant

Devilla

Machine Shop

Birmingham

South American Operations

Brazil

Glass Container Plants

Rio de Janeiro
(glass container and tableware)
Sao Paulo

Mold Shop

Manaus

Silica Sand Plant
Descalvado

Colombia
Glass Container Plants
Envigado
Soacha
Zipaquira (glass container and flat glass)

Tableware Plant
Buga

Machine Shop
Cali

Silica Sand Plant
Zipaquira

Ecuador
Glass Container Plant
Guayaquil

Peru
Glass Container Plant
Callao

Venezuela
Glass Container Plants
Valencia
Valera

Plastics Packaging
North American Operations
United States
Berlin, OH (1)
Bowling Green, OH
Brookville, PA
Constantine, MI
Erie, PA
Franklin, IN
Greenville, SC
Hamlet, NC
Hattiesburg, MS
Nashua, NH
Rocky Mount, NC
Rossville, GA (2)
Washington, NJ (2)

Puerto Rico
Las Piedras

Asia Pacific Operations
Australia
Brisbane
Melbourne
Perth

Singapore
Singapore (2)

European Operations
Hungary
Gyor (2)

South American Operations
Brazil
Sao Paulo

Corporate Facilities
World Headquarters Building
Toledo, OH (2)

Levis Development Park
Perrysburg, OH

(1) This facility is financed in whole or in part under tax-exempt financing agreements.

(2) This facility is leased in whole or in part.

The Company believes that its facilities are well maintained and currently adequate for its planned production requirements over the next three to five years.

ITEM 3. < FONT SIZE="2" FACE="TIMES NEW ROMAN" STYLE="FONT-SIZE:10.0PT;TEXT-TRANSFORM:NONE;">LEGAL PROCEEDINGS

For further information on legal proceedings, see Note 19 to the Consolidated Financial Statements and the section entitled “Environmental and Other Governmental Regulation” in Item 1.

ITEM 4. < FONT SIZE="2" FACE="TIMES NEW ROMAN" STYLE="FONT-SIZE:10.0PT;TEXT-TRANSFORM:NONE;">SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the last quarter of the fiscal year ended December 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON STOCK AND RELATED SHARE OWNER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The price range for the Company’s common stock on the New York Stock Exchange, as reported by National Association of Securities Dealers, was as follows:

	2005		2004	
	High	Low	High	Low
First Quarter	$ 26.68	$ 20.25	$ 14.13	$ 10.80
Second Quarter	27.19	22.62	17.40	13.26
Third Quarter	27.50	20.05	17.10	13.92
Fourth Quarter	22.35	17.56	23.89	15.41

The number of share owners of record on January 31, 2006 was 1,320. Approximately 94% of the outstanding shares were registered in the name of Depository Trust Company, or CEDE, which held such shares on behalf of a number of brokerage firms, banks, and other financial institutions. The shares attributed to these financial institutions, in turn, represented the interests of more than 25,000 unidentified beneficial owners. No dividends have been declared or paid since the Company’s initial public offering in December 1991 and the Company does not anticipate paying any dividends in the near future. For restrictions on payment of dividends on common stock, see Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity – Current and Long Term Debt and Note 6 to the Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below relates to each of the five years in the period ended December 31, 2005. The financial data for each of the five years in the period ended December 31, 2005 was derived from the audited consolidated financial statements of the Company. For more information, see the “Consolidated Financial Statements” included elsewhere in this document.

Consolidated operating results (a):	Years ended December 31, 2005	2004	2003	2002	2001
	(Dollar amounts in millions)				
Net sales	$ 7,079.0	$ 6,128.4	$ 4,975.6	$ 4,621.2	$ 4,343.7
Other revenue (b)	110.7	135.0	90.2	110.0	599.2
	7,189.7	6,263.4	5,065.8	4,731.2	4,942.9
Costs and expenses:					
Manufacturing, shipping and delivery (c)	5,719.5	4,918.4	3,967.9	3,572.9	3,359.3
Research, engineering, selling, administrative and other (d)	1,222.1	659.8	1,106.1	848.6	572.4
Earnings (loss) before interest expense and items below	248.1	685.2	(8.2)	309.7	1,011.2
Interest expense (e)	466.7	474.9	429.8	372.2	360.3
Earnings (loss) from continuing operations before items below	(218.6)	210.3	(438.0)	(62.5)	650.9
Provision (credit) for income taxes (f)	367.1	5.9	(133.7)	(49.8)	266.4
Minority share owners’ interests in earnings of subsidiaries	35.9	32.9	25.8	25.5	19.5
Earnings (loss) from continuing operations before cumulative effect of accounting change	(621.6)	171.5	(330.1)	(38.2)	365.0
Net earnings (loss) of discontinued operations (g)	63.0	64.0	(660.7)	38.0	(8.4)
Cumulative effect of accounting change (h)				(460.0)	
Net earnings (loss)	$ (558.6)	$ 235.5	$ (990.8)	$ (460.2)	$ 356.6

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(Dollar amounts in millions, except per share data)				
Basic earnings (loss) per share of common stock:					
Earnings (loss) from continuing operations before cumulative effect of accounting change	$ (4.26)	$ 1.01	$ (2.39)	$ (0.41)	$ 2.36
Net earnings (loss) of discontinued operations	0.41	0.44	(4.50)	0.26	(0.06)
Cumulative effect of accounting change				(3.14)	
Net earnings (loss)	$ (3.85)	$ 1.45	$ (6.89)	$ (3.29)	$ 2.30
Weighted average shares outstanding (in thousands)	150,910	147,963	146,914	146,616	145,456
Diluted earnings (loss) per share of common stock:					
Earnings (loss) from continuing operations before cumulative effect of accounting change	$ (4.26)	$ 1.00	$ (2.39)	$ (0.41)	$ 2.36
Net earnings (loss) of discontinued operations	0.41	0.43	(4.50)	0.26	(0.06)
Cumulative effect of accounting change				(3.14)	
Net earnings (loss)	$ (3.85)	$ 1.43	$ (6.89)	$ (3.29)	$ 2.30
Diluted average shares (in thousands)	150,910	149,680	146,914	146,616	145,661

The Company's convertible preferred stock was not included in the computation of 2004 and 2001 diluted earnings per share since the result would have been antidilutive. Options to purchase 5,067,104 and 7,776,942 weighted average shares of common stock which were outstanding during 2004 and 2001, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. For the years ended December 31, 2005, 2003 and 2002, diluted earnings per share of common stock are equal to basic earnings per share of common stock due to the net losses.

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(Dollar amounts in millions)				
Other data:					
The following are included in net earnings:					
Depreciation	$ 480.2	$ 436.0	$ 391.9	$ 353.4	$ 335.9
Amortization of goodwill					55.9
Amortization of intangibles	27.8	23.8	21.4	21.5	21.8
Amortization of deferred finance fees (included in interest expense)	16.0	15.0	14.4	16.1	15.0
	$ 524.0	$ 474.8	$ 427.7	$ 391.0	$ 428.6
Balance sheet data (at end of period):					
Working capital	$ 460	$ 494	$ 758	$ 590	$ 756
Total assets	9,522	10,737	9,531	9,869	10,107
Total debt	5,297	5,360	5,426	5,346	5,401
Share owners' equity	724	1,544	1,003	1,671	2,152

(a) Amounts for the year ended December 31, 2004 include the results of BSN from the date of acquisition on June 21, 2004.

(b) Other revenue in 2005 includes $28.1 million (pretax and after tax) from the sale of the Company's glass container facility in Corsico, Italy.

Other revenue in 2004 includes: (1) a gain of $20.6 million ($14.5 million after tax) for the sale of certain real property, and (2) a gain of $31.0 million ($13.1 million after tax) for a restructuring in the Italian Specialty Glass business.

Other revenue in 2001 includes: (1) a gain of $457.3 million ($284.4 million after tax) related to the sale of the Harbor Capital Advisors business and (2) gains totaling $13.1 million ($12.0 million after tax) related to the sale of the label business and the sale of a minerals business in Australia.

(c) Amount for 2005 includes a gain of $3.8 million ($2.3 million after tax) from the mark to market effect of natural gas hedge contracts.

Amount for 2004 includes a gain of $4.9 million ($3.2 million after tax) from the mark to market effect of natural gas hedge contracts.

(d) Amount for 2005 includes a charge of $135.0 million ($86.0 million after tax) to increase the reserve for estimated future asbestos-related costs and a charge of $494.0 million (pretax and after tax) to write down goodwill in the Asia-Pacific Glass unit.

Amount for 2004 includes charges totaling $159.0 million ($90.3 million after tax) for the following: (1) $152.6 million ($84.9 million after tax) to increase the reserve for estimated future asbestos-related costs; and (2) $6.4 million ($5.4 million after tax) for restructuring a life insurance program in order to comply with recent statutory and tax regulation changes.

Amount for 2003 includes charges totaling $694.2 million ($490.5 million after tax) for the following: (1) $450.0 million ($292.5 million after tax) to increase the reserve for estimated future asbestos-related costs; (2) $50.0 million ($50.0 million after tax) write-down of an equity investment in a soda ash mining operation; (3) $43.0 million ($30.1 million after tax) for the write-down of Plastics Packaging assets in the Asia Pacific region; (4) $37.4 million ($37.4 million after tax) for the loss on the sale of long-term notes receivable; (5) $37.4 million ($23.4 million after tax) for the estimated loss on the sale of certain closures assets; (6) $28.5 million ($17.8 million after tax) for the permanent closure of the Hayward, California glass container factory; (7) $23.9 million ($17.4 million after tax) for the shutdown of the Perth, Australia glass container factory; (8) $20.1 million ($19.5 million after tax) for the shutdown of the Milton, Ontario glass container factory; and (9) $3.9 million ($2.4 million after tax) for an additional loss on the sale of certain closures assets.

Amount for 2002 includes an adjustment of $475.0 million ($308.8 million after tax) to the reserve for estimated future asbestos-related costs.

Amount for 2001 includes charges totaling $133.7 million ($109.2 million after tax and minority share owners' interests) for the following: (1) charges of $66.1 million ($55.3 million after tax and minority share owners' interests) related to restructuring and impairment charges at certain of the Company's international glass operations, principally Venezuela and Puerto Rico, as well as certain other domestic and international operations; (2) a charge of $31.0 million (pretax and after tax) related to the loss on the sale of the Company's facilities in India; (3) charges of $28.7 million ($18.0 million after tax) related to special employee benefit programs; and (4) a charge of $7.9 million ($4.9 million after tax) related to restructuring manufacturing capacity in the medical devices business.

(e) Amount for 2004 includes charges of $28.0 million ($18.3 million after tax) for note repurchase premiums.

Amount for 2003 includes a charge of $13.2 million ($8.2 million after tax) for note repurchase premiums.

Amount for 2001 includes a net interest charge of $4.0 million ($2.8 million after tax) related to interest on the resolution of the transfer of pension assets and liabilities for a previous acquisition and divestiture.

Includes additional interest charges for the write off of unamortized deferred financing fees related to the early extinguishment of debt as follows: $2.8 million ($1.8 million after tax) for 2004; $1.3 million ($0.9 million after tax) for 2003; $9.1 million ($5.7 million after tax) for 2002; and $4.7 million ($2.9 million after tax) for 2001.

(f) Amount for 2005 includes a charge of $306.6 million to record a valuation allowance related to accumulated deferred tax assets in the U.S. and a benefit of $5.3 million for the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual is no longer required based on the Company's reassessment of potential liabilities.

Amount for 2004 includes a benefit of $33.1 million for a tax consolidation in the Australian glass business.

Amount for 2001 includes a $6.0 million charge to adjust tax liabilities in Italy as a result of recent legislation.

(g) Amount for 2005 consists principally of a third quarter benefit from the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual is no longer required based on the Company's reassessment of the potential liabilities.

Amounts related to the Company's plastic blow-molded container business have been reclassified to discontinued operations for 2001-2004 as a result of the sale of that business in 2004.

(h) On January 1, 2002, the Company adopted Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). As required by FAS No. 142, the Company changed its method of accounting for goodwill and discontinued amortization of goodwill effective January 1, 2002. Also as required by FAS No. 142, the transitional goodwill impairment loss of $460.0 million is recognized as the cumulative effect of a change in method of accounting.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview – Year ended December 2005 and 2004

Net sales of the Glass Containers segment were $900.8 million higher than the prior year principally resulting from the BSN Acquisition and favorable foreign currency exchange rates.

Net sales of the Plastics Packaging segment were $49.8 million higher than the prior year. Higher sales from improved pricing, increased sales volume and pass-through of higher resin costs were partially offset by the absence of sales from plastic container assets in the Asia Pacific region that were divested in the second quarter of 2004.

Segment Operating Profit of the Glass Containers segment was $31.2 million higher than the prior year. The BSN Acquisition accounted for most of the increase. The benefits of stronger foreign currencies and higher selling prices were partially offset by inflationary cost increases.

Segment Operating Profit of the Plastics Products segment was $12.2 million higher than the prior year. Increases from improved pricing, sales volume, product mix and a gain from the sale of a plant related to the partial exit from the Australian plastics business more than offset increased costs.

Interest expense was $8.2 million lower than the prior year. The decrease resulted from lower debt levels in the third and fourth quarters of 2005 and the non-recurrence of repurchase premiums partially offset by higher variable interest rates and higher debt from the BSN Acquisition.

Loss from continuing operations in 2005 was $621.6 million, or $4.26 per share (diluted), down from earnings of $171.5 million, or $1.00 per share (diluted), from continuing operations in 2004. Earnings in both periods included items that management considers not representative of continuing operations. These items decreased net earnings in 2005 by $850.9 million, or $5.62 per share, and decreased net earnings in 2004 by $46.5 million, or $0.31 per share.

Cash payments for asbestos-related costs were $171.1 million, down 10.0% from the prior year.

The Company's total debt at December 31, 2005 was $5.30 billion or $63.4 million lower than the prior year balance. Exclusive of the $191.8 million increase in both debt and accounts receivable required by a change in the Company's European accounts receivable securitization program, total debt decreased by $255.2 million to its lowest level since 1998.

Results of Operations - Comparison of 2005 with 2004

Net Sales

The Company's net sales by segment for 2005 and 2004 are presented in the following table. The Plastics Packaging amounts for 2004 reflect only the continuing operations. For further information, see Segment Information included in Note 20 to the Condensed Consolidated Financial Statements.

	2005	2004
	(dollars in millions)	
Glass Containers	$ 6,266.9	$ 5,366.1
Plastics Packaging	812.1	762.3
Segment and consolidated net sales	$ 7,079.0	$ 6,128.4

Consolidated net sales for 2005 increased $950.6 million, or 15.5%, to $7,079.0 million from $6,128.4 million in 2004.

Net sales of the Glass Containers segment increased $900.8 million, or 16.8%, over 2004. Contributing to the increase were the additional sales from the BSN Acquisition. Increased shipments of beverage containers throughout the Americas more than offset reduced shipments of food containers in North America. Improved pricing also had a favorable effect on net sales. Favorable currency exchange rates accounted for about 5% of the increase. Partially offsetting these increases was the absence of sales from the Castellar factory sold in January 2005.

The change in net sales for the Glass Containers segment can be summarized as follows (dollars in millions):

Net sales - 2004		$ 5,366.1
Net effect of the BSN Acquisition, volume, price, and mix	$ 883.3	
Effects of changing foreign currency rates	46.2	
Divestiture of Castellar factory	(28.7)	
Total net effect on sales		900.8
Net sales - 2005		$ 6,266.9

Net sales of the Plastics Packaging segment increased $49.8 million, or 6.5%, from 2004. The higher sales reflected improved pricing and sales volume in several product lines, the pass-through effect of higher resin costs, and favorable currency translation rates. Partially offsetting these increases was the absence of sales from plastic container assets in the Asia Pacific region that were divested in the second quarter of 2004.

The change in net sales for the Plastics Packaging segment can be summarized as follows (dollars in millions):

Net sales - 2004		$ 762.3
Effect of increased resin cost pass-throughs	$ 44.8	
Net effect of volume, price and mix	34.4	
Effects of changing foreign currency rates	3.5	
Divestiture	(32.9)	
Total net effect on sales		49.8
Net sales - 2005		$ 812.1

Segment Operating Profit

Operating Profit for product 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. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments. The Plastics Packaging amounts for 2004 reflect only the continuing operations. For further information, see Segment Information included in Note 20 to the Consolidated Financial Statements.

	2005	2004
	(dollars in millions)	
Glass Containers	$ 790.8	$ 759.6
Plastics Packaging	127.2	115.0
Eliminations and other retained items	(89.4)	(102.2)

Segment Operating Profit of the Glass Containers segment for 2005 increased $31.2 million, or 4.1%, to $790.8 million, compared with Segment Operating Profit of $759.6 million in 2004. Factors contributing to the increase were: (1) the additional operating profit from the BSN Acquisition; (2) increased unit shipments of beverage containers principally in the Americas; (3) favorable exchange rates; (4) generally improved selling prices; and (5) the non-recurrence of the acquisition step-up of BSN finished goods inventory. Factors that partially offset the increase were: (1) inflationary cost increases including energy, raw material costs, and transportation; (2) temporarily idled production capacity to reduce inventory; (3) costs of the European integration and new European headquarters; (4) the absence of equity earnings from Consol Limited (divested in the fourth quarter of 2004); (5) the absence of operating profit from the Corsico and Castellar factories; and (6) reduced food container shipments in North America.

The change in Segment Operating Profit for the Glass Containers segment can be summarized as follows:

Segment Operating Profit - 2004		$ 759.6
Net effect of BSN acquisition and volume, price, and mix	$ 184.0	
Non-recurrence of BSN inventory step-up	31.1	
Effects of changing foreign currency rates	14.5	
Higher energy costs	(75.7)	
Other inflationary cost increases	(57.7)	
Temporarily idled production capacity to reduce inventory	(20.5)	
Effects of European integration and new European headquarter costs	(18.0)	
Divestiture of Corsico and Castellar factories and Consol investment	(13.6)	
Increased delivery and warehousing costs	(4.7)	
Other	(8.2)	
Total net effect on Segment Operating Profit		31.2
Segment Operating Profit -2005		$ 790.8

Segment Operating Profit of the Plastics Packaging segment for 2005 increased $12.2 million, or 10.6%, to $127.2 million compared with Segment Operating Profit of $115.0 million in 2004. The 2005 amount includes a $6 million fourth quarter gain from the sale of one plant related to the partial exit from the Australian plastics business and a reduction of the accrued exit costs. Also contributing to the increase were the effects of improved pricing, product mix, and sales volume which more than offset the effect of increases in manufacturing, shipping and delivery costs, and the absence of profits from the plastic container assets in the Asia Pacific region that were divested in the second quarter of 2004.

The change in Segment Operating Profit for the Plastics Packaging segment can be summarized as follows (dollars in millions):

Segment Operating Profit - 2004		$ 115.0
Net effect of volume, price and mix	$ 14.8	
Partial exit of Australian plastics business	6.0	
Non-recurrence plant shut down costs	3.7	
Divestiture	(4.1)	
Increased delivery, warehousing and other inflationary cost increases	(4.2)	
Higher energy costs	(1.9)	
Other	(2.1)	
Total net effect on Segment Operating Profit		12.2
Segment Operating Profit - 2005		$ 127.2

Eliminations and other retained items for 2005 were favorable by $12.8 million compared to 2004. The 2005 year reflects a favorable adjustment of approximately $10.0 million to the Company’s accruals for self-insured risks, partially offset by higher retained costs for the divested blow molded plastic container business and adjustments made to certain accruals. The 2004 year included self-insured property and casualty losses that did not recur in 2005.

Interest Expense

Interest expense decreased to $466.7 million in 2005 from $474.9 million in 2004. The 2004 amount included $30.8 million for repurchase premiums and write-offs of unamortized finance fees. Exclusive of

that amount, interest expense increased $22.6 million in 2005 due to higher interest rates on the Company’s variable rate debt and additional interest as a result of higher debt related to the BSN Acquisition. Partially offsetting this increase was lower interest as a result of lower average debt balances in the third and fourth quarters of 2005 and lower interest rates on fixed rate debt in the fourth quarter of 2005 compared to the fourth quarter of 2004.

Provision for Income Taxes

Excluding the effects of separately taxed items in both periods, listed in the table below, the Company's effective tax rate for 2005 was 29.9% compared with 26.9% in 2004. The higher 2005 effective rate is principally due to a change in the mix of earnings toward higher tax international jurisdictions, the recent tax legislation in Ohio and recognition of other discrete changes in deferred taxes during 2005.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for 2005 was $35.9 million compared to $32.9 million for 2004.

Earnings from Continuing Operations

For 2005, the Company recorded a loss from continuing operations of $621.6 million compared to earnings from continuing operations of $171.5 million for the year ended December 31, 2004. The after tax effects of the items excluded from Segment Operating Profit, the tax charge to increase the valuation allowance, the tax benefit of reversing an accrual for potential tax liabilities, the additional interest charges and the tax benefit on the Australian tax consolidation, increased or decreased earnings in 2005 and 2004 as set forth in the following table (dollars in millions).

Description	Net Earnings Increase (Decrease) 2005	2004
Gain on the sale of the Corsico, Italy glass container facility	$ 28.1	$ —
A tax benefit from the reversal of an accrual for potential tax liabilities	5.3	
Gain on the sale of certain real property		14.5
Gain on a restructuring in the Italian Specialty Glass business		13.1
Gain from the mark to market effect of natural gas hedge contracts	2.3	3.2
A benefit for a tax consolidation in the Australian glass business		33.1
Impairment of goodwill in the Asia-Pacific Glass unit	(494.0)	
Increase in the deferred tax valuation allowance	(306.6)	
Increase in the reserve for future asbestos related costs	(86.0)	(84.9)
Note repurchase premiums and write-off of finance fees		(20.1)
Life insurance restructuring charge		(5.4)
Total	$ (850.9)	$ (46.5)

Executive Overview – Year ended December 2004 and 2003

Net sales of the Glass Containers segment increased $1,183.2 million as a result of the BSN Acquisition, world wide unit shipment volume growth of approximately 2%, generally higher selling prices, a

favorable product mix, and stronger foreign exchange rates in the major regions that the Company does business.

Net sales of the continuing Plastics Packaging segment decreased $30.4 million as a result of lower sales following the divestiture of certain closure assets in the fourth quarter of 2003, the divestiture of a portion of the Asia Pacific plastics business in the second quarter of 2004, and lower shipments of prescription vials in 2004 as compared to 2003 due to the strong flu season in the prior year. These negative effects were partially offset by higher unit shipments of closures.

Segment Operating Profit of the Glass Containers segment increased by $100.8 million over 2003 as a result of the same principal factors that increased sales. In addition, improved productivity also improved Segment Operating Profit over the prior year, but was partially offset by inflation in the Company's manufacturing and overhead costs.

Segment operating Profit of the Plastics Packaging segment increased by $16.3 million as a result of favorable product sales mix, improved productivity, and the non-recurrence of a third quarter 2003 write-off of miscellaneous assets that were no longer being used.

Interest expense for continuing operations increased by $45.1 million as a result of the BSN Acquisition and from tender offer premiums and the write-off of deferred finance fees related to the refinancing of the BSN Senior Subordinated notes and the early retirement of certain outstanding public obligations of the Company.

Net earnings from continuing operations increased by $501.6 million over 2003 as a result of the items listed above in Segment Operating Profit as well as a smaller charge in 2004 to increase the Company's asbestos reserve ($84.9 million after tax in 2004 versus $292.5 million after tax in 2003). During 2004 and 2003, the Company recorded several items that management considers not representative of ongoing operations. The net after tax effect of these items was an increase in earnings of $38.4 million for 2004 and a decrease in earnings of $207.1 million for 2003.

The Company completed the BSN Acquisition on June 21, 2004 for a total purchase price of approximately $1.3 billion.

The Company completed the sale of its blow-molded plastic container operations on October 7, 2004 with total sales proceeds of approximately $1.2 billion.

Asbestos related cash payments of $190.1 million were lower than the prior year by 4.5%.

The Company's total debt at December 31, 2004 was $5.36 billion or $65.1 million lower than the prior year balance.

Cash provided by continuing operating activities improved by $239.7 million over the prior year, principally as a result of higher earnings and the Company's focus on working capital reductions and capital efficiency.

Results of Operations - Comparison of 2004 with 2003

Net Sales

The Company's net sales by segment for 2004 and 2003 are presented in the following table. The Plastics Packaging amounts reflect the continuing operations and therefore, the results of the discontinued operations have been reclassified from the 2004 and 2003 amounts. For further information, see Segment Information included in Note 20 to the Consolidated Financial Statements.

	2004	2003
	(dollars in millions)	
Glass Containers	$ 5,366.1	$ 4,182.9
Plastics Packaging	762.3	792.7
Segment and consolidated net sales	$ 6,128.4	$ 4,975.6

Consolidated net sales for 2004 increased $1,152.8 million, or 23.2%, to $6,128.4 million from $4,975.6 million for 2003.

Net sales of the Glass Containers segment increased $1,183.2 million, or 28.3%, over 2003.

In Europe, the Company's largest region, sales increased $939.5 million from 2003. Net sales from the newly acquired BSN business made up $768.6 million of the region's increase. Stronger currency rates against the U.S. dollar for the European currencies also contributed to the sales growth. Unit volumes for the previously owned European businesses were up 2.8% overall with strong growth in the food, beverage and spirit markets.

In North America, sales for 2004 were $47.2 million higher than sales in 2003. The higher sales resulted principally from increased selling prices and improved product sales mix as unit shipments declined by about 2% overall. The decrease in unit shipments was more than accounted for by the previously disclosed loss of a beverage container customer. Shipments of beer and malt beverage containers increased by approximately 4.8% over 2003, primarily due to the increase in business from a significant malt beverage customer. Shipments of containers for wine and spirits were also higher for 2004; however, shipments of containers for tea, juice and other beverages were lower.

In the Asia Pacific region, sales increased $117.7 million from 2003 principally due to unit volumes that were up 2.9% overall resulting from strong growth in beer, wine and low alcohol refreshers partially offset by lower shipments of food containers.

In South America, sales increased $78.8 million principally as a result of glass container shipments increasing by more than 5% led by strong growth in the beer and beverage markets. Unit growth was significantly affected by lower exports to North America as a result of the loss of a previously disclosed beverage customer. Excluding the loss of those shipments, overall volume growth in South America was approximately 15%.

The change in net sales for the Glass Containers segment can be summarized as follows (dollars in millions):

2003 Net sales – Glass Containers segment		$ 4,182.9
Additional sales from BSN businesses	$ 768.6	
The effects of sales volume, price and mix	257.5	
The effects of changing foreign currency rates on net sales	172.1	
Other	(15.0)	
Total net effect on sales		1,183.2
2004 Net sales – Glass Containers segment		$ 5,366.1

Net sales of the Plastics Packaging segment decreased $30.4 million, or 3.8%, from 2003. The lower sales primarily reflect the absence of sales from the closure assets divested in the fourth quarter of 2003 and the Asia Pacific plastic operations that were divested in the second quarter of 2004. In addition, sales of containers for prescription packaging were adversely affected due to a milder flu season in December 2004 compared to December 2003. Increased resin prices passed through to customers and stronger currencies in Europe, Brazil and the Asia Pacific region partially offset these reductions.

The change in net sales for the Plastics Packaging segment can be summarized as follows (dollars in millions):

2003 Net sales – Plastics Packaging segment		$ 792.7
Divested businesses	$ (95.7)	
Effects of higher resin cost pass-throughs	24.1	
The effects of changing foreign currency rates on net sales	21.0	
The effects of sales volume, price and mix	9.7	
Other	10.5	
Total net effect on sales		(30.4)
2004 Net sales – Plastics Packaging segment		$ 762.3

Segment Operating Profit

The Company's Segment Operating Profit results (dollars in millions) for 2004 and 2003 are presented in the following table. The Plastics Packaging Segment Operating Profit amounts reflect the continuing operations, and therefore, the results of the discontinued operations have been reclassified from the 2004 and 2003 amounts. In addition, certain Glass Container amounts from prior years have been reclassified to conform to current year presentation. For further information, see Segment Information included in Note 20 to the Consolidated Financial Statements.

	2004	2003
	(dollars in millions)	
Glass Containers	$ 759.6	$ 658.8
Plastics Packaging	115.0	98.7
Eliminations and other retained items	(102.2)	(91.9)

Segment Operating Profit of the Glass Containers segment for 2004 increased $100.8 million, or 15.3%, to $759.6 million, compared with Segment Operating Profit of $658.8 million for 2003.

In Europe, Segment Operating Profit for 2004 increased $60.4 million over 2003. The newly acquired BSN business contributed $27.6 million of the increase. Stronger currency rates against the U.S. dollar for the European currencies also contributed to the growth in Segment Operating Profit. In addition, higher unit shipments over 2003 in combination with improved pricing and improved productivity also contributed to the growth. These increases were partially offset by higher energy costs. The Segment Operating Profit contribution from BSN for 2004 includes a reduction in gross profit of $31.1 million related to the impact of the acquisition step-up of BSN finished goods inventory as required by FAS No. 141.

In North America, Segment Operating Profit for 2004 increased $5.7 million over 2003. The benefits of higher selling prices and a more favorable product sales mix were the principal reasons for the increase. These increases were partially offset by a number of unfavorable effects, including: (1) lower production to control inventories consistent with the Company's working capital goals; (2) increased freight expense reflecting higher diesel fuel costs; and (3) a reduction in pension income. Also contributing to this decline was a 2% decline in unit shipments that was the result of the previously disclosed loss of a beverage customer. This decline in shipments of beverage containers was partially offset by increased shipments of containers for beer, wine, and liquor.

In the Asia Pacific region, Segment Operating Profit for 2004 increased $11.8 million over 2003. The effects of overall improved pricing as well as increased unit shipments were partially offset by higher energy costs. The increased unit shipments primarily relate to higher shipments in Australia for containers for wine and beer and increased shipments in New Zealand.

In South America, Segment Operating Profit for 2004 increased $22.9 million over 2003. The increase is primarily attributed to increased unit shipments during the year. Unit shipments were higher in Venezuela where shipments increased 30% over prior year and in Ecuador where shipments increased 34% over prior year. In addition to higher unit shipments, the increase is also attributed to a better product sales mix in Brazil as the sales mix moved away from lower margin exports.

The change in Segment Operating Profit for the Glass Containers segment can be summarized as follows (dollars in millions):

2003 Segment Operating Profit - Glass Containers		$ 658.8
The effects of sales volume, price and mix	$ 107.3	
Additional Segment Operating Profit from BSN businesses	27.6	
The effect of changing foreign currency rates on Segment Operating Profit	27.0	
Improved productivity and other manufacturing costs	3.7	
Lower pension income	(25.2)	
Higher energy costs	(22.8)	
Increased warehouse and other manufacturing costs	(18.8)	
Other	2.0	
Total net effect on Segment Operating Profit		100.8
2004 Segment Operating Profit - Glass Containers		$ 759.6

Segment Operating Profit of the Plastics Packaging segment for 2004 increased $16.3 million, or 16.5%, to $115.0 million compared to Segment Operating Profit of $98.7 million for 2003. The increase is primarily attributable to improved productivity and higher unit shipments. Also contributing to this increase was the non-recurrence of the third quarter of 2003 write-off of miscellaneous assets that were no longer being utilized. These increases were partially offset by higher delivery, warehouse, shipping and other manufacturing costs, as well as lower pension income.

The change in Segment Operating Profit for the Plastics Packaging segment can be summarized as follows (dollars in millions):

2003 Segment Operating Profit – Plastics Packaging		$ 98.7
The effects of price,mix, sales volume and production volume	$ 7.4	
The effect of improved productivity	7.0	
The non-recurrence of a write-off of miscellaneous assets	4.0	
Increased delivery, warehouse, shipping and other manufacturing costs	(3.6)	
Lower pension income	(0.7)	
Other	2.2	
Total net effect on Segment Operating Profit		16.3
2004 Segment Operating Profit – Plastics Packaging		$ 115.0

Eliminations and other retained items for 2004 were $10.3 million higher than for 2003. A reduction in pension income, higher legal and professional services costs in 2004 resulting in part from compliance with the Sarbanes-Oxley Act of 2002 and higher retention of property and casualty losses were the primary reasons for the increase. These increases were partially offset by lower spending on information systems costs as compared to prior year.

Interest Expense

Interest expense increased to $474.9 million in 2004 from $429.8 million in 2003. Interest expense for 2004 included charges of $28.0 million for note repurchase premiums and $2.8 million for the write-off of unamortized finance fees related to debt that was repaid prior to its maturity. Interest expense for 2003 included charges of $13.2 million for note repurchase premiums and related write-off of unamortized finance fees and $1.3 million for the write-off of unamortized finance fees related to the reduction of available credit under the Company's previous bank credit agreement. Exclusive of these items in both years, interest expense for 2004 was $28.8 million higher than in 2003. The higher interest in 2004 reflects additional interest as a result of higher debt related to the BSN acquisition. Partially offsetting this increase were lower interest expense that was principally the result of savings from the December 2003 repricing of the Secured Credit Agreement and approximately $21 million in interest savings as a result of the Company's fixed-to-floating interest rate swap on a portion of its fixed-rate debt.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for 2004 was 2.8%. Excluding the effects of items excluded from Segment Operating Profit discussed above, the additional interest charges for

early retirement of debt and a tax benefit on an Australian tax consolidation, the Company's effective tax rate from continuing operations for 2004 was 26.9%. The Company's effective tax rate from continuing operations for 2003 was 30.5%. Excluding the effects of items excluded from Segment Operating Profit discussed above and the additional interest charges for early retirement of debt, the Company's effective tax rate from continuing operations for 2003 was 27.9%. The lower effective tax rate in 2004 is principally due to a favorable change in the global mix of earnings.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for 2004 was $32.9 million compared to $25.8 million for 2003. The increase in 2004 is primarily due to higher earnings for the Company's subsidiaries in Venezuela, Colombia, and Italy.

Earnings from Continuing Operations

For 2004, the Company recorded earnings from continuing operations of $171.5 million compared to a loss from continuing operations of $330.1 million for the year ended December 31, 2003. The aftertax effects of the items excluded from Segment Operating Profit, the additional interest charges discussed above and the tax benefit on the Australian tax consolidation, increased or decreased earnings in 2004 and 2003 as set forth in the following table (dollars in millions).

Description	Net Earnings Increase (Decrease) 2004	2003
Gain on the sale of certain real property	$ 14.5	$ —
Gain on a restructuring in the Italian Specialty Glass business	13.1	
Gain from the mark to market effect of certain commodity futures contracts	3.2	
A benefit for a tax consolidation in the Australian glass business	33.1	
Increase in the reserve for future asbestos related costs	(84.9)	(292.5)
Note repurchase premiums and write-off of finance fees	(20.1)	(9.1)
Life insurance restructuring charge	(5.4)	
Write-down of equity investment		(50.0)
Write-down of Plastics Packaging assets in the Asia Pacific region		(30.1)
Loss on the sale of long-term notes receivable		(37.4)
Loss on the sale of certain closures assets		(25.8)
Shutdown of the Milton, Ontario glass container factory		(19.5)
Shutdown of the Hayward, California glass container factory		(17.8)
Shutdown of the Perth, Australia glass container factory		(17.4)

Total	$ (46.5)	$ (499.6)

Acquisition of BSN Glasspack, S.A.

On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. (“BSN”) from Glasspack Participations (the “BSN Acquisition”). Total consideration for the BSN Acquisition was approximately $1.3 billion, including the assumption of approximately $650 million of debt, a portion of which was refinanced in connection with the BSN Acquisition. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and the

Netherlands. The BSN Acquisition was financed with borrowings under the Company’s Second Amended and Restated Secured Credit Agreement. In order to secure the European Commission’s approval, the Company committed to divest the Barcelona, Spain, and Corsico, Italy glass plants. The Company completed the sale of these plants in January 2005 and received cash proceeds of approximately €138.2 million.

The BSN Acquisition was part of the Company’s overall strategy to improve its presence in the European market in order to better serve the needs of its customers throughout the European region and to take advantage of synergies including purchasing leverage and cost reductions. This integration strategy should lead to significant improvement in earnings from the European operations by the end of 2006.

During the second quarter of 2005, the Company concluded its evaluation of acquired capacity and announced the permanent closing of its Düsseldorf, Germany glass container factory, and the shutdown of a furnace at its Reims, France glass container facility, both in 2005. These actions were part of the previously announced European integration strategy to optimally align the manufacturing capacities with the market and improve operational efficiencies. As a result, the Company recorded an accrual of €47.1 million through an adjustment to goodwill.

These second quarter actions will result in the elimination of approximately 400 jobs and a corresponding reduction in the Company’s workforce. The Company expects to reduce fixed cash costs by approximately €35 million per year by closing the Düsseldorf factory, shutting down the furnace at Reims and moving most of the production to other locations. The Company anticipates that it will pay out approximately €110.9 million in cash related to severance, benefits, plant clean-up, and other plant closing costs related to restructuring accruals. In addition, the Company expects to pay approximately €65 million for other European reorganization and integration activities, approximately 60% of which will be expensed. Approximately 50% of these payments were made by the end of 2005 and the Company expects that most of the balance will be paid in 2006.

The restructuring accrual recorded in the second quarter of 2005 was in addition to the initial estimated accrual of €63.8 recorded in 2004. Selected information related to the restructuring accrual is as follows, with activity translated from Euros into dollars at the December 31, 2005 exchange rate (dollars in millions):

Total restructuring accrual (€110.9 million)	$ 134.1
Net cash paid, principally severance and related benefits	(41.0)
Other, principally translation	(12.2)
Remaining European restructuring accrual as of December 31, 2005	$ 80.9

The total purchase cost of approximately $1.3 billion was allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The following table summarizes the fair values of the assets acquired and liabilities assumed on June 21, 2004, translated from Euros into dollars at the exchange rate on that date (dollars in millions):

	June 21, 2004
Inventories	$ 294.3
Accounts receivable	197.7
Other current assets (excluding cash acquired)	31.8
Total current assets	523.8
Goodwill	716.6
Other long-term assets	85.4
Net property, plant and equipment	762.1
Assets acquired	$ 2,087.9
Accounts payable and other current liabilities	(425.4)
Other long-term liabilities	(387.5)
Aggregate purchase costs	$ 1,275.0

The assets above include $48.1 million of intangible assets related to customer relationships, which will be amortized over the next 13 years. The liabilities above include $133.6 million (€110.9 million) for the restructuring actions discussed above, the majority of which relates to employee termination costs and related fringe benefits.

Discontinued Operations

On October 7, 2004, the Company announced that it had completed the sale of its blow-molded plastic container operations in North America, South America and Europe, to Graham Packaging Company.

Cash proceeds of approximately $1.2 billion were used to repay term loans under the Company's bank credit facility, which was amended to permit the sale. The sale agreement included a post-closing purchase price adjustment based on changes in certain working capital components and certain other assets and liabilities of the business. This adjustment was finalized in April 2005, and Graham was paid approximately $39 million. The adjustment did not impact results of operations.

Included in the sale were 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries. The blow-molded plastic container operations were part of the consumer products business unit of the plastics packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the blow-molded plastic container business in the Consolidated Results of Operations for 2004 and 2003 as a discontinued operation. Interest expense was allocated to discontinued operations based on debt that was required to be repaid from the proceeds.

The following summarizes the revenues and expenses of the discontinued operations as reported in the condensed consolidated results of operations for the period indicated:

	Year ended December 31, 2004	Year ended December 31, 2003
Revenues:		
Net sales	$ 875.3	$ 1,083.4
Other revenue	7.7	9.0
	883.0	1,092.4
Costs and expenses:		
Manufacturing, shipping and delivery	754.6	949.3
Research, development and engineering	16.0	20.2
Selling and administrative	23.7	33.8
Interest	45.1	60.8
Other	22.9	681.0
	862.3	1,745.1
Earnings (loss) before items below	20.7	(652.7)
Provision for income taxes	27.1	8.0
Gain on sale of discontinued operations	70.4	
Net earnings (loss) from discontinued operations	$ 64.0	$ (660.7)

Other costs and expenses for the year ended December 31, 2003 included an impairment charge of $670.0 million to reduce the reported value of goodwill in the consumer products reporting unit, all of which was attributable to the discontinued operations.

The sale of the blow-molded plastic business resulted in a substantial capital loss, primarily related to previous goodwill write downs that were not deductible when recorded. The 2004 gain on the sale of discontinued operations of $70.4 million includes a credit for income taxes of $39.7 million, representing the tax benefit from offsetting a portion of the loss against otherwise taxable capital gains.

Discontinued operations of $63.0 million for 2005 includes $61.8 million for a benefit from the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual is no longer required based on the Company's reassessment of the potential liabilities due to several factors, including statute expiration in September 2005. The balance of $1.2 million relates to an adjustment of the 2004 gain on the sale of the blow-molded plastic container operations principally from finalizing certain tax allocations.

Asbestos-Related Costs

The fourth quarter 2005 charge for asbestos-related costs was $135.0 million ($86.0 million after tax), compared to the fourth quarter 2004 charge of $152.6 million ($84.9 million after tax). These charges resulted from the Company's comprehensive annual review of asbestos-related liabilities and costs. In each case, the Company concluded that an increase in the accrued liability was required to provide for estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims pending and expected to be filed during the several years following the completion of the comprehensive review. See "Critical Accounting Estimates" for further information.

Asbestos-related cash payments for 2005 were $171.1 million, a reduction of $19.0 million, or 10.0%, from 2004. During 2005, the Company disposed of approximately 12,000 claims. Certain dispositions in 2005 and prior years have included deferred amounts payable over periods ranging up to seven years.

Deferred amounts payable at December 31, 2005 were approximately $91 million virtually unchanged from the amount at December 31, 2004. The Company anticipates that cash flows from operations and other sources will be sufficient to meet all asbestos-related obligations on a short-term and long-term basis.

As of December 31, 2005, the number of asbestos-related claims pending against the Company was approximately 32,000, down from approximately 35,000 pending claims at December 31, 2004. A former business unit of the Company produced specialized high-temperature insulation material containing asbestos from 1948 until 1958, when the business was sold. In line with its limited involvement with an asbestos-containing product and its exit from that business over 45 years ago, the Company will continue to work aggressively to minimize the number of incoming cases and will continue to limit payments to only those impaired

claimants who were exposed to the Company's products and whose claims have merit under applicable state law. See Note 19 to the Consolidated Financial Statements for further information.

2005 Non-operational Items

Impairment of Goodwill

During the fourth quarter of 2005, the Company completed its annual impairment testing using business enterprise values and determined that impairment existed in the goodwill of its Asia Pacific Glass business unit. Lower projected cash flows as a result of competitive pricing pressures in the Company's Australian glass operations caused the decline in the business enterprise value. Following a review of the valuation of the unit's identifiable assets, the Company recorded an impairment charge of $494.0 million to reduce the reported value of its goodwill.

Deferred Tax Valuation Allowance

The Company recorded a non-cash charge of $306.6 million in the fourth quarter of 2005 to increase the valuation allowance against its accumulated net deferred tax assets in the United States. The Company had recorded net deferred tax assets related principally to asbestos charges and net operating losses in recent years. The amount of valuation allowance required under the provisions of FAS No. 109 is dependent upon projected near-term U.S. profitability including the effects of tax planning. During the fourth quarter of 2005, the Company determined that an additional valuation allowance was necessary because of the near-term effects on U.S. profitability of continued asbestos-related payments, significant interest expense, rising energy costs and other cost increases.

2004 Non-operational Items

Plastics Packaging Assets

In August of 2003, the Company initiated a review of its Plastics Packaging assets in the Asia Pacific region. The review was completed during the fourth quarter of 2003. The Company used a combination of estimated divestment cash flows, which included bid prices from potential purchasers, and partial liquidation values for certain assets to determine the net realizable values of the assets. The Company compared the estimated net realizable values to the book values of the assets and determined that asset impairment existed. As a result, the Company recorded a charge of $43.0 million ($30.1 million after tax) to write-down the assets to realizable values. Certain of the plastics businesses in the Asia Pacific region operate in highly competitive markets leading to reduced profit margins. In addition, the Company's PET container business has lost a significant amount of business in the past few years. The reduced business and overall excess capacity in the industry has caused a reduction in the overall value of the business.

During 2004, the Company completed the sale of a portion of this business and is continuing to evaluate prospective buyers for the remaining businesses. The Company does not expect to record any further material losses related to this business.

Capital Resources and Liquidity

Current and Long-Term Debt

The Company's total debt at December 31, 2005 was $5.30 billion, compared to $5.36 billion at December 31, 2004.

On October 7, 2004, in connection with the sale of the Company's blow-molded plastic container operations, the Company's subsidiary borrowers entered into the Third Amended and Restated Secured Credit Agreement (the "Agreement"). The proceeds from the sale were used to repay C and D term loans and a portion of the B1 term loan outstanding under the previous credit agreement. On January 19, 2005, the Company completed the required divestiture of two European glass container factories and received proceeds of approximately $180 million. The proceeds were largely used to repay debt during the first quarter.

At December 31, 2005, the Agreement included a $600.0 million revolving credit facility and a $223.9 million A1 term loan, each of which has a final maturity date of April 1, 2007. It also included a $220.8 million B1 term loan, a $185.6 million C1 term loan, and a €46.3 million C2 term loan, each of which has a final maturity date of April 1, 2008. The Agreement also permits the Company, at its option, to refinance certain of its outstanding notes and debentures prior to their scheduled maturity. At December 31, 2005, the Company's subsidiary borrowers had unused credit of $511.0 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2005 was 5.96%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian subsidiary, as discussed in Note 9, the weighted average interest rate was 6.76%.

The Agreement contains covenants and provisions that, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, prepay other indebtedness or amend certain debt instruments, pay dividends, create liens on assets, enter into contingent obligations, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted, or engage in certain transactions with affiliates and otherwise restrict certain corporate activities. In addition, the Agreement contains financial covenants that require the Company to maintain specified financial ratios and meet specified tests based upon financial statements of the Company and its subsidiaries on a consolidated basis, including minimum fixed charge coverage ratios, maximum leverage ratios and specified capital expenditure tests.

During December 2004, a subsidiary of the Company issued Senior Notes totaling $400.0 million and Senior Notes totaling €225.0 million. The notes bear interest at 6.75%, and are due December 1, 2014. Both series of notes are guaranteed by substantially all of the Company's domestic subsidiaries. The indentures for both series of notes have substantially the same restrictions as the previously issued 7.75%, 8.875% and 8.75% Senior Secured Notes and 8.25% Senior Notes. The issuing subsidiary used the net proceeds from the notes of approximately $680.0 million in addition to borrowings under the Agreement to purchase in a tender offer $237.6 million of the $350.0 million 7.15% Senior Notes due 2005, €159.6

million of the €160.0 million 9.25% BSN notes due 2009 and €127.3 million of the €140.0 million 10.25% BSN notes due 2009. As part of the issuance of these notes and the related tender offer, the Company recorded in the fourth quarter of 2004 additional interest charges of $28.3 million for note repurchase premiums and the related write-off of unamortized finance fees.

The Senior Secured Notes and Senior Notes that were issued during the past four years were part of the Company's plan to improve financial flexibility by issuing long-term fixed rate debt, as well as refinance existing fixed rate debt that was nearing maturity. While this strategy extended the maturity of the Company's debt, long-term fixed rate debt increases the cost of borrowing compared to shorter term, variable rate debt. The Company does not intend to continue to refinance variable rate debt with new fixed rate issuances, but will continue to issue long-term fixed rate debt in order to repay existing fixed rate debt that is nearing maturity.

During the fourth quarter of 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The accounts receivable securitization program provides lower costs of financing than traditional bank debt. The terms of this expansion resulted in a changing from off-balance sheet to on-balance sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

Cash Flows

For 2005, cash provided by continuing operating activities was $503.8 million compared with $544.7 million for 2004. The working capital reduction in 2004 occurred largely in BSN operations following its acquisition in June 2004 when inventories were at seasonally high levels. Higher payments of accrued liabilities and accounts payable, including approximately $41.0 million for European restructuring activities, also required more cash in 2005 than in 2004. In addition, cash flows in 2004 benefited from the initial effects of the Company's program to improve working capital management.

For the year ended December 31, 2005, the Company paid $450.9 million in cash interest compared with $548.8 million for 2004. The 2004 amount included $47.2 million for repurchase premiums. Exclusive of that amount, cash paid for interest decreased $50.7 million from 2004. The decrease in cash interest paid is primarily due to lower overall interest rates from the June 2005 repricing of the Agreement, lower rates on fixed rate debt, lower average debt balances and the effects of cross currency swaps in Australia.

Asbestos-related payments for 2005 decreased $19.0 million, or 10.0%, to $171.1 million, compared with $190.1 million for 2004. The Company expects that its total asbestos-related payments in 2006 will be moderately lower than 2005. Based on the Company's expectations regarding future payments for lawsuits and claims and also based on the Company's expected operating cash flow, the Company believes that the payment of any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

Capital spending for property, plant and equipment from continuing operating activities was $404.1 million compared to $436.7 million in the prior year. The 2005 amount included spending in the acquired BSN operations for the full year compared to the 2004 amount which included only the period from June 21 through December 31, 2004. The Company continues to focus on reducing capital spending and improving its return on invested capital by improving capital efficiency.

Cash flows from financing activities included payments by foreign operations to settle swaps of borrowings denominated in currencies other than the local functional currency. In particular, during the second quarter of 2005 certain swaps that hedged U.S. dollar borrowings in Australia required payments at maturity of approximately $65 million. These payments offset the Australian dollar gains recorded over the 2-year duration of the swaps during which the Australian dollar strengthened significantly against the U.S. dollar.

The Company anticipates that cash flow 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 and long-term basis.

Contractual Obligations and Off-Balance Sheet Arrangements

The following information summarizes the Company's significant contractual cash obligations at December 31, 2005 (dollars in millions).

	Payments due by period				
Contractual cash obligations:	**Total**	**Less than one year**	**1-2 years**	**3-5 years**	**More than 5 years**
Long-term debt	$ 5,263.6	$ 251.7	$ 1,325.2	$ 1,254.8	$ 2,431.9
Capital lease obligations	7.1	0.3	2.1	2.1	2.6
Operating leases	226.3	73.3	89.1	40.9	23.0
Contractual purchase obligation	10.7	10.7			
Interest	2,253.7	402.7	746.1	513.3	591.6
Pension benefit plan contributions	48.9	48.9			
Postretirement benefit plan benefit payments	214.4	21.5	42.6	42.7	107.6
Total contractual cash obligations	$ 8,024.7	$ 809.1	$ 2,205.1	$ 1,853.8	$ 3,156.7

	Amount of commitment expiration per period				
Other commercial commitments:	**Total**	**Less than one year**	**1-3 years**	**3-5 years**	**More than 5 years**
Standby letters of credit	$ 89.0	$ 89.0			
Guarantees	9.0				$ 9.0
Total commercial commitments	$ 98.0	$ 89.0	$ —	$ —	$ 9.0

Critical Accounting Estimates

The Company's analysis and discussion of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis, including but not limited to those related to pension benefit plans, contingencies and litigation, goodwill, and deferred tax assets. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of

certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact and any associated risks related to estimates and assumptions are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

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

Pension Benefit Plans

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 assets used in calculating the pension charges or credits for the year. The Company uses discount rates based on yields of highly rated fixed income debt securities at the end of the year. At December 31, 2005, the weighted average discount rate for all plans was 5.3%. 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, results may vary significantly from year to year. For example, actual returns in the Company's two largest plans were negative in each of the years 2000-2002. The returns exceeded 20% in 2003, 18% in 2004 and 10% in 2005. 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 2005, the Company's estimated weighted average expected long-term rate of return on pension assets was 8.4% compared to 8.7% for the year ended December 31, 2004. The Company recorded pension expense from continuing operations totaling approximately $4.0 million and $8.7 million for 2005 and 2004, respectively, from its principal defined benefit pension plans. The reduction in net pension expense resulted from changes in the U.S. salary plan, partially offset by lower discount rates, lower return rates and higher amortization. Depending on currency translation rates, the Company expects to record approximately $30.0 million of pension expense for the full year of 2006, compared with expense of $4.0 million for 2005.

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 result in a change of approximately $18 million in pretax pension expense for the full year 2006. In addition, changes in external factors, including the fair values of plan assets and the discount rates used to calculate plan liabilities, could result in possible future balance sheet recognition of additional minimum pension liabilities.

If the Accumulated Benefit Obligation ("ABO") of any of the Company's principal pension plans in the U.S. and Australia exceeds the fair value of its assets at the next measurement date of December 31, 2006, the Company will be required to write off the related prepaid pension asset and record a liability equal to the excess of the ABO over the fair value of the asset of such plan at the next measurement date of December 31, 2006. The non-cash charge would result in a decrease in the Accumulated Other Comprehensive Income component of share owners' equity that would significantly reduce net worth. Amounts related to the Company's U.S. and Australian plans as of December 31, 2005 were as follows (millions of dollars):

	U.S. Salary Plans	U.S. Hourly Plans	Australian Plans	Total
Fair value of assets	$ 832.4	$ 1,730.4	$ 107.4	$ 2,670.2
Accumulated benefit obligations	766.2	1,441.2	79.3	2,286.7
Excess	$ 66.2	$ 289.2	$ 28.1	$ 383.5
Prepaid pension asset	$ 327.2	$ 643.8	$ 17.1	$ 988.1

The Company is unable to predict discount rates or asset values at the next measurement date of December 31, 2006. However, if asset values and discount rates decline from their December 31, 2005 levels, the ABO of the U.S. salary plan may exceed the plan's assets at the measurement date. In that event, the plan's prepaid asset would be written off resulting in a pre-tax charge to other comprehensive income in the range of $330 million to $340 million.

Even if the fair values of the U.S. plans' assets are less than ABO at December 31, 2006, the Company believes it will not be required to make cash contributions to the U.S. plans for at least several years. The covenants under the Company's Third Amended and Restated Secured Credit Agreement would not be affected by a reduction in the Company's net worth if a significant non-cash charge was taken to write off the prepaid pension assets.

Contingencies and Litigation

The Company 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. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical

impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy. The Company believes that the bankruptcies of additional co-defendants have resulted in an acceleration of the presentation and disposition of a number of claims, which would otherwise have been presented and disposed of over the next several years. The Company continues to monitor trends which may affect its ultimate liability and continues to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company.

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

In the fourth quarter of 2005, the Company recorded a charge of $135.0 million ($86.0 million after tax) to increase its accrued liability for asbestos-related costs. This amount was reduced from the 2004 charge of $152.6 million. The factors and developments that particularly affected the determination of this increase in the accrual included the following: (i) the 10% decline in yearly cash outlays; (ii) the slight decline in serious disease filings against the Company and the significant decline in the non-malignancy

filings; (iii) the Company’s successful litigation record during the year; and (iv) legislative developments in several states.

The Company’s estimates are based on a number of factors as described further in Note 19 to the Consolidated Financial Statements.

Goodwill

As required by FAS No. 142, “Goodwill and Other Intangibles,” 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 2005, the Company completed its annual testing and determined that impairment existed in the goodwill of its Asia Pacific Glass business unit. Following a review of the unit’s identifiable assets, the Company recorded an impairment charge of $494.0 million to reduce the reported value of its goodwill.

If the Company’s projected future cash flows were substantially lower, or if the assumed weighted average cost of capital were substantially higher, the testing performed as of October 1, 2005, may have indicated an impairment of one or more of the Company’s other reporting units and, as a result, the related goodwill would also have been impaired. However, based on the Company’s testing as of that date, modest changes in the projected future cash flows or cost of capital would not have created impairment in any other reporting unit.

The Company will monitor conditions throughout 2006 that might significantly affect the projections and variables used in the impairment test to determine if a review prior to October 1 may be appropriate. If the results of impairment testing confirm that a write down of goodwill is necessary, then the Company will record a charge in the fourth quarter of 2006, or earlier if appropriate. In the event the Company would be required to record a significant write down of goodwill, the charge would have a material adverse effect on reported results of operations and net worth.

Deferred Tax Assets

FAS No. 109, “Accounting for Income Taxes,” requires that a valuation allowance be 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 largely dependent upon projected near-term 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 United States, the Company has recorded significant deferred tax assets, the largest of which relate to net operating losses, capital losses, tax credits and the accrued liability for asbestos-related costs that are not deductible until paid. The deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relate to the prepaid pension asset and accelerated depreciation. The Company has recorded a valuation allowance for the portion of U.S. deferred tax assets not offset by deferred tax liabilities. Should the Company be required to write off the prepaid pension assets related to the U.S. pension plans (as described above under *Pension Benefit Plans*), the related deferred tax liability would also be written off, leaving deferred tax assets amounting to approximately $262 million without a valuation allowance.

It is currently likely that an additional valuation allowance would be required in that case since it is currently more likely than not that the deferred tax asset would not be realized.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company’s operations result primarily from fluctuations in foreign currency exchange rates, changes in interest rates, and changes in commodity prices, principally energy. The Company uses certain derivative instruments to mitigate a portion of the risk associated with changing foreign currency exchange rates and fluctuating energy prices. In addition, the Company uses interest rate swap agreements to manage a portion of fixed and floating rate debt and to reduce interest expense. These instruments carry varying degrees of counterparty credit risk. To mitigate this risk, the Company has established limits on the exposure with individual counterparties and the Company regularly monitors these exposures. Substantially all of these exposures are with counterparties that are rated single-A or above.

Foreign Currency Exchange Rate Risk

Earnings of operations outside the United States

A substantial portion of the Company's operations are conducted by subsidiaries outside the U.S. The primary international markets served by the Company's subsidiaries are in Canada, Australia, South America (principally Colombia, Brazil and Venezuela), and Europe (principally Italy, France, the Netherlands, Germany, the United Kingdom, and Poland). In general, revenues earned and costs incurred by the Company's major international operations are denominated in their respective local currencies. Consequently, the Company's reported financial results could be affected by factors such as changes in foreign currency exchange rates or highly inflationary economic conditions in the international markets in which the Company's subsidiaries operate. When the U.S. dollar strengthens against foreign currencies, the reported dollar value of local currency earnings generally decreases; when the U.S. dollar weakens against foreign currencies, the reported U.S. dollar value of local currency earnings generally increases. The Company does not have any significant foreign subsidiaries that are denominated in the U.S. dollar, however, if economic conditions in Venezuela continue to decline, the Company may be required to adopt the U.S. dollar as the functional currency for its subsidiaries in that country. The Company does not hedge the foreign currency exchange rate risk related to earnings of operations outside the United States.

Borrowings not denominated in the functional currency

Because the Company's subsidiaries operate within their local economic environment, the Company believes it is appropriate to finance those operations with borrowings denominated in the local currency to the extent practicable where debt financing is desirable or necessary. Considerations which influence the amount of such borrowings include long- and short-term business plans, tax implications, and the availability of borrowings with acceptable interest rates and terms. In those countries where the local currency is the designated functional currency, this strategy mitigates the risk of reported losses or gains in the event the foreign currency strengthens or weakens against the U.S. dollar. In those countries where the U.S. dollar is the designated functional currency, however, local currency borrowings expose the Company to reported losses or gains in the event the foreign currency strengthens or weakens against the U.S. dollar.

Available excess funds of a subsidiary may be redeployed through intercompany loans to other subsidiaries for debt repayment, capital investment, or other cash requirements. Generally, each

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intercompany loan is denominated in the lender's local currency giving rise to foreign currency exchange rate risk for the borrower. To mitigate this risk, the borrower generally enters into a forward exchange contract which effectively swaps the intercompany loan and related interest to its local currency.

Similarly, certain of the Company's international subsidiaries have external borrowings denominated in currencies other than the designated functional currency, giving rise to foreign currency exchange rate risk for the borrower. To mitigate this risk, certain subsidiaries have entered into currency swaps or forward exchange contracts for the principal amount of their borrowings and, in some cases, the related interest.

Significant transactions related to foreign currency exchange rate risk arising from borrowings not denominated in the functional currency are as follows:

- At the end of 2005, the Company's subsidiary in Australia had an agreement that swaps a total of U.S. $175.0 million of borrowings into 251.8 million Australian dollars. This derivative instrument swaps the principal from U.S. dollars to Australian dollars and also swaps the interest rate from a U.S.-based rate to an Australian-based rate. This agreement has a maturity date of March 2006.

- In connection with debt refinancing in late December 2004, the Company's subsidiary in France borrowed approximately €91 million from Owens-Brockway Glass Container ("OBGC"), a U.S. subsidiary of the Company, at a fixed interest rate through 2009. In order to hedge the changes in the cash flows of the foreign currency interest and principal repayments, OBGC entered into a swap that converts the Euro coupon interest payments into a predetermined U.S. dollar coupon interest payment and also converts the final principal payment in December 2009 from €91.0 million to approximately $120.7 million U.S. dollars.

- The Company's subsidiaries in Australia, Canada and several European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap the principal amount of borrowings and in some cases they swap the related interest.

Purchases and sales not denominated in the functional currency

Through the use of forward exchange contracts, the Company fixes some or all of the future amount payable/receivable on significant purchases and sales denominated in currencies other than the functional currency of the subsidiary entering into the underlying transaction. These instruments typically have terms of one year or less. Significant transactions related to foreign currency exchange rate risk arising from purchases and sales not denominated in the functional currency are as follows:

- The Company entered into a foreign currency exchange contract to swap €37.5 million into $47.3 million U.S. dollars related to anticipated 2006 western European fuel oil purchases, a portion of which is denominated in U.S. dollars. The swap mitigates foreign currency exchange rate risk relating to approximately 93% of the anticipated 2006 fuel oil purchases in western Europe.

The Company believes the near term exposure to foreign currency exchange rate risk of its foreign currency risk sensitive instruments was not material at December 31, 2005 and 2004.

Interest Rate Risk

The Company's interest expense is most sensitive to changes in the general level of U.S. interest rates applicable to its U.S. dollar indebtedness.

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 $1.25 billion that mature from 2007 through 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.

Under the swaps, the Company receives fixed rate interest amounts (equal to interest on the corresponding hedged note) and pays interest at a six-month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense during each six-month period over the term of the agreement.

The following table provides information about the Company's interest rate sensitivity related to its significant debt obligations and interest rate swaps at December 31, 2005. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity date. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by contract maturity date. Notional amounts are used to calculate the contractual cash flows to be exchanged under the swap contracts.

(dollars in millions)	2006	2007	2008	2009	2010	There-after	Total	Fair Value at 12/31/2005
Long-term debt at variable rate:								
Principal by expected maturity	$ 231.8	$ 304.5	$ 461.3				$ 997.6	$ 997.6
Avg. principal outstanding	$ 945.5	$ 597.9	$ 115.3					
Approx. avg. margin over Eurodollar rate	2.29%	2.02%	2.75%					
Long-term debt at fixed rate:								
Principal by expected maturity		$ 300.0	$ 250.0	$ 1,000.0	$ 250.0	$ 2,442.0	$ 4,242.0	$ 4,359.1
Avg. principal outstanding	$ 4,242.0	$ 4,079.5	$ 3,806.6	$ 2,757.8	$ 2,556.6	$ 2,442.0		
Avg. interest rate	8.05%	8.05%	8.07%	7.83%	7.82%	7.83%		
Interest rate swaps (pay variable/receive fixed):								
Notional by expected maturity		$ 300.0	$ 250.0		$ 250.0	$ 450.0	$ 1,250.0	$ (34.0)
Avg. notional outstanding	$ 1,250.0	$ 1,087.5	$ 814.6	$ 700.0	$ 564.6	$ 450.0		
Avg. pay rate margin over U.S. LIBOR	3.75%	3.64%	3.52%	3.52%	3.60%	3.70%		
Avg. fixed receive rate	7.88%	7.85%	7.89%	7.98%	8.10%	8.25%		

The Company believes the near term exposure to interest rate risk of its debt obligations and interest rate swaps has not changed materially since December 31, 2004.

Commodity Price Risk

The Company has exposure to commodity price risk, principally related to energy. The Company believes it can mitigate a portion of this risk by passing commodity cost changes through to customers. In addition, the Company enters into commodity futures contracts related to forecasted natural gas and fuel oil requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and fuel oil and the related volatility in cash flows. The Company continually evaluates the natural gas and fuel oil market with respect to its forecasted usage requirements over the next twelve to eighteen months and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements over that period. Significant transactions related to commodity price risk are as follows:

- At December 31, 2005, the Company had entered into commodity futures contracts for approximately 62% (approximately 14,780,000 MM BTUs) of its expected North American natural gas usage for full year of 2006 and approximately 15% (approximately 3,600,000 MM BTUs) for the full year of 2007.

- At December 31, 2005, the Company had also entered into commodity futures contracts for substantially all of its expected western European fuel oil usage (approximately 43,500 metric tons) for the first quarter of 2006.

The Company believes the near term exposure to commodity price risk of its commodity futures contracts was not material at December 31, 2005 and 2004.

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 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) consolidation among competitors and customers, (10) the ability of the Company to integrate operations of acquired businesses and achieve expected synergies, (11) unanticipated expenditures with respect to environmental, safety and health laws, (12) the performance by customers of their obligations under purchase agreements, and (13) the timing and occurrence of events which are beyond the control of the Company, including events related to asbestos-related claims. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward-looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the

Company's results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward looking statements contained in this document.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2005 and 2004

For the years ended December 31, 2005, 2004, and 2003:
Consolidated Results of Operations
Consolidated Share Owners' Equity
Consolidated Cash Flows

Notes to Consolidated Financial Statements

Selected Quarterly Financial Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owners of
Owens-Illinois, Inc.

We have audited the accompanying consolidated balance sheets of Owens-Illinois, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of results of operations, share owners' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index included in Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Illinois, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Owens-Illinois, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission and our report dated March 15, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Toledo, Ohio
March 15, 2006

CONSOLIDATED RESULTS OF OPERATIONS Owens-Illinois, Inc.

Dollars in millions, except per share amounts **Years ended December 31,**	**2005**	**2004**	**2003**
Revenues:			
Net sales	$ 7,079.0	$ 6,128.4	$ 4,975.6
Royalties and net technical assistance	16.9	21.1	17.5
Equity earnings	22.6	27.8	27.1
Interest	16.6	15.3	20.4
Other	54.6	70.8	25.2
	7,189.7	6,263.4	5,065.8
Costs and expenses:			
Manufacturing, shipping, and delivery	5,719.5	4,918.4	3,967.9
Research and development	29.8	25.4	29.9

	2005	2004	2003
Engineering	35.6	33.6	34.7
Selling and administrative	488.1	402.3	320.9
Interest	466.7	474.9	429.8
Other	668.6	198.5	720.6
	7,408.3	6,053.1	5,503.8
Earnings (loss) from continuing operations before items below	(218.6)	210.3	(438.0)
Provision (benefit) for income taxes	367.1	5.9	(133.7)
Minority share owners' interests in earnings of subsidiaries	35.9	32.9	25.8
Earnings (loss) from continuing operations	(621.6)	171.5	(330.1)
Net earnings (loss) of discontinued operations	63.0	64.0	(660.7)
Net earnings (loss)	$ (558.6)	$ 235.5	$ (990.8)
Basic earnings (loss) per share of common stock:			
Earnings (loss) from continuing operations	$ (4.26)	$ 1.01	$ (2.39)
Net earnings (loss) of discontinued operations	0.41	0.44	(4.50)
Net earnings (loss)	$ (3.85)	$ 1.45	$ (6.89)
Diluted earnings (loss) per share of common stock:			
Earnings (loss) from continuing operations	$ (4.26)	$ 1.00	$ (2.39)
Net earnings (loss) of discontinued operations	0.41	0.43	(4.50)
Net earnings (loss)	$ (3.85)	$ 1.43	$ (6.89)

CONSOLIDATED BALANCE SHEETS Owens-Illinois, Inc.

Dollars in millions December 31,	2005	2004
Assets		
Current assets:		
Cash, including time deposits of $117.0 ($175.9 in 2004)	$ 246.6	$ 277.9
Short-term investments	51.9	27.6
Receivables, less allowances of $47.4 ($50.3 in 2004) for losses and discounts	1,006.2	821.3
Inventories	940.4	1,117.7
Prepaid expenses	37.2	156.3
Total current assets	2,282.3	2,400.8
Other assets:		
Equity investments	114.9	117.1
Repair parts inventories	170.3	192.2
Prepaid pension	988.1	962.5
Deposits, receivables, and other assets	444.5	557.3
Goodwill	2,369.2	3,009.1
Total other assets	4,087.0	4,838.2
Property, plant, and equipment:		
Land, at cost	240.0	165.2
Buildings and equipment, at cost:		
Buildings and building equipment	1,045.3	945.0
Factory machinery and equipment	4,620.4	4,821.2
Transportation, office, and miscellaneous equipment	123.6	139.2
Construction in progress	116.7	185.7
	6,146.0	6,256.3
Less accumulated depreciation	2,993.5	2,758.6
Net property, plant, and equipment	3,152.5	3,497.7
Total assets	$ 9,521.8	$ 10,736.7

CONSOLIDATED BALANCE SHEETS Owens-Illinois, Inc.

Dollars in millions, except per share amounts December 31,	2005	2004
Liabilities and Share Owners' Equity		
Current liabilities:		
Short-term loans	$ 26.3	$ 18.2
Accounts payable	843.0	857.8
Salaries and wages	153.0	178.4
U.S. and foreign income taxes	32.6	53.8
Current portion of asbestos-related liabilities	158.0	170.0
Other accrued liabilities	357.0	454.0

Long-term debt due within one year	252.0	174.3
Total current liabilities	1,821.9	1,906.5
Long-term debt	5,018.7	5,167.9
Deferred taxes	186.0	183.3
Nonpension postretirement benefits	277.1	285.6
Other liabilities	740.6	883.3
Asbestos-related liabilities	572.1	596.2
Commitments and contingencies		
Minority share owners' interests	181.5	169.6
Share owners' equity:		
Convertible preferred stock, par value $.01 per share, liquidation preference $50 per share, 9,050,000 shares authorized, issued and outstanding	452.5	452.5
Common stock, par value $.01 per share, 250,000,000 shares authorized, 165,216,558 shares issued and outstanding, less 12,305,308 treasury shares at December 31, 2005 (163,502,417 issued and outstanding less 12,586,053 treasury shares at December 31, 2004)	1.7	1.6
Capital in excess of par value	2,297.0	2,261.1
Treasury stock, at cost	(236.0)	(241.3)
Retained deficit	(1,555.4)	(975.3)
Accumulated other comprehensive income (loss)	(235.9)	45.7
Total share owners' equity	723.9	1,544.3
Total liabilities and share owners' equity	$ 9,521.8	$ 10,736.7

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED SHARE OWNERS' EQUITY Owens-Illinois, Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Convertible preferred stock			
Balance at beginning of year	$ 452.5	$ 452.5	$ 452.5
Balance at end of year	452.5	452.5	452.5
Common stock			
Balance at beginning of year	1.6	1.6	1.6
Issuance of common stock	0.1		
Balance at end of year	1.7	1.6	1.6
Capital in excess of par value			
Balance at beginning of year	2,261.1	2,229.3	2,224.9
Issuance of common stock	35.9	31.8	4.4
Balance at end of year	2,297.0	2,261.1	2,229.3
Treasury stock			
Balance at beginning of year	(241.3)	(247.6)	(247.6)
Reissuance of common stock	5.3	6.3	
Balance at end of year	(236.0)	(241.3)	(247.6)

Dollars in millions, except per share amounts Years ended December 31,	2005	2004	2003
Retained deficit			
Balance at beginning of year	(975.3)	(1,189.3)	(177.0)
Cash dividends on convertible preferred stock – $2.375 per share	(21.5)	(21.5)	(21.5)
Net earnings (loss)	(558.6)	235.5	(990.8)
Balance at end of year	(1,555.4)	(975.3)	(1,189.3)
Accumulated other comprehensive income (loss)			
Balance at beginning of year	45.7	(243.1)	(583.6)
Foreign currency translation adjustments	(288.9)	317.4	361.0
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Balance at end of year	(235.9)	45.7	(243.1)
Total share owners' equity	$ 723.9	$ 1,544.3	$ 1,003.4
Total comprehensive income (loss)			
Net earnings (loss)	$ (558.6)	$ 235.5	$ (990.8)
Foreign currency translation adjustments	(288.9)	317.4	361.0
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Total comprehensive income (loss)	$ (840.2)	$ 524.3	$ (650.3)

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED CASH FLOWS Owens-Illinois, Inc.

Dollars in millions **Years ended December 31,**	**2005**	**2004**	**2003**
Operating activities:			
Earnings (loss) from continuing operations	$ (621.6)	$ 171.5	$ (330.1)
Non-cash charges (credits):			
Depreciation	480.2	436.0	391.9
Amortization of deferred costs	27.8	23.8	21.4
Amortization of deferred finance fees	16.0	15.0	14.4
Deferred tax credit	(75.0)	(93.3)	(182.7)
Impairment of goodwill	494.0		
Deferred tax valuation allowance	306.6		
Future asbestos-related costs	135.0	152.6	450.0
Gains on asset sales	(28.1)	(51.6)	
Mark to market effect of natural gas hedge contracts	(3.8)	(4.9)	
Write-down of equity investment			50.0
Restructuring costs and writeoffs of certain assets			115.5
Loss on sale of long-term notes receivable			37.4
Loss on sale of certain closures assets			41.3
Other	24.0	(59.8)	(43.7)
Change in non-current operating assets	(29.0)	(9.8)	(7.5)
Asbestos-related payments	(171.1)	(190.1)	(199.0)
Reduction of non-current liabilities	(69.5)	(25.6)	(13.4)
Change in components of working capital	18.3	180.9	(40.5)
Cash provided by continuing operating activities	503.8	544.7	305.0
Cash provided by discontinued operating activities		65.2	48.1
Total cash provided by operating activities	503.8	609.9	353.1
Investing activities:			
Additions to property, plant and equipment - continuing	(404.1)	(436.7)	(344.4)
Additions to property, plant and equipment - discontinued		(25.1)	(87.1)
Acquisitions, net of cash acquired	(11.6)	(630.3)	
Proceeds from sale of long-term notes receivable			163.0
Net cash proceeds from divestitures and other	167.0	1,430.9	66.7
Cash provided by (utilized in) investing activities	(248.7)	338.8	(201.8)
Financing activities:			
Additions to long-term debt	555.1	2,125.1	2,154.5
Repayments of long-term debt	(740.3)	(2,885.4)	(2,063.4)
Increase (decrease) in short-term loans	11.6	(23.2)	(28.0)
Net payments for debt-related hedging activity	(98.0)	(25.9)	(123.1)
Payment of finance fees and debt retirement costs	(1.0)	(34.4)	(44.5)
Convertible preferred stock dividends	(21.5)	(21.5)	(21.5)
Issuance of common stock	21.0	27.4	3.6
Cash utilized in financing activities	(273.1)	(837.9)	(122.4)
Effect of exchange rate fluctuations on cash	(13.3)	3.7	8.1
Increase (decrease) in cash	(31.3)	114.5	37.0
Cash at beginning of year	277.9	163.4	126.4
Cash at end of year	$ 246.6	$ 277.9	$ 163.4

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions, except share and per share amounts

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of Owens-Illinois, Inc. (“Company”) include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition. Results of operations for the blow-molded plastic container business divested in 2004 have been presented as a discontinued operation.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost.

Nature of Operations The Company is a leading manufacturer of glass container and plastics packaging products operating in two product segments. The Company's principal product lines in the Glass Containers product segment are glass containers for the food and beverage industries. Sales of the Glass Containers product segment were 89% of the Company's 2005 consolidated sales. The Company has glass container operations located in 22 countries, while the plastics packaging products operations are located in 5 countries. The principal markets and operations for the Company's glass products are in North America, Europe, South America, and Australia. The Company's principal product lines in the Plastics Packaging product segment include healthcare containers, closures and prescription containers. Major markets for the Company's plastics packaging products include the United States health care market.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly. For further information on certain of the Company's significant estimates relative to contingent liabilities, see Note 19.

Cash The Company defines "cash" as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Fair Values of Financial Instruments The carrying amounts reported for cash, short-term investments and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

Derivative Instruments The Company uses interest rate swaps, currency swaps, and commodity futures contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. Whenever possible, derivative instruments are designated and effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for trading purposes and is not a party to leveraged derivatives. In accordance with FAS No. 104, cash flows from fair value hedges of debt and short-term forward exchange contracts are classified as a financing activity. Cash flows of currency swaps, interest rate swaps, and commodity futures contracts are classified as operating activities. See Note 9 for additional information related to derivative instruments.

Inventory Valuation The Company values most U.S. inventories at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued at the lower of standard costs (which approximate average costs) or market.

Goodwill Goodwill represents the excess of cost over fair value of assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant, and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years and buildings and building equipment over periods ranging from 10 to 50 years. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with manufacturing, shipping, and delivery costs in the Consolidated Statements of Operations.

Income Taxes on Undistributed Earnings In general, the Company plans to continue to reinvest the undistributed earnings of foreign subsidiaries and foreign corporate joint ventures accounted for by the equity method. Accordingly, taxes are provided only on that amount of undistributed earnings in excess of planned reinvestments.

Foreign Currency Translation The assets and liabilities of most subsidiaries and associates are translated at current exchange rates and any related translation adjustments are recorded directly in share owners' equity.

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

New Accounting Standards In December 2004, the Financial Accounting Standards Board issued FAS No. 123R, "Share-Based Payment," which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date

fair value of the award. That cost will be recognized over the required service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the required service. FAS No. 123R is effective for the Company beginning January 1, 2006.

Under FAS No. 123R's provisions, there are two transition alternatives: the modified-prospective method and the modified-retrospective method. Under the modified-prospective method, the Company would be required to recognize compensation cost in the financial statements beginning on January 1, 2006. Under the modified-retrospective method, the Company would be required to restate the financial statements of prior periods by recognizing the same amount of compensation cost as previously reported in the pro forma footnote disclosures under FAS No. 123. Management expects to adopt the provisions of FAS No. 123R using the modified-prospective method. The pre-tax expense expected to be recorded in 2006 related to options outstanding at December 31, 2005 is $4.5 million.

In May 2005, the Financial Accounting Standards Board issued FAS No. 154, "Accounting Changes and Error Corrections," which changes the requirements for accounting for and reporting a change in accounting principle. The statement requires changes in accounting principle to be applied retrospectively to prior periods' financial statements. The statement also redefines "restatement" as being the correction of an error. FAS No. 154 is effective for the Company beginning after January 1, 2006. The Company will apply FAS No. 154 as required.

Stock Options The Company has five equity compensation plans, which are described more fully in Note 13. The Company has adopted the disclosure-only provisions for stock options (intrinsic value method) of FAS No. 123, "Accounting for Stock-Based Compensation." All options have been granted at prices equal to the market price of the Company's common stock on the date granted. Accordingly, the Company recognized no compensation expense related to stock options.

If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as allowed by FAS No. 123, pro forma net earnings (loss) and earnings (loss) per share would have been as follows:

	2005	2004	2003
Net earnings (loss):			
As reported	$ (558.6)	$ 235.5	$ (990.8)
Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(7.0)	(6.8)	(5.6)
Additional valuation allowance on deferred tax assets	(4.3)		
Pro forma	$ (569.9)	$ 228.7	$ (996.4)
Basic earnings (loss) per share:			
As reported	$ (3.85)	$ 1.45	$ (6.89)
Pro forma	(3.92)	1.40	(6.93)
Diluted earnings (loss) per share:			
As reported	(3.85)	1.43	(6.89)
Pro forma	(3.92)	1.38	(6.93)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2005	2004	2003
Expected life of options	4.75 years	5 years	5 years
Expected stock price volatility	73.9%	73.9%	72.7%
Risk-free interest rate	4.2%	2.7%	3.1%
Expected dividend yield	0.0%	0.0%	0.0%

2. Earnings Per Share The following table sets forth the computation of basic and diluted earnings per share:

Years ended December 31,	2005	2004	2003
Numerator:			
Earnings (loss) from continuing operations	$ (621.6)	$ 171.5	$ (330.1)
Convertible preferred stock dividends	(21.5)	(21.5)	(21.5)
Numerator for basic earnings (loss) per share – income (loss) available to common share owners	$ (643.1)	$ 150.0	$ (351.6)
Denominator:			
Denominator for basic earnings (loss) per share – weighted average shares outstanding	150,909,812	147,963,416	146,913,819
Effect of dilutive securities: Stock options and other		1,716,175	
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed exchanges of preferred stock for common stock	150,909,812	149,679,591	146,913,819
Basic earnings (loss) per share:			
Earnings from continuing operations	$ (4.26)	$ 1.01	$ (2.39)
Net earnings (loss) of discontinued operations	0.41	0.44	(4.50)
Net earnings (loss)	$ (3.85)	$ 1.45	$ (6.89)
Diluted earnings (loss) per share:			
Earnings from continuing operations	$ (4.26)	$ 1.00	$ (2.39)
Net earnings (loss) of discontinued operations	0.41	0.43	(4.50)
Net earnings (loss)	$ (3.85)	$ 1.43	$ (6.89)

See Note 12 for additional information on Convertible Preferred Stock.

The convertible preferred stock was not included in the computation of 2004 diluted earnings per share since the result would have been antidilutive. Options to purchase 5,067,104 weighted average shares of common stock which were outstanding during 2004 were not included in the computation of diluted

earnings per share because the options' exercise prices were greater than the average market price of the common shares. For the years ended December 31, 2005 and 2003, diluted earnings per share of common stock were equal to basic earnings per share of common stock due to the net losses.

3. Changes in Components of Working Capital Related to Operations Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	2005	2004	2003
Decrease (increase) in current assets:			
Short-term investments	$ (23.7)	$ (0.6)	$ (9.1)
Receivables	(24.5)	61.5	13.7
Inventories	73.0	106.7	(23.7)
Prepaid expenses	(4.0)	36.4	2.0
Increase (decrease) in current liabilities:			
Accounts payable	47.8	75.3	(13.3)
Accrued liabilities	(18.4)	(107.7)	(77.1)
Salaries and wages	(7.5)	9.9	(15.1)
U.S. and foreign income taxes	(24.4)	(36.5)	27.6
	$ 18.3	$ 145.0	$ (95.0)
Continuing operations	18.3	180.9	(40.5)
Discontinued operations		(35.9)	(54.5)
	$ 18.3	$ 145.0	$ (95.0)

4. Inventories Major classes of inventory are as follows:

	2005	2004
Finished goods	$ 779.6	$ 929.9
Work in process	3.5	6.4
Raw materials	91.1	100.1
Operating supplies	66.2	81.3
	$ 940.4	$ 1,117.7

If the inventories which are valued on the LIFO method had been valued at standard costs, which approximate current costs, consolidated inventories would be higher than reported by $40.6 million and $28.7 million at December 31, 2005 and 2004, respectively.

Inventories which are valued at the lower of standard costs (which approximate average costs) or market at December 31, 2005 and 2004 were approximately $780.3 million and $922.4 million, respectively.

5. Equity Investments Summarized information pertaining to the Company's equity associates follows:

	2005	2004
At end of year:		
Equity in undistributed earnings:		
Foreign	$ 27.6	$ 18.9
Domestic	17.6	17.6
Total	$ 45.2	$ 36.5

	2005	2004	2003
For the year:			
Equity in earnings:			
Foreign	$9.0	$17.8	$17.2
Domestic	13.6	10.0	9.9
Total	$22.6	$27.8	$27.1
Dividends received	$11.0	$12.8	$31.1

6. Long-Term Debt The following table summarizes the long-term debt of the Company at December 31, 2005 and 2004:

	2005	2004
Secured Credit Agreement:		
Revolving Credit Facility:		
Revolving Loans	$ —	$ 30.1
Term Loans:		
A1 Term Loan	223.9	315.0
B1 Term Loan	220.8	226.8

C1 Term Loan	185.6	190.6
C2 Term Loan (€46.3 million at Dec. 31, 2005)	54.9	64.7
Accounts receivable securitization:		
European program	231.8	
Asia Pacific program	80.6	
Senior Secured Notes:		
8.875%, due 2009	1,000.0	1,000.0
7.75%, due 2011	450.0	450.0
8.75%, due 2012	625.0	625.0
Senior Notes:		
7.15%, due 2005		112.4
8.10%, due 2007	294.8	298.2
7.35%, due 2008	244.0	248.4
8.25%, due 2013	433.3	440.0
6.75%, due 2014	400.0	400.0
6.75%, due 2014 (€225 million at Dec. 31, 2005)	267.0	306.4
Senior Debentures:		
7.50%, due 2010	243.9	249.6
7.80%, due 2018	250.0	250.0
Senior Subordinated Notes:		
10.25%, due 2009		17.4
9.25%, due 2009 (€0.4 million at Dec. 31, 2005)	0.5	0.6
Other	64.6	117.0
	5,270.7	5,342.2
Less amounts due within one year	252.0	174.3
Long-term debt	$ 5,018.7	$ 5,167.9

On October 7, 2004, in connection with the sale of the Company's blow-molded plastic container operations, the Company's subsidiary borrowers entered into the Third Amended and Restated Secured Credit Agreement (the "Agreement"). The proceeds from the sale were used to repay C and D term loans and a portion of the B1 term loan outstanding under the previous credit agreement. On January 19, 2005, the Company completed the required divestiture of two European glass container factories and received proceeds of approximately $180 million. The proceeds were largely used to repay debt during the first quarter.

At December 31, 2005, the Agreement included a $600.0 million revolving credit facility and a $223.9 million A1 term loan, each of which has a final maturity date of April 1, 2007. It also included a $220.8

million B1 term loan, a $185.6 million C1 term loan, and a €46.3 million C2 term loan, each of which has a final maturity date of April 1, 2008. The Agreement also permits the Company, at its option, to refinance certain of its outstanding notes and debentures prior to their scheduled maturity. At December 31, 2005, the Company's subsidiary borrowers had unused credit of $511.0 million available under the Agreement.

The interest rate on borrowings under the Revolving Credit Facility is, at the Company's option, the Base Rate or a reserve adjusted Eurodollar rate. The interest rate on borrowings under the Revolving Credit Facility also includes a margin linked to the Company's Consolidated Leverage Ratio, as defined in the Agreement. The margin is limited to ranges of 2.25% to 2.75% for Eurodollar loans and 1.25% to 1.75% for Base Rate loans. The interest rate on Overdraft Account loans is the Base Rate. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2005 was 5.96%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian subsidiary, as discussed in Note 9, the weighted average interest rate at December 31, 2005 was 6.76%. While no compensating balances are required by the Agreement, the Borrowers must pay a facility fee on the Revolving Credit Facility commitments of .50%.

Borrowings under the Agreement are secured by substantially all of the assets of the Company's domestic subsidiaries and certain foreign subsidiaries, which have a book value of approximately $3.9 billion. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

The Agreement contains covenants and provisions that, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, prepay other indebtedness or amend certain debt instruments, pay dividends, create liens on assets, enter into contingent obligations, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted, or engage in certain transactions with affiliates and otherwise restrict certain corporate activities. In addition, the Agreement contains financial covenants that require the Company to maintain specified financial ratios and meet specified tests based upon financial statements of the Company and its subsidiaries on a consolidated basis, including minimum fixed charge coverage ratios, maximum leverage ratios and specified capital expenditure tests.

During December 2004, a subsidiary of the Company issued Senior Notes totaling $400.0 million and Senior Notes totaling €225.0 million. The notes bear interest at 6.75%, and are due December 1, 2014. Both series of notes are guaranteed by substantially all of the Company's domestic subsidiaries. The indentures for both series of notes have substantially the same restrictions as the previously issued 7.75%, 8.875% and 8.75% Senior Secured Notes and 8.25% Senior Notes. The issuing subsidiary used the net proceeds from the notes of approximately $680.0 million in addition to borrowings under the Agreement to purchase in a tender offer $237.6 million of the $350.0 million 7.15% Senior Notes due 2005, €159.6 million of the €160.0 million 9.25% BSN notes due 2009 and €127.3 million of the €140.0 million 10.25% BSN notes due 2009. As part of the issuance of these notes and the related tender offer, the Company recorded in the fourth quarter of 2004 additional interest charges of $28.3 million for note repurchase premiums and the related write-off of unamortized finance fees.

During the fourth quarter of 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The accounts receivable securitization program provides lower costs of financing than traditional bank debt. The terms of this expansion resulted in a changing from off-balance sheet to on-balance

sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

The interest rate on the accounts receivable securitization program is a variable rate and also includes a margin of 1.35% for the European program and 0.85% for the Asia Pacific program. The weighted average interest rates on borrowings on the European program were 5.0% for the UK and Italy, and 3.9% for France at December 31, 2005. The weighted average interest rates on borrowings on the Asia pacific program were 6.5% for the Australian program, and 8.5% for New Zealand program at December 31, 2005. These programs have maturity dates ranging from October of 2006 through September of 2008.

Annual maturities for all of the Company's long-term debt through 2010 are as follows: 2006, $252.0 million; 2007, $532.7 million; 2008, $794.6 million; 2009, $1,007.2 million; and 2010, $249.7 million.

Interest paid in cash, including note repurchase premiums in 2004 and 2003, aggregated $450.9 million for 2005, $548.8 million for 2004, and $458.8 million for 2003.

Fair values at December 31, 2005, of the Company's significant fixed rate debt obligations were as follows:

	Principal Amount (millions of dollars)	Indicated Market Price	Fair Value (millions of dollars)	Hedge Value (millions of dollars)
Senior Secured Notes:				
8.875%, due 2009	$ 1,000.0	104.25	$ 1,042.5	
7.75%, due 2011	450.0	104.00	468.0	
8.75%, due 2012	625.0	107.50	671.9	
Senior Notes:				
8.10%, due 2007	300.0	102.00	306.0	$ 294.8
7.35%, due 2008	250.0	100.75	251.9	244.0
8.25%, due 2013	450.0	102.75	462.4	433.3
6.75%, due 2014	400.0	96.00	384.0	
6.75%, due 2014 (€225 million)	267.0	102.00	272.3	
Senior Debentures:				
7.50%, due 2010	250.0	100.50	251.3	243.9
7.80%, due 2018	250.0	99.50	248.8	
Senior Subordinated Notes:				
9.25%, due 2009 (€0.4 million)	0.5	100.00	0.5	

7. Operating Leases Rent expense attributable to all warehouse, office buildings and equipment operating leases was $81.9 million in 2005, $89.8 million in 2004, and $85.0 million in 2003. Minimum future rentals under operating leases are as follows: 2006, $73.3 million; 2007, $52.7 million; 2008, $36.4 million; 2009, $23.6 million; and 2010, $17.3 million; and 2011 and thereafter, $23.0 million.

8. Foreign Currency Translation Aggregate foreign currency exchange gains (losses) included in other costs and expenses were $2.8 million in 2005, $(9.5) million in 2004, and $2.2 million in 2003.

9. Derivative Instruments At December 31, 2005, the Company has the following derivative instruments related to its various hedging programs:

Hedges of Debt

At the end of 2005, the Company's subsidiary in Australia had an agreement that swaps a total of U.S. $175.0 million of borrowings into 251.8 million Australian dollars. This derivative instrument swaps the principal from U.S. dollars to Australian dollars and also swaps the interest rate from a U.S.-based rate to an Australian-based rate. This agreement has a maturity date of March 2006.

The Company's subsidiaries in Australia, Canada and several European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap the principal amount of borrowings and in some cases they swap the related interest.

The Company recognizes the above derivatives on the balance sheet at fair value. Accordingly, the changes in the value of the swaps are recognized in current earnings and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings. For the year ended December 31, 2005, the amount not offset was immaterial.

Foreign Currency Exchange Contracts Designated as Cash Flow Hedges

In connection with debt refinancing in late December 2004, the Company's subsidiary in France borrowed approximately €91 million from Owens-Brockway Glass Container ("OBGC"), a U.S. subsidiary of the Company, at a fixed interest rate through 2009. In order to hedge the changes in the cash flows of the foreign currency interest and principal repayments, OBGC entered into a swap that converts the Euro coupon interest payments into a predetermined U.S. dollar coupon interest payment and also converts the final principal payment in December 2009 from €91.0 million to approximately $120.7 million U.S. dollars.

The Company accounts for the above cross-currency swap on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in accumulated other comprehensive income ("OCI") and reclassified

into earnings in the same period or periods during which the underlying hedged item affects earnings. 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 above cross-currency swap is accounted for as a cash flow hedge at December 31, 2005. At December 31, 2005, an unrecognized gain of $10.5 million was included in OCI related to this cross-currency swap. The ineffectiveness related to this hedge for year ended December 31, 2005 was not material.

The Company has also entered into a foreign currency exchange contract in Europe to swap €37.5 million into $47.3 million U.S. dollars related to anticipated fuel oil purchases for 2006. A portion of European fuel oil purchases fluctuates based on U.S. dollars. The swap mitigates foreign currency exchange rate risk relating to approximately 93% of the anticipated 2006 fuel oil purchases in western Europe. Changes in the fair value of this contract are recognized in current earnings.

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 $1.25 billion that mature from 2007 through 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-variable interest rate swaps are accounted for as fair value hedges. Because the relevant terms of the swap agreements match the corresponding terms of the notes, there is no hedge ineffectiveness. Accordingly, the Company recorded the net of the fair market values of the swaps as a long-term liability along with a corresponding net decrease in the carrying value of the hedged debt.

Under the swaps, the Company receives fixed rate interest amounts (equal to interest on the corresponding hedged note) and pays interest at a six-month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense during each six-month period over the term of the agreement.

The following selected information relates to fair value swaps at December 31, 2005 (based on a projected U.S. LIBOR rate of 4.8618%):

	Amount Hedged	Receive Rate	Average Spread	Asset (Liability) Recorded
Senior Notes due 2007	$ 300.0	8.10%	4.5%	$ (5.2)
Senior Notes due 2008	250.0	7.35%	3.5%	(6.0)
Senior Debentures due 2010	250.0	7.50%	3.2%	(6.1)
Senior Notes due 2013	450.0	8.25%	3.7%	(16.7)
Total	$ 1,250.0			$ (34.0)

Commodity Hedges

The Company enters into commodity futures contracts related to forecasted natural gas and fuel oil requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and fuel oil and the related volatility in cash flows. The Company continually evaluates the natural gas and fuel oil market with respect to its forecasted usage requirements over the next twelve to eighteen months and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements over that period. At December 31, 2005, the Company had entered into commodity futures contracts for approximately 62% (approximately 14,780,000 MM BTUs) of its expected North American natural gas usage for full year of 2006 and approximately 15% (approximately 3,600,000 MM BTUs) for the full year of 2007. At December 31, 2005, the Company had also entered into commodity futures contracts for substantially all of its expected western European fuel oil usage (approximately 43,500 metric tons) for the first quarter of 2006.

The Company accounts for the above futures contracts on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. 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.

With the exception of the European fuel oil contracts, the above futures contracts are accounted for as cash flow hedges at December 31, 2005.

At December 31, 2005, an unrecognized gain of $26.2 million ($17.0 million after tax), related to the domestic commodity futures contracts, was included in OCI. The ineffectiveness related to these natural gas hedges for 2005 was not material. Changes in the fair value of the western European commodity futures contracts are recognized in current earnings.

Other Hedges

The Company's subsidiaries may enter into short-term forward exchange agreements to purchase foreign currencies at set rates in the future. These foreign currency forward exchange agreements are used to limit exposure to fluctuations in foreign currency exchange rates for all 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 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.

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) other accrued 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.

10. Accumulated Other Comprehensive Income (Loss) The components of comprehensive income (loss) are: (a) net earnings (loss); (b) change in fair value of certain derivative instruments; (c) adjustment of minimum pension liabilities; and, (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

The following table lists the beginning balance, yearly activity and ending balance of each component of accumulated other comprehensive income (loss):

	Net Effect of Exchange Rate Fluctuations	Deferred Tax Effect for Translation	Change in Minimum Pension Liability (net of tax)	Change in Certain Derivative Instruments (net of tax)	Total Accumulated Comprehensive Income (Loss)
Balance on January 1, 2003	$ (520.3)	$ 26.0	$ (91.5)	$ 2.2	$ (583.6)
2003 Change	365.6	(4.6)	(19.3)	(1.2)	340.5
Balance on December 31, 2003	(154.7)	21.4	(110.8)	1.0	(243.1)
2004 Change	326.1	(8.7)	(27.5)	(1.1)	288.8
Balance on December 31, 2004	171.4	12.7	(138.3)	(0.1)	45.7
2005 Change	(288.9)		(7.2)	14.5	(281.6)
Balance on December 31, 2005	$ (117.5)	$ 12.7	$ (145.5)	$ 14.4	$ (235.9)

The 2004 change in exchange rate fluctuations includes $52.4 million related to the sales of the blow-molded plastics business and the 20% investment in Consol Glass.

The change in minimum pension liability for 2005, 2004, and 2003 was net of tax of $0.1 million, $8.1 million and $1.4 million, respectively. The change in minimum pension liability for 2005 included $(14.8) million ($19.5 million pretax) of translation effect on the minimum pension liability recorded in prior years. The change in minimum pension liability for 2004 included $9.0 million ($12.6 million pretax) of translation effect on the minimum pension liability recorded in prior years. The change in minimum pension liability for 2003 included $10.1 million ($14.7 million pretax) of translation effect on the minimum pension liability recorded in 2002.

The change in certain derivative instruments for 2005, 2004 and 2003 was net of tax of $9.2 million, $0.5 million, and $0.7 million, respectively.

11. Income Taxes Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (2) carryovers and credits for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Deferred tax assets:		
Accrued postretirement benefits	$ 89.3	$ 93.4
Asbestos-related liabilities	255.1	268.2
Tax loss and credit carryovers	639.2	471.0
Capital loss carryovers	391.3	405.2
Alternative minimum tax credits	21.2	21.7
Accrued liabilities	203.1	189.8
Other	31.3	31.2
Total deferred tax assets	1,630.5	1,480.5
Deferred tax liabilities:		
Property, plant and equipment	251.7	273.9
Prepaid pension costs	293.5	277.3
Insurance for asbestos-related costs	0.4	1.2
Inventory	29.3	33.4
Other	89.9	51.8
Total deferred tax liabilities	664.8	637.6
Valuation allowance	(1,043.9)	(731.2)
Net deferred taxes	$ (78.2)	$ 111.7

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

	2005	2004
Prepaid expenses	$ 5.9	$ 125.2
Deposits, receivables, and other assets	101.9	169.8

Deferred taxes	(186.0)	(183.3)
Net deferred taxes	$ (78.2)	$ 111.7

The provision (benefit) for income taxes consists of the following:

	2005	2004	2003
Current:			
U.S. Federal	$ —	$ —	$ —
State	1.6	3.0	1.6
Foreign	133.9	101.6	55.3
	135.5	104.6	56.9
Deferred:			
U.S. Federal	167.7	(82.6)	(174.7)
State	9.1	(8.2)	(6.1)
Foreign	(12.4)	(20.5)	(1.8)
	164.4	(111.3)	(182.6)
Total:			
U.S. Federal	167.7	(82.6)	(174.7)
State	10.7	(5.2)	(4.5)
Foreign	121.5	81.1	53.5
	$ 299.9	$ (6.7)	$ (125.7)
Total for continuing operations	$ 367.1	$ 5.9	$ (133.7)
Total for discontinued operations	(67.2)	(12.6)	8.0
	$ 299.9	$ (6.7)	$ (125.7)

The provision (benefit) for income taxes was calculated based on the following components of earnings (loss) before income taxes:

Continuing operations	2005	2004	2003
Domestic	$ (187.7)	$ (203.8)	$ (617.4)
Foreign	(30.9)	414.1	179.4
	$ (218.6)	$ 210.3	$ (438.0)

Discontinued operations	2005	2004	2003
Domestic	$ (4.2)	$ 45.2	$ (670.4)
Foreign		6.2	17.7
	$ (4.2)	$ 51.4	$ (652.7)

Income taxes paid in cash were as follows:

	2005	2004	2003
Domestic	$ 12.2	$ 1.9	$ 1.4
Foreign	112.9	98.8	51.1
	$ 125.1	$ 100.7	$ 52.5

A reconciliation of the provision (benefit) for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	2005	2004	2003
Pretax earnings (loss) from continuing operations at statutory U.S. Federal tax rate	$ (76.5)	$ 73.6	$ (153.3)
Increase (decrease) in provision for income taxes due to:			
Goodwill impairment	172.9		
Valuation allowance	306.6		
Write-down of equity investment			517.5
State taxes, net of federal benefit	4.9	(11.2)	(3.1)
Rate differences on international earnings	(28.2)	(25.0)	(16.0)
Ardagh note			11.1
Australian tax consolidation	(2.8)	(33.1)	
Adjustment for non-U.S. tax law changes	(7.1)		(7.6)
Other items	(2.7)	1.6	17.7
Provision (benefit) for income taxes	$ 367.1	$ 5.9	$ (133.7)

At December 31, 2005, the Company has unused net operating losses, capital losses, and research tax credits expiring from 2007 to 2026.

The Company also has unused alternative minimum tax credits which do not expire and which will be available to offset future U.S. Federal income tax.

At December 31, 2005, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated $1,385.4 million. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed.

During the fourth quarter of 2005, the Company recorded an additional valuation allowance of $306.6 million because of the near-term effects on U. S. profitability of continued asbestos-related payments, significant interest expense, rising energy costs and other cost increases. These changes in circumstances would have increased the beginning-of-year valuation allowance by approximately $170 million.

The October 2004 sale of the blow-molded plastic business resulted in a substantial capital loss, only a small portion of which was utilized to offset otherwise taxable capital gains. Because of the significant amount and limited life of the remaining unused capital loss, a full valuation allowance of approximately $361 million was established in 2004 to offset the tax benefit.

Valuation allowances approximating $140 million (including approximately $85 million related to the 2004 acquisition of BSN Glasspack, S.A.) were established in allocation of the costs of acquisitions. Any future reductions of these components will result in reductions of goodwill.

During 2005, the Company recorded a benefit of $61.8 million from discontinued operations resulting from the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual was no longer required based on the Company's reassessment of the potential liabilities due to several factors, including statute expiration in September 2005.

12. Convertible Preferred Stock Annual cumulative dividends of $2.375 per share are payable in cash quarterly. The convertible preferred stock is convertible at the option of the holder at any time, unless previously redeemed, into shares of common stock of the Company at an initial conversion rate of 0.9491 shares of common stock for each share of convertible preferred stock, subject to adjustment based on certain events. The convertible preferred stock may be redeemed only in shares of common stock of the Company at the option of the Company at predetermined redemption prices plus accrued and unpaid dividends, if any, to the redemption date.

Holders of the convertible preferred stock have no voting rights, except as required by applicable law and except that among other things, whenever accrued and unpaid dividends on the convertible preferred stock are equal to or exceed the equivalent of six quarterly dividends payable on the convertible preferred stock such holders will be entitled to elect two directors to the Company's board of directors until the dividend arrearage has been paid or amounts have been set apart for such payment. In addition, certain changes that would be materially adverse to the rights of holders of the convertible preferred stock cannot be made without the vote of holders of two-thirds of the outstanding convertible preferred stock. The convertible preferred stock is senior to the common stock with respect to dividends and liquidation events.

13. Stock Options and Other Stock Based Compensation The Company has five equity compensation plans under which it has granted stock options, restricted shares, and restricted share units: (1) the Stock Option Plan for Key Employees of Owens-Illinois, Inc.; (2) the Stock Option Plan for Directors of Owens-Illinois, Inc.; (3) the 1997 Equity Participation Plan of Owens-Illinois, Inc.; (4) the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc.; and (5) the 2005 Equity Incentive Plan of Owens-Illinois, Inc.

For options granted prior to March 31, 2005, under the Key Employees Plan and the 1997 Equity Plan, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to accelerated exercisability provisions related to the performance of the Company's common stock or change of control, 50% of the options become exercisable on the fifth anniversary of the date of the option grant, with the remaining 50% becoming exercisable on the sixth anniversary date of the option grant. In general, options expire following termination of employment or the day after the tenth anniversary date of the option grant.

For options granted after March 30, 2005, under the 1997 Equity Plan and the 2005 Equity Incentive Plan, no options may be exercised in whole or in part during the first year after the date granted. In general, subject change of control, options become exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant.

All options have been granted at prices equal to the market price of the Company's common stock on the date granted. Accordingly, under the disclosure-only provisions of FAS 123, the Company recognized no compensation expense related to the stock option plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions described in the accounting policies note on stock options.

Stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Options outstanding at January 1, 2003	9,847,855	$ 20.15	
Granted	930,800	9.98	$ 6.15
Exercised	(182,955)	6.85	
Canceled	(198,284)	20.66	
Options outstanding at December 31, 2003	10,397,416	19.46	
Granted	1,162,000	13.41	$ 8.30
Exercised	(2,239,874)	10.26	
Canceled	(858,042)	20.77	

Options outstanding at December 31, 2004	8,461,500	$ 20.94	
Granted	788,752	24.21	$ 15.00
Exercised	(1,605,677)	12.78	
Canceled	(744,749)	31.70	
Options outstanding at December 31, 2005	6,899,826	$ 22.05	
Options exercisable at:			
December 31, 2005	5,728,828	$ 22.29	
December 31, 2004	6,141,175	$ 22.74	
December 31, 2003	5,030,410	$ 19.51	
Shares available for option grant at:			
December 31, 2005	7,332,497		
December 31, 2004	4,632,810		
December 31, 2003	5,083,627		

The following table summarizes significant option groups outstanding at December 31, 2005, and related weighted average price and life information:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 5.69 to $ 16.98	3,059,614	6.0	$ 11.72	2,696,218	$ 11.45
$ 18.53 to $ 31.63	2,679,312	4.6	$ 26.23	1,871,710	$ 27.17
$ 34.88 to $ 41.50	1,160,900	2.4	$ 39.62	1,160,900	$ 39.62
	6,899,826			5,728,828	

During 2005, the Company awarded 238,136 performance vested units under the 1997 Equity Plan and the 2005 Equity Incentive Plan. As soon as practicable after 2007, holders of each unit will receive a number of shares ranging from .5 shares to 1.5 shares, depending upon the attainment of established performance goals. Failure to meet minimum goals will result in forfeiture of the shares. Granted but unvested shares are forfeited upon termination of employment. The Company expensed approximately $1.3 million related to these units in 2005.

During 2005, 2004 and 2003 the Company awarded shares of restricted stock to certain key employees under the 1997 Equity Plan and the 2005 Equity Incentive Plan and, in 2005 and 2004, to non-management directors under the 2004 Equity Incentive Plan for Directors. Shares granted to employees prior to March 31, 2005, generally vest upon retirement. Shares granted to employees after March 30, 2005, vest 25% per year beginning on the first anniversary. Granted but unvested shares are forfeited upon termination of employment, unless certain retirement criteria are met. Shares granted to directors vest on the later of the three-year anniversary of the grant date or the end of the director's term on the board.

The fair value of the shares is equal to the market price of the shares on the date of the grant. The fair value of the restricted shares is amortized ratably over the vesting period. The following table summarizes total restricted shares issued and the total expense recognized for each of the years ended December 31:

Year ended December 31,	Total Shares Granted	Weighted Average Fair Value	Total Expense
2005	117,064	$ 24.34	$ 5.5
2004	487,622	13.73	3.9
2003	303,000	9.93	2.6

14. Pension Benefit Plans Net expense (credits) to results of operations for all of the Company's pension plans and certain deferred compensation arrangements amounted to $15.4 million in 2005, $27.0 million in 2004, and $(17.8) million in 2003.

The Company has defined benefit pension plans covering substantially all employees located in the United States, the United Kingdom, the Netherlands, Canada, Australia, Germany and France. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The Company's defined benefit pension plans use a December 31 measurement date. The following tables relate to the Company's principal defined benefit pension plans.

The changes in the pension benefit obligations for the year were as follows:

	2005	2004
Obligations at beginning of year	$ 3,754.5	$ 3,090.0
Change in benefit obligations:		
Service cost	51.7	56.9
Interest cost	199.7	197.0
Actuarial loss, including effect of changing discount rates	179.5	190.4

Acquisitions				448.8
Divestitures				(35.2)
Participant contributions		9.4		7.7
Benefit payments		(250.3)		(281.2)
Plan amendments		2.8		(44.6)
Foreign currency translation		(123.7)		119.3
Other				5.4
Net increase in benefit obligations		69.1		664.5
Obligations at end of year	$	3,823.6	$	3,754.5

The changes in the fair value of the pension plans' assets for the year were as follows:

		2005		2004
Fair value at beginning of year	$	3,510.1	$	2,869.9
Change in fair value:				
Actual gain on plan assets		403.9		482.4
Acquisitions				285.1
Benefit payments		(250.3)		(281.2)
Employer contributions		43.7		63.8
Participant contributions		9.4		7.7
Foreign currency translation		(85.4)		82.4
Net increase in fair value of assets		121.3		640.2
Fair value at end of year	$	3,631.4	$	3,510.1

The funded status of the pension plans at year end was as follows:

		2005		2004
Plan assets at fair value	$	3,631.4	$	3,510.1
Projected benefit obligations		3,823.6		3,754.5
Plan assets less than projected benefit obligations		(192.2)		(244.4)
Net unrecognized items:				
Actuarial loss		1,073.7		1,080.0
Prior service cost		6.9		(5.5)
		1,080.6		1,074.5
Net amount recognized	$	888.4	$	830.1

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

		2005		2004
Prepaid pension	$	988.1	$	962.5
Accrued pension, included with other liabilities		(163.2)		(205.5)
Minimum pension liability, included with other liabilities		(143.7)		(134.7)
Intangible asset, included with deposits and other assets		9.4		12.2
Accumulated other comprehensive income		197.8		195.6
Net amount recognized	$	888.4	$	830.1

The accumulated benefit obligation for all defined benefit pension plans was $3,495.4 million and $3,470.2 million at December 31, 2005 and 2004, respectively.

The components of the net pension expense (credit) for the year were as follows:

		2005		2004		2003
Service cost	$	51.7	$	56.9	$	48.8
Interest cost		199.7		197.0		179.1
Expected asset return		(296.6)		(289.5)		(275.1)
Amortization:						
Prior service cost		(0.3)		6.0		6.8
Loss		49.5		38.3		10.5
Net amortization		49.2		44.3		17.3
Net expense (credit)	$	4.0	$	8.7	$	(29.9)

Total for continuing operations	$ 4.0	$ 6.3	$ (29.9)
Total for discontinued operations		2.4	
	$ 4.0	$ 8.7	$ (29.9)

The following selected information is for plans with projected benefit obligations in excess of the fair value of plan assets at year end:

	2005	2004
Projected benefit obligations	$ 1,353.2	$ 1,317.3
Fair value of plan assets	961.2	906.8

The following information is for plans with accumulated benefit obligations in excess of the fair value of plan assets at year end:

	2005	2004
Accumulated benefit obligations	$ 876.3	$ 1,197.9
Fair value of plan assets	621.5	906.8

The weighted average assumptions used to determine benefit obligations were as follows:

	2005	2004
Discount rate	5.30%	5.52%
Rate of compensation increase	4.54%	4.40%

The weighted average assumptions used to determine net periodic pension costs were as follows:

	2005	2004	2003
Discount rate	5.52%	6.10%	6.52%
Rate of compensation increase	4.40%	4.71%	4.72%
Expected long-term rate of return on assets	8.10%	8.35%	8.71%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above. Amortization included in net pension expense (credits) is based on the average remaining service of employees.

As of December 31, 2005, the Company recorded an additional minimum pension liability for the pension plan in the United Kingdom in addition to the minimum liabilities recorded in 2002, 2003 and 2004. Pursuant to this requirement, the Company decreased the minimum pension liability by $4.6 million, reduced the intangible asset by $1.4 million, and decreased accumulated other comprehensive loss by $3.2 million.

As of December 31, 2005, the Company adjusted the minimum pension liability for the pension plan in Canada from the minimum liabilities recorded in 2002, 2003 and 2004. Pursuant to this requirement, the Company increased the minimum pension liability by $13.2 million, reduced the intangible asset by $0.1 million, and increased accumulated other comprehensive loss by $13.3 million.

As of December 31, 2005, the Company recorded an additional minimum pension liability for the pension plan in Germany. Pursuant to this requirement, the Company recorded a minimum pension liability of $11.9 million and increased accumulated other comprehensive loss by $11.9 million.

For 2005, the Company’s weighted average expected long-term rate of return on assets was 8.10%. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2004), which was in line with the expected long-term rate of return assumption for 2005.

The weighted average actual asset allocations and weighted average target allocation ranges by asset category for the Company’s pension plan assets were as follows:

	Actual Allocation		Target Allocation Ranges
Asset Category	2005	2004	
Equity securites	64%	61%	56 - 66%
Debt securities	29%	29%	26 - 36%
Real estate	7%	7%	2 - 12%
Other		3%	0 - 2%
Total	100%	100%	

It is the Company’s policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within the above target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets for both the U.S. and non-U.S. plans are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

The Company expects to contribute $48.9 million to its defined benefit pension plans in 2006.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2006	$ 232.3
2007	228.2
2008	230.3
2009	233.5
2010	232.3
2011 - 2015	1,195.9

The Company also sponsors several defined contribution plans for all salaried and hourly U.S. employees. Participation is voluntary and participants' contributions are based on their compensation. The Company matches contributions of participants, up to various limits, in substantially all plans. Company contributions to these plans amounted to $7.7 million in 2005, $7.1 million in 2004, and $6.8 million in 2003.

15. Postretirement Benefits Other Than Pensions The Company provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees, substantially all employees in Canada and in the Netherlands. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. The Company uses a December 31 measurement date to measure its Postretirement Benefit Obligations.

The changes in the postretirement benefit obligations for the year were as follows:

	2005	2004
Obligations at beginning of year	$ 340.9	$ 380.8
Change in benefit obligations:		
Service cost	4.5	4.3
Interest cost	18.5	21.0
Actuarial gain (loss), including the effect of changing discount rates	(1.6)	5.3
Acquisitions		21.0
Plan amendments		(63.7)
Benefit payments	(32.6)	(33.8)
Foreign currency translation	(0.6)	6.0
Net change in benefit obligations	(11.8)	(39.9)
Obligations at end of year	$ 329.1	$ 340.9

The funded status of the postretirement benefit plans at year end was as follows:

	2005	2004
Projected postretirement benefit obligations	$ 329.1	$ 340.9
Net unrecognized items:		
Prior service credit	40.9	45.2
Actuarial loss	(92.9)	(100.5)
	(52.0)	(55.3)
Nonpension accumulated postretirement benefit obligations	$ 277.1	$ 285.6

The components of the net postretirement benefit cost for the year were as follows:

	2005	2004	2003
Service cost	$ 4.5	$ 4.3	$ 3.6
Interest cost	18.5	21.0	23.3
Amortization:			
Prior service credit	(4.3)	(6.8)	(13.0)
Loss	5.5	4.7	3.7
Net amortization	1.2	(2.1)	(9.3)
Net postretirement benefit cost	$ 24.2	$ 23.2	$ 17.6
Total for continuing operations	24.2	21.3	17.3
Total for discontinued operations		1.9	0.3
	$ 24.2	$ 23.2	$ 17.6

The weighted average discount rate used to determine the accumulated postretirement benefit obligation was 5.45% and 5.67% at December 31, 2005 and 2004, respectively.

The weighted average discount rate used to determine net postretirement benefit cost was 5.67%, 6.21%, and 6.72% at December 31, 2005, 2004, and 2003, respectively.

The weighted average assumed health care cost trend rates at December 31 were as follows:

	2005	2004
Health care cost trend rate assumed for next year	8.31%	9.19%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.64%	5.66%
Year that the rate reaches the ultimate trend rate	2009	2009

Assumed health care cost trend rates affect the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 2.2	$ (1.8)
Effect on accumulated postretirement benefit obligations	23.2	(19.2)

Amortization included in net postretirement benefit cost is based on the average remaining service of employees.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2006	$ 21.5
2007	21.4
2008	21.2
2009	21.3
2010	21.4
2011 - 2015	107.6

Benefits provided by the Company for certain hourly retirees are determined by collective bargaining. Most other domestic hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were $6.6 million in 2005, $7.6 million in 2004, and $8.7 million in 2003. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

16. Other Revenue Other revenue in 2005 includes $28.1 million (pre-tax and after tax) for the sale of the Company's Corsico, Italy glass container facility.

Other revenue in 2004 includes a gain of $20.6 million ($14.5 million after tax) for the sale of certain real property and a gain of $31.0 million ($13.1 million after tax) for a restructuring in the Italian Specialty Glass business.

17. Other Costs and Expenses Other costs and expenses for the year ended December 31, 2005 included the following:

- During the fourth quarter of 2005 the Company recorded a pretax charge of $135.0 million ($86.0 million after tax) to increase the reserve for estimated future asbestos-related costs as a result of the findings from the annual review of asbestos-related liabilities.

- During the fourth quarter of 2005 the Company recorded a charge of $494.0 million to write down a portion of the goodwill in its Asia Pacific Glass business unit. See Note 21 for more information.

- Manufacturing costs for the first quarter of 2005 included a favorable adjustment of approximately $10.0 million to the Company's accruals for self insured risks.

- Manufacturing costs for the second quarter of 2005 included a favorable adjustment for depreciation and amortization in connection with finalizing the fair values of the BSN Glasspack assets acquired in June 2004. The difference between the estimated amounts recorded in 2004 and the final amounts related to 2004 accounted for a benefit of approximately $6.5 million.

Other costs and expenses for the year ended December 31, 2004 included a pretax charge of $152.6 million ($84.9 million after tax) to increase the reserve for estimated future asbestos-related costs as a result of the findings from the annual review of asbestos-related liabilities.

Other costs and expenses for the year ended December 31, 2003 included pretax charges of $694.2 million ($490.5 after tax) related to the following:

- On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable. The notes were received from Ardagh in 1999 by the Company's wholly-owned subsidiary, United Glass Limited, in connection with its sale of Rockware, a United Kingdom glass container manufacturer obtained in the 1998 acquisition of the worldwide glass and plastics packaging businesses of BTR plc. The notes were due in 2006 and interest had previously been paid in kind through periodic increases in outstanding principal balances. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Agreement. The notes were sold at a discount of approximately 22.6 million British pounds sterling which resulted in a loss of US$37.4 million (US$37.4 million after tax).

- During the fourth quarter of 2003, the Company completed the sale of its assets related to the production of plastic trigger sprayers and finger pumps. Included in the sale were manufacturing facilities in Bridgeport, Connecticut and El Paso, Texas, in addition to related production assets at the Erie, Pennsylvania plant. As a result of the sale, the Company recorded a loss of $41.3 million ($25.8 million after tax) in the third and fourth quarters of 2003. The net cash proceeds from the sale of approximately $44 million, including liquidation of related working capital, were used to reduce debt.

  The Company's decision to sell the long-term notes receivable and its assets related to the production of plastic trigger sprayers and finger pumps is consistent with its objectives to improve liquidity and to focus on its core businesses.

- In August of 2003, the Company initiated a review of its Plastics Packaging assets in the Asia Pacific region. The review was completed during the fourth quarter of 2003. The Company used a combination of estimated divestment cash flows, which included bid prices from potential purchasers, and partial liquidation values for certain assets to determine the net realizable values of the assets. The Company compared the estimated net realizable values to the book values of the asset and determined that an asset impairment existed. As a result, the Company recorded a charge of $43.0 million ($30.1 million after tax) to write-down the assets to realizable values. Certain of the plastics businesses in the Asia Pacific region operate in highly competitive markets leading to reduced profit margins. In addition, the Company's PET container business has lost a significant amount of business in the past few years. The reduced business and overall excess capacity in the industry has caused a reduction in the overall value of the business.

- During the fourth quarter of 2003, the Company determined that the value of its 25% investment in a North American soda ash mining operation was impaired and not likely to recover. Increasing global competition and recent development of foreign sources of soda ash have created significant excess capacity in that industry. The resulting competitive environment caused management of the soda ash mining operation to significantly lower its projections of earnings and cash flows. Following an evaluation of future estimated earnings and cash flows, the Company determined that its carrying value should be written down to estimated fair value and recorded a $50 million charge in the fourth quarter which substantially reduced the carrying value of this equity method investment.

- During the fourth quarter of 2003, the Company completed its annual review of asbestos-related liabilities and as a result recorded a charge of $450.0 million ($292.5 million after tax) to increase the reserve for future asbestos-related liabilities.

- In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June 2003 following a major leak in its

  only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5 million ($17.8 million after tax) in the third quarter of 2003. The closing of this factory resulted in the elimination of approximately 170 jobs and a corresponding reduction in the Company's workforce. Substantially all of the closing costs were paid out by the end of 2005.

- In November 2003, the Company announced the permanent closing of its Milton, Ontario glass container factory. This closing was part of an effort to bring capacity and inventory levels in line with anticipated demand. As a result, the Company recorded a capacity curtailment charge of $20.1 million ($19.5 million after tax) in the fourth quarter of 2003. The closing of this factory in November 2003 resulted in the elimination of approximately 150 jobs and a corresponding reduction in the Company's workforce. Substantially all of the closing costs were paid out by the end of 2005.

- In December 2003, the Company announced the permanent closing of its Perth, Australia glass container factory. This closing was part of an effort to reduce overall capacity in Australia and bring inventory levels in line with anticipated demand. The Perth plant's western location and small size contributed to the plant being a higher cost facility that was no longer economically feasible to operate. As a result, the Company recorded a capacity curtailment charge of $23.9 million ($17.4 million after tax) in other costs and expenses in the results of operations for 2003.

  The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The closing costs were paid out by the end of 2005.

  Selected information related to glass container factory closings is as follows:

	Hayward	Milton	Total
Plant closing charges	$ 28.5	$ 20.1	$ 48.6
Write-down of assets to net realizable value	(12.2)	(6.4)	(18.6)
Net cash paid	(4.1)	(1.7)	(5.8)
Remaining accruals related to plant closing charges as of December 31, 2003	12.2	12.0	24.2
Net cash paid	(2.7)	(4.4)	(7.1)
Other, principally translation	2.5	(2.8)	(0.3)
Remaining accruals related to plant closing charges as of December 31, 2004	12.0	4.8	16.8
Net cash paid	2.8	(0.9)	1.9
Other	(4.1)	(0.5)	(4.6)
Remaining accruals related to plant closing charges as of December 31, 2005	$ 10.7	$ 3.4	$ 14.1

18. Additional Interest Charges from Early Extinguishment of Debt During 2005, the Company recorded additional interest charges of $1.4 million ($1.0 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's bank credit

agreement. During 2004, the Company recorded additional interest charges of $28.3 million ($18.5 million after tax) for note repurchase premiums and related write-off of unamortized finance fees and $7.1 million ($2.5 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's bank credit agreement. During 2003, the Company recorded additional interest charges of $13.2 million ($8.2 million after tax) for note repurchase premiums and related write-off of unamortized finance fees and $3.6 million ($2.5 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's previous bank credit agreement.

19. Contingencies The Company 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 the Company's former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

The following table shows the approximate number of plaintiffs and claimants involved in asbestos claims pending at the beginning of, disposed of and filed during, and pending at the end of, each of the years listed (eliminating duplicate filings):

	2005	2004	2003
Pending at beginning of year	35,000	29,000	24,000
Disposed	12,000	9,000	21,000
Filed	9,000	15,000	26,000
Pending at end of year	32,000	35,000	29,000

Based on an analysis of the claims and lawsuits pending as of December 31, 2005, approximately 89% of plaintiffs and claimants 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 10% of plaintiffs specifically plead damages of $15 million or less, and 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 $123 million.

As indicated by the foregoing summary, current pleading practice permits considerable variation in the assertion of monetary damages. This variability, together with the actual experience discussed further below of litigating or resolving through settlement hundreds of thousands of asbestos claims and lawsuits over an extended period, demonstrates that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value. Rather, the amount potentially recoverable for a specific claimant is determined by other factors such as the claimant's severity of disease, product identification evidence against specific defendants, the defenses available to those defendants, the specific jurisdiction in which the claim is made, the claimant's history of smoking or exposure to other possible disease-causative factors, and the various other matters discussed further below.

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of December 31, 2005 there are approximately 22,000 claims against other defendants and which are likely to be asserted some time in the future against the Company. These claims are not included in the totals set forth above. The Company further believes that the bankruptcies of additional co-defendants, as discussed below, resulted in an acceleration of the presentation and disposition of a number of these previously withheld preexisting claims under such agreements, which claims would otherwise have been presented and disposed of over the next several years. This acceleration resulted in a significant increase in the dispositions and cash payments during the period 2001-2002; however, the resolution of the accumulated yet previously unpresented cases continues to affect the annual dispositions and cash payments.

The Company is also a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company as of December 31, 2005, has disposed of the asbestos claims of approximately 325,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $6,400. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately $91 million at December 31, 2005 ($91 million at December 31, 2004) and are included in the foregoing average indemnity payment per claim. The Company's indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to the Company that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. The Company expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution.

The Company 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, the Company has accrued a total of approximately $2.99 billion through 2005, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy.

The Company has continued to monitor trends which may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. The Company expects that the total asbestos-related cash

payments will be moderately lower in 2006 compared to 2005 and will continue to decline thereafter as the preexisting but presently unasserted claims withheld under the claims handling agreements are presented to the Company and as the number of potential future claimants continues to decrease. The material components of the Company's accrued liability are based on amounts estimated by the Company in connection with its annual comprehensive review and consist of the following: (i) the reasonably probable contingent liability for asbestos claims already asserted against the Company, (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 the Company, but which the Company 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 the Company's accrual are:

a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;

b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;

c) the extent of decrease or increase in the inventory of pending serious disease cases;

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

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

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

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

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

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

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. In accordance with FAS No. 5, "Accounting for Contingencies," 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. The Company's reported results of operations for 2005 were materially affected by the $135.0 million fourth quarter charge and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and will continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

20. Segment Information The Company operates in the rigid packaging industry. The Company has two reportable product segments within the rigid packaging industry: (1) Glass Containers and (2) Plastics Packaging. The Glass Containers segment includes operations in Europe, the Americas, and the Asia Pacific region. Following the sale of a substantial portion of the Company's blow-molded plastic container operations which was completed on October 7, 2004, the Plastics Packaging segment consists of healthcare packaging, and closures and specialty products.

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, provision for income taxes and minority share owners' interests in earnings of subsidiaries and excludes amounts related to certain items that management considers not representative of ongoing operations. 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 product 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. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments. The information below is presented on a continuing operations basis, and therefore, the prior period amounts have been restated to remove the discontinued operations. See Note 22 for more information.

Financial information regarding the Company's product segments is as follows:

	Glass Containers	Plastics Packaging	Total Product Segments	Eliminations and Other Retained Costs	Consolidated Totals
Net sales:					
2005	$ 6,266.9	$ 812.1	$ 7,079.0		$ 7,079.0
2004	5,366.1	762.3	6,128.4		6,128.4
2003	4,182.9	792.7	4,975.6		4,975.6
Segment Operating Profit:					
2005	$ 790.8	$ 127.2	$ 918.0	$ (89.4)	$ 828.6
2004	759.6	115.0	874.6	(102.2)	772.4
2003	658.8	98.7	757.5	(91.9)	665.6
Items excluded from Segment Operating Profit:					
2005:					
Gain on the sale of the Corsico, Italy glass container facility	$ 28.1		$ 28.1		$ 28.1
Mark to market effect of certain commodity futures contracts	3.8		3.8		3.8
Charge for asbestos-related costs				$ (135.0)	(135.0)
Goodwill impairment	(494.0)		(494.0)		(494.0)
2004:					
Gain on the sale of certain real property	20.6		20.6		20.6
Italian Specialty Glass gain	31.0		31.0		31.0
Mark to market effect of certain commodity futures contracts	4.9		4.9		4.9
Charge for asbestos-related costs				(152.6)	(152.6)
Restructuring of a life insurance program				(6.4)	(6.4)
2003:					
Write-down of equity investment	(50.0)		(50.0)		(50.0)
Charge for asbestos- related costs				(450.0)	(450.0)
Capacity curtailment charges	(72.5)		(72.5)		(72.5)
Write-down of Plastics Packaging assets in the Asia Pacific region		$ (43.0)	(43.0)		(43.0)
Loss on the sale of certain closures assets		(41.3)	(41.3)		(41.3)
Loss on the sale of notes receivable	(37.4)		(37.4)		(37.4)

	Glass Containers	Plastics Packaging	Total Product Segments	Eliminations and Other Retained	Consolidated Totals
Depreciation and amortization expense:					
2005	$ 465.3	$ 49.5	$ 514.8	$ 9.2	$ 524.0
2004	407.5	55.4	462.9	11.9	474.8
2003	351.3	62.9	414.2	13.5	427.7
Total assets (1):					
2005	$ 7,575.7	$ 754.0	$ 8,329.7	$ 1,192.1	$ 9,521.8
2004	8,579.4	789.3	9,368.7	1,368.0	10,736.7
2003	6,277.2	895.8	7,173.0	2,358.3	9,531.3
Capital expenditures (2):					
2005					
Continuing	$ 366.2	$ 31.1	$ 397.3	$ 6.8	$ 404.1
2004					
Continuing	405.7	30.4	436.1	0.6	436.7
Discontinued		25.1	25.1		25.1
2003					
Continuing	296.8	50.2	347.0	(2.6)	344.4
Discontinued		87.1	87.1		87.1

(1) Assets of discontinued operations for 2003 are included in eliminations and other retained.
(2) Excludes property, plant and equipment acquired through acquisitions.

Financial information regarding the Company's geographic segments is as follows:

	North America	Europe	Asia Pacific	South America	Total Geographic Segments
Net sales:					
2005	$ 2,701.4	$ 2,840.0	$ 844.7	$ 692.9	$ 7,079.0
2004	2,551.6	2,138.8	870.9	567.1	6,128.4
2003	2,492.9	1,197.0	798.8	486.9	4,975.6
Segment Operating Profit:					
2005	$ 345.0	$ 279.4	$ 136.3	$ 157.3	$ 918.0
2004	365.1	242.3	142.1	125.1	874.6
2003	379.2	164.5	118.9	94.9	757.5
Items excluded from Segment Operating Profit:					
2005:					
Gain on the sale of the Corsico, Italy glass container facility		$ 28.1			$ 28.1
Mark to market effect of certain commodity futures contracts	$ 3.8				3.8
Goodwill impairment			$ (494.0)		(494.0)
2004:					
Gain on the sale of certain real property		20.6			20.6
Italian Specialty Glass gain		31.0			31.0
Mark to market effect of certain commodity futures contracts	4.9				4.9
2003:					
Write-down of equity investment	(50.0)				(50.0)
Capacity curtailment charges	(48.6)		(23.9)		(72.5)
Write-down of Plastics Packaging assets in the Asia Pacific region			(43.0)		(43.0)
Loss on the sale of certain closures assets	(41.3)				(41.3)
Loss on the sale of notes receivable		(37.4)			(37.4)

The Company's net property, plant and equipment by geographic segment are as follows (includes assets of discontinued operations in 2003):

	United States	Foreign	Total
2005	$ 1,025.5	$ 2,127.0	$ 3,152.5
2004	988.1	2,509.6	3,497.7
2003	1,614.9	1,772.1	3,387.0

The Company's net sales by geographic segment are as follows:

	United States	Foreign	Total
2005	$ 2,330.7	$ 4,748.3	$ 7,079.0
2004	2,194.5	3,933.9	6,128.4
2003	2,156.8	2,818.8	4,975.6

Operations in individual countries outside the United States that accounted for more than 10% of consolidated net sales from continuing operations were in Italy (2004 – 10.7%, and 2003 – 11.7%), France (2005 – 13.8%), and Australia (2004 – 10.6%, and 2003 – 12.0%).

Reconciliations to consolidated totals are as follows:

	2005	2004	2003
Revenues:			
Net sales for reportable segments	$ 7,079.0	$ 6,128.4	$ 4,975.6
Royalties and net technical assistance	16.9	21.1	17.5
Equity earnings	22.6	27.8	27.1
Interest income	16.6	15.3	20.4
Other revenue	54.6	70.8	25.2
Total	$ 7,189.7	$ 6,263.4	$ 5,065.8
Reconciliation of Segment Operating Profit to earnings (loss) before income taxes, and minority share owners' interest in earnings of subsidiaries:			
Segment Operating Profit for reportable segments	$ 918.0	$ 874.6	$ 757.5
Items excluded from Segment Operating Profit	(462.1)	56.5	(244.2)
Eliminations and other retained items, excluding certain items below	(89.4)	(102.2)	(91.9)
Items excluded from eliminations and other retained items	(135.0)	(159.0)	(450.0)

Interest expense	(466.7)	(474.9)	(429.8)
Interest income	16.6	15.3	20.4
Total	$ (218.6)	$ 210.3	$ (438.0)

21. Goodwill The changes in the carrying amount of goodwill for the years ended December 31, 2003, 2004 and 2005 are as follows:

	Glass Containers	Plastics Packaging	Total
Balance as of January 1, 2003	$ 1,652.6	$ 1,038.6	$ 2,691.2
Write-down of goodwill - discontinued operations		(670.0)	(670.0)
Translation effects	285.5		285.5
Other changes, principally adjustments to acquisition-related deferred tax assets	(27.0)	0.5	(26.5)
Balance as of December 31, 2003	1,911.1	369.1	2,280.2
Goodwill acquired during the year	696.0		696.0
Translation effects	165.6		165.6
Sale of discontinued operations		(151.1)	(151.1)
Other changes	18.4		18.4
Balance as of December 31, 2004	2,791.1	218.0	3,009.1
Translation effects	(160.9)		(160.9)
Write-down of goodwill	(494.0)		(494.0)
Other changes, principally adjustments to finalize acquisition purchase price	15.0		15.0
Balance as of December 31, 2005	$ 2,151.2	$ 218.0	$ 2,369.2

During the fourth quarter of 2003, the Company completed its annual impairment testing and determined that impairment existed in the goodwill of its consumer products reporting unit. The consumer products unit operates in a highly competitive and fragmented industry. During the course of 2003, a number of the product lines within this reporting unit experienced price reductions, principally as a result of the Company’s strategy to preserve and expand market share. The reduced pricing, along with continued capital expenditures, caused the Company to lower its earnings and cash flow projections for the consumer products reporting unit for several years following the measurement date (October 1, 2003) resulting in an estimated fair value for the unit that was lower than its book value. Following a review of the valuation of the unit’s identifiable assets, the Company recorded an impairment charge of $670.0 million to reduce the reported value of its goodwill.

During the fourth quarter of 2004, the Company completed its annual impairment testing and determined that no impairment existed.

During the fourth quarter of 2005, the Company completed its annual impairment testing and determined that impairment existed in the goodwill of its Asia Pacific Glass business unit. Lower projected cash flows, principally as a result of competitive pricing pressures in the Company’s Australian glass operations, caused the decline in the business enterprise value. Following a review of the valuation of the unit’s identifiable assets, the Company recorded an impairment charge of $494.0 million to reduce the reported value of its goodwill.

22. Discontinued Operations On October 7, 2004, the Company announced that it had completed the sale of its blow-molded plastic container operations in North America, South America and Europe, to Graham Packaging Company.

Cash proceeds of approximately $1.2 billion were used to repay term loans under the Company’s bank credit facility, which was amended to permit the sale. The sale agreement included a post-closing purchase price adjustment based on changes in certain working capital components and certain other assets and liabilities of the business. This adjustment was finalized in April 2005, and Graham was paid approximately $39 million. The adjustment did not impact results of operations.

Included in the sale were 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries. The blow-molded plastic container operations were part of the consumer products business unit of the plastics packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the blow-molded plastic container business in the Consolidated Results of Operations for 2004 and 2003 as a discontinued operation. Interest expense was allocated to discontinued operations based on debt that was required to be repaid from the proceeds.

The following summarizes the revenues and expenses of the discontinued operations as reported in the condensed consolidated results of operations for the period indicated:

	Year ended December 31,	
	2004	2003
Revenues:		
Net sales	$ 875.3	$ 1,083.4
Other revenue	7.7	9.0
	883.0	1,092.4
Costs and expenses:		
Manufacturing, shipping and delivery	754.6	949.3
Research, development and engineering	16.0	20.2
Selling and administrative	23.7	33.8

Interest	45.1	60.8
Other	22.9	681.0
	862.3	1,745.1
Earnings (loss) before items below	20.7	(652.7)
Provision for income taxes	27.1	8.0
Gain on sale of discontinued operations	70.4	
Net earnings (loss) from discontinued operations	$ 64.0	$ (660.7)

Other costs and expenses for the year ended December 31, 2003 included an impairment charge of $670.0 million to reduce the reported value of goodwill in the consumer products reporting unit, all of which was attributable to the discontinued operations.

The sale of the blow-molded plastic business resulted in a substantial capital loss, primarily related to previous goodwill write downs that were not deductible when recorded. The 2004 gain on the sale of discontinued operations of $70.4 million includes a credit for income taxes of $39.7 million, representing the tax benefit from offsetting a portion of the loss against otherwise taxable capital gains.

Discontinued operations of $63.0 million for 2005 includes $61.8 million for a benefit from the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual is no longer required based on the Company's reassessment of the potential liabilities due to several factors, including statute expiration in September 2005. The balance of $1.2 million relates to an adjustment of the 2004 gain on the sale of the blow-molded plastic container operations principally from finalizing certain tax allocations.

23. Acquisition of BSN Glasspack, S.A. On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. ("BSN") from Glasspack Participations (the "BSN Acquisition"). Total consideration for the BSN Acquisition was approximately $1.3 billion, including the assumption of approximately $650 million of debt, a portion of which was refinanced in connection with the BSN Acquisition. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and the Netherlands. The BSN Acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement. In order to secure the European Commission's approval, the Company committed to divest the Barcelona, Spain, and Corsico, Italy glass plants. The Company completed the sale of these plants in January 2005 and received cash proceeds of approximately €138.2 million.

The BSN Acquisition was part of the Company's overall strategy to improve its presence in the European market in order to better serve the needs of its customers throughout the European region and to take advantage of synergies including purchasing leverage and cost reductions. This integration strategy should lead to significant improvement in earnings from the European operations by the end of 2006.

During the second quarter of 2005, the Company concluded its evaluation of acquired capacity and announced the permanent closing of its Düsseldorf, Germany glass container factory, and the shutdown of a furnace at its Reims, France glass container facility, both in 2005. These actions were part of the previously announced European integration strategy to optimally align the manufacturing capacities with the market and improve operational efficiencies. As a result, the Company recorded an accrual of €47.1 million through an adjustment to goodwill.

These second quarter actions will result in the elimination of approximately 400 jobs and a corresponding reduction in the Company's workforce. The Company expects to reduce fixed cash costs by approximately €35 million per year by closing the Düsseldorf factory, shutting down the furnace at Reims and moving most of the production to other locations. The Company anticipates that it will pay out approximately €110.9 million in cash related to severance, benefits, plant clean-up, and other plant closing costs related to restructuring accruals. In addition, the Company expects to pay approximately €65 million for other European reorganization and integration activities, approximately 60% of which will be expensed. Approximately 50% of these payments were made by the end of 2005 and the Company expects that most of the balance will be paid in 2006.

The restructuring accrual recorded in the second quarter of 2005 was in addition to the initial estimated accrual of €63.8 recorded in 2004. Selected information related to the restructuring accrual is as follows, with activity translated from Euros into dollars at the December 31, 2005 exchange rate:

Total restructuring accrual (€110.9 million)	$ 134.1
Net cash paid, principally severance and related benefits	(41.0)
Other, principally translation	(12.2)
Remaining European restructuring accrual as of December 31, 2005	$ 80.9

The total purchase cost of approximately $1.3 billion was allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The following table summarizes the fair values of the assets acquired and liabilities assumed on June 21, 2004, translated from Euros into dollars at the exchange rate on that date:

	June 21, 2004
Inventories	$ 294.3
Accounts receivable	197.7
Other current assets (excluding cash acquired)	31.8
Total current assets	523.8
Goodwill	716.6
Other long-term assets	85.4

Net property, plant and equipment		762.1
Assets acquired	$	2,087.9
Accounts payable and other current liabilities		(425.4)
Other long-term liabilities		(387.5)
Aggregate purchase costs	$	1,275.0

The assets above include $48.1 million of intangible assets related to customer relationships, which will be amortized over the next 13 years. The liabilities above include $133.6 million (€110.9 million) for the restructuring actions discussed above, the majority of which relates to employee termination costs and related fringe benefits.

24. Pro Forma Information - Acquisition of BSN Glasspack, S.A. Had the Acquisition described in Note 23 and the related financing described in Note 6 occurred at the beginning of each respective period, pro forma consolidated net sales, net earnings, and net earnings per share of common stock would have been as follows:

	Year ended December 31, 2004			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 6,128.4	$ 752.5		$ 6,880.9
Earnings from continuing operations	$ 171.5	$ 17.6	$ (6.4)	$ 182.7
Diluted earnings from continuing operations per share of common stock	$ 1.00			$ 1.08

	Year ended December 31, 2003			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 4,975.6	$ 1,417.5		$ 6,393.1
Loss from continuing operations	$ (330.1)	$ 28.9	$ (18.5)	$ (319.7)
Diluted loss from continuing operations per share of common stock	$ (2.39)			$ (2.32)

The 2004 earnings included the step-up effect of the finished goods inventory acquired in the Acquisition that reduced gross profit by approximately $31.1 million. The 2004 and 2003 earnings include estimated amortization related to the $48.1 million of intangible assets recorded for customer relationships. At average exchange rates for each respective year, the pro forma amortization of the intangible asset was $4.0 million (net of tax) for 2004 and $3.6 million (net of tax) for 2003.

25. Accounts Receivable Securitization Program As part of the acquisition of BSN, the Company acquired a trade accounts receivable securitization program through a BSN subsidiary, BSN Glasspack Services. The program was entered into by BSN in order to provide lower interest costs on a portion of its financing. In November 2000, BSN created a securitization program for its trade receivables through a sub-fund (the “fund”) created in accordance with French Law.

According to the program, subject to eligibility criteria, certain, but not all, receivables held by the BSN Glasspack Services are sold to the fund on a weekly basis. The purchase price for the receivables is determined as a function of the book value and the term of each receivable and a Euribor three-month rate increased by a 1.51% margin. A portion of the purchase price for the receivables is deferred and paid by the fund to BSN Glasspack Services only when receivables are collected or at the end of the program. This deferred portion varies based on the status and updated collection history of BSN Glasspack Services’ receivable portfolio.

The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. For the period from January 1, 2005 through December 13, 2005, the Company received $1.2 billion from the sale of receivables to the fund and paid interest of approximately $6.9 million.

Prior to December 2005, the transfer of the receivables to the fund was deemed to be a sale for U.S. GAAP purposes. Effective December 13, 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The terms of this expansion resulted in a changing from off-balance sheet to on-balance sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

BSN Glasspack Services continues to service, administer and collect the receivables on behalf of the fund. This service rendered to the fund is invoiced to the fund at a normal market rate.

26. Financial Information for Subsidiary Guarantors and Non-Guarantors The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of four series of senior notes and debentures (the “Parent”); (2) the two subsidiaries which have guaranteed the senior notes and debentures on a subordinated basis (the “Guarantor Subsidiaries”); and (3) all other subsidiaries (the “Non-Guarantor

Subsidiaries"). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

Wholly-owned subsidiaries are presented on the equity basis of accounting. Certain reclassifications have been made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminations relate to investments in subsidiaries and inter-company balances and transactions.

	December 31, 2005				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets:					
Accounts receivable	$ —	$ —	$ 1,006.2	$ —	$ 1,006.2
Inventories			940.4		940.4
Other current assets			335.7		335.7
Total current assets	—	—	2,282.3	—	2,282.3
Investments in and advances to subsidiaries	2,247.7	1,197.7		(3,445.4)	—
Goodwill			2,369.2		2,369.2
Other non-current assets	1.2		1,716.6		1,717.8
Total other assets	2,248.9	1,197.7	4,085.8	(3,445.4)	4,087.0
Property, plant and equipment, net			3,152.5		3,152.5
Total assets	$ 2,248.9	$ 1,197.7	$ 9,520.6	$ (3,445.4)	$ 9,521.8
Current liabilities :					
Accounts payable and accrued liabilities	$ —	$ —	$ 1,385.6	$ —	$ 1,385.6
Current portion of asbestos liability	158.0				158.0
Short-term loans and long-term debt due within one year			278.3		278.3
Total current liabilities	158.0	—	1,663.9	—	1,821.9
Long-term debt	1,046.7		5,022.0	(1,050.0)	5,018.7
Asbestos-related liabilities	572.1				572.1
Other non-current liabilities and minority interests	(251.8)		1,637.0		1,385.2
Capital structure	723.9	1,197.7	1,197.7	(2,395.4)	723.9
Total liabilities and share owners' equity	$ 2,248.9	$ 1,197.7	$ 9,520.6	$ (3,445.4)	$ 9,521.8

	December 31, 2004				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets:					
Accounts receivable	$ —	$ —	$ 821.3	$ —	$ 821.3
Inventories			1,117.7		1,117.7
Other current assets	59.5		402.3		461.8
Total current assets	59.5	—	2,341.3	—	2,400.8
Investments in and advances to subsidiaries	3,202.5	2,044.2		(5,246.7)	—
Goodwill			3,009.1		3,009.1
Other non-current assets	206.8		1,702.0	(79.7)	1,829.1
Total other assets	3,409.3	2,044.2	4,711.1	(5,326.4)	4,838.2

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Property, plant and equipment, net			3,497.7		3,497.7
Total assets	$ 3,468.8	$ 2,044.2	$ 10,550.1	$ (5,326.4)	$ 10,736.7
Current liabilities :					
Accounts payable and accrued liabilities	$ —	$ —	$ 1,544.0	$ —	$ 1,544.0
Current portion of asbestos liability	170.0				170.0
Short-term loans and long-term debt due within one year	112.4		192.5	(112.4)	192.5
Total current liabilities	282.4	—	1,736.5	(112.4)	1,906.5
Long-term debt	1,045.9		5,172.0	(1,050.0)	5,167.9
Asbestos-related liabilities	596.2				596.2
Other non-current liabilities and minority interests			1,601.5	(79.7)	1,521.8
Capital structure	1,544.3	2,044.2	2,040.1	(4,084.3)	1,544.3
Total liabilities and share owners' equity	$ 3,468.8	$ 2,044.2	$ 10,550.1	$ (5,326.4)	$ 10,736.7

	Year ended December 31, 2005				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 7,079.0	$ —	$ 7,079.0
External interest income			16.6		16.6
Intercompany interest income	85.0	85.0		(170.0)	—
Equity earnings from subsidiaries	(535.6)	(535.6)		1,071.2	—
Other equity earnings			22.6		22.6
Other revenue			71.5		71.5
Total revenue	(450.6)	(450.6)	7,189.7	901.2	7,189.7
Manufacturing, shipping, and delivery			5,719.5		5,719.5
Research, engineering, selling, administrative, and other	135.0		1,087.1		1,222.1
External interest expense	85.0		381.7		466.7
Intercompany interest expense		85.0	85.0	(170.0)	—
Total costs and expense	220.0	85.0	7,273.3	(170.0)	7,408.3
Earnings (loss) from continuing operations before items below	(670.6)	(535.6)	(83.6)	1,071.2	(218.6)
Provision for income taxes	(49.0)		416.1		367.1
Minority share owners' interests in earnings of subsidiaries			35.9		35.9
Earnings (loss) from continuing operations	(621.6)	(535.6)	(535.6)	1,071.2	(621.6)
Net earnings of discontinued operations	63.0	63.0	63.0	(126.0)	63.0
Net earnings (loss)	$ (558.6)	$ (472.6)	$ (472.6)	$ 945.2	$ (558.6)

	Year ended December 31, 2004				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 6,128.4	$ —	$ 6,128.4

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
External interest income			15.3		15.3
Intercompany interest income	113.7	113.7		(227.4)	—
Equity earnings from subsidiaries	256.4	256.4		(512.8)	—
Other equity earnings			27.8		27.8
Other revenue			91.9		91.9
Total revenue	370.1	370.1	6,263.4	(740.2)	6,263.4
Manufacturing, shipping, and delivery			4,918.4		4,918.4
Research, engineering, selling, administrative, and other	152.6		507.2		659.8
External interest expense	113.7		361.2		474.9
Intercompany interest expense		113.7	113.7	(227.4)	—
Total costs and expense	266.3	113.7	5,900.5	(227.4)	6,053.1
Earnings from continuing operations before items below	103.8	256.4	362.9	(512.8)	210.3
Provision for income taxes	(67.7)		73.6		5.9
Minority share owners' interests in earnings of subsidiaries			32.9		32.9
Earnings from continuing operations	171.5	256.4	256.4	(512.8)	171.5
Net earnings of discontinued operations	64.0	64.0	64.0	(128.0)	64.0
Net earnings	$ 235.5	$ 320.4	$ 320.4	$ (640.8)	$ 235.5

	Year ended December 31, 2003				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	$ —	$ —	$ 4,975.6	$ —	$ 4,975.6
External interest income			20.4		20.4
Intercompany interest income	120.3	120.3		(240.6)	—
Equity earnings from subsidiaries	(37.6)	(37.6)		75.2	—
Other equity earnings			27.1		27.1
Other revenue			42.7		42.7
Total revenue	82.7	82.7	5,065.8	(165.4)	5,065.8
Manufacturing, shipping, and delivery			3,967.9		3,967.9
Research, engineering, selling, administrative, and other	450.0		656.1		1,106.1
External interest expense	120.3		309.5		429.8
Intercompany interest expense		120.3	120.3	(240.6)	—
Total costs and expense	570.3	120.3	5,053.8	(240.6)	5,503.8
Loss from continuing operations before items below	(487.6)	(37.6)	12.0	75.2	(438.0)
Benefit for income taxes	(157.5)		23.8		(133.7)
Minority share owners' interests in earnings of subsidiaries			25.8		25.8
Loss from continuing operations	(330.1)	(37.6)	(37.6)	75.2	(330.1)
Net loss of discontinued operations	(660.7)	(660.7)	(660.7)	1,321.4	(660.7)

Net loss	$ (990.8)	$ (698.3)	$ (698.3)	$ 1,396.6	$ (990.8)

	Year ended December 31, 2005				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows					
Cash provided by (used in) operating activities	$ (168.9)	$ —	$ 672.7	$ —	$ 503.8
Cash provided by investing activities			(248.7)		(248.7)
Cash provided by (used in) financing activities	168.9		(442.0)		(273.1)
Effect of exchange rate change on cash			(13.3)		(13.3)
Net change in cash	—	—	(31.3)	—	(31.3)
Cash at beginning of period			277.9		277.9
Cash at end of period	$ —	$ —	$ 246.6	$ —	$ 246.6

	Year ended December 31, 2004				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows					
Cash provided by (used in) operating activities	$ (173.6)	$ —	$ 783.5	$ —	$ 609.9
Cash provided by investing activities			338.8		338.8
Cash provided by (used in) financing activities	173.6		(1,011.5)		(837.9)
Effect of exchange rate change on cash			3.7		3.7
Net change in cash	—	—	114.5	—	114.5
Cash at beginning of period			163.4		163.4
Cash at end of period	$ —	$ —	$ 277.9	$ —	$ 277.9

	Year ended December 31, 2003				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows					
Cash provided by (used in) operating activities	$ (192.4)	$ —	$ 545.5	$ —	$ 353.1
Cash used in investing activities			(201.8)		(201.8)
Cash provided by (used in) financing activities	192.4		(314.8)		(122.4)
Effect of exchange rate change on cash			8.1		8.1
Net change in cash	—	—	37.0	—	37.0
Cash at beginning of period			126.4		126.4
Cash at end of period	$ —	$ —	$ 163.4	$ —	$ 163.4

Selected Quarterly Financial Data (unaudited) The following tables present selected financial data by quarter for the years ended December 31, 2005 and 2004:

	2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
Net sales	$ 1,663.3	$ 1,852.7	$ 1,807.5	$ 1,755.5	$ 7,079.0
Gross profit	$ 374.8	$ 377.8	$ 334.0	$ 272.9	$ 1,359.5
Earnings (loss) from continuing operations (a)	117.5	86.2	56.6	(881.9)	(621.6)
Net earnings of discontinued operations (b)			63.0		63.0
Net earnings (loss)	$ 117.5	$ 86.2	$ 119.6	$ (881.9)	$ (558.6)
Earnings (loss) per share of common stock (c):					
Basic:					
Earnings (loss) from continuing operations	$ 0.75	$ 0.54	$ 0.34	$ (5.86)	$ (4.26)
Net earnings of discontinued operations			0.41		0.41
Net earnings (loss)	$ 0.75	$ 0.54	$ 0.75	$ (5.86)	$ (3.85)
Diluted:					
Earnings (loss) from continuing operations	$ 0.73	$ 0.53	$ 0.34	$ (5.86)	$ (4.26)
Net earnings of discontinued operations			0.41		0.41
Net (loss) earnings	$ 0.73	$ 0.53	$ 0.75	$ (5.86)	$ (3.85)

(a) Amount for the first quarter includes a gain of $28.4 million ($17.0 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of this gain is an increase in earnings per share of $0.11.

Amount for the first quarter includes a gain of $28.1 million (pretax and after tax) from the sale of the Company's glass container facility in Corsico, Italy. The effect of this gain is an increase in earnings per share of $0.18.

Amount for the second quarter includes a loss of $7.0 million ($4.0 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of this loss is a decrease in earnings per share of $0.03.

Amount for the third quarter includes a loss of $8.2 million ($4.9 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of this loss is a decrease in earnings per share of $0.03.

Amount for the third quarter includes a benefit of $5.3 million from the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual is no longer required based on the Company's reassessment of the potential liabilities. The effect of this benefit is an increase in earnings per share of $0.03.

Amount for the fourth quarter includes charges totaling $945.0 ($585.8 million after tax) for the following: (1) $494.0 million (pretax and after tax) to write down goodwill in the Asia-Pacific Glass unit; (2) $306.6 million to record a valuation allowance related to accumulated deferred tax assets in the U.S.; (3) $135.0 million ($86.0 million after tax) to increase the reserve for estimated future asbestos-related costs; and (4) $9.4 million ($5.8 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of these charges is a reduction in earnings per share of $5.89.

(b) Amount for the third quarter consists principally of a benefit from the reversal of an accrual for potential tax liabilities related to a previous divestiture. The accrual is no longer required based on the Company's reassessment of the potential liabilities.

(c) Earnings per share are computed independently for each period presented. As such, the sums of the amounts calculated separately for each quarter do not equal the year-to-date amount.

	2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
Net sales	$ 1,267.6	$ 1,417.3	$ 1,717.8	$ 1,725.7	$ 6,128.4
Gross profit	$ 257.4	$ 284.0	$ 339.1	$ 329.5	$ 1,210.0
Earnings (loss) from continuing operations (d)	47.2	83.9	73.1	(32.7)	171.5
Net earnings (loss) of discontinued operations	7.6	(1.3)	3.3	54.4	64.0
Net earnings	$ 54.8	$ 82.6	$ 76.4	$ 21.7	$ 235.5

Earnings (loss) per share of common stock (e):					
Basic:					
Earnings (loss) from continuing operations	$ 0.28	$ 0.53	$ 0.46	$ (0.26)	$ 1.01
Net earnings (loss) of discontinued operations	0.05	(0.01)	0.02	0.36	0.44
Net earnings	$ 0.33	$ 0.52	$ 0.48	$ 0.10	$ 1.45
Diluted:					
Earnings (loss) from continuing operations	$ 0.28	$ 0.53	$ 0.45	$ (0.25)	$ 1.00
Net earnings (loss) of discontinued operations	0.05	(0.01)	0.02	0.36	0.43
Net earnings	$ 0.33	$ 0.52	$ 0.47	$ 0.11	$ 1.43

(d) Amount for the first quarter includes a gain of $8.9 million ($5.8 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of this adjustment is an increase in earnings per share of $0.04.

Amount for the second quarter includes a gain of $20.6 million ($14.5 million after tax) for the sale of certain real property. The after-tax effect of this gain is an increase in earnings per share of $0.10.

Amount for the second quarter includes a gain of $0.9 million ($0.6 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of this adjustment resulted in no increase in earnings.

Amount for the third quarter includes a gain of $11.3 million ($7.4 million after tax) from the mark to market effect of natural gas hedge contracts. The after-tax effect of this adjustment is an increase in earnings per share of $0.05.

Amount for the fourth quarter includes a gain of $31.0 million ($13.1 million after tax) for the sale of certain real property. The after-tax effect of this gain is an increase in earnings per share of $0.09.

Amount for fourth quarter includes charges totaling $206.0 million ($121.0 million after tax) for the following:(1) $152.6 million ($84.9 million after tax) to increase the reserve for estimated future asbestos-related costs; (2) $28.0 million ($18.3 million after tax) for note repurchase premiums; (3) $16.2 million ($10.6 million after tax) from the mark to market effect of natural gas hedge contracts; (4) $6.4 million ($5.4 million after tax) for restructuring a life insurance program in order to comply with recent statutory and tax regulation changes; and (5) $2.8 million ($1.8 million after tax) for write-off of finance fees related to debt that was repaid prior to its maturity. The after tax effect of these charges is a reduction in earnings per share of $0.80.

Amount for the fourth quarter includes a benefit of $33.1 million for a tax consolidation in the Australian glass business. The after-tax effect of this benefit is an increase in earnings per share of $0.22.

(e) Earnings per share are computed independently for each period presented. As such, the sums of the amounts calculated separately for each quarter do not equal the year-to-date amount.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2005.

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.

Management’s Report on Internal Control over Financial Reporting

The management of Owens-Illinois Inc., is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed 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 in the United States. However, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and reporting.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment management used the criteria for effective internal control over financial reporting as described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO framework).

Based on this assessment, using the criteria above, management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2005.

The Company's independent registered public accounting firm, Ernst & Young LLP, that audited the Company's consolidated financial statements, has issued an attestation report on management's assessment of the Company's internal control over financial reporting which is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owners of
Owens-Illinois, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Owens-Illinois, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Owens-Illinois, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Owens-Illinois Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Owens-Illinois, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Owens-Illinois, Inc. as of December 31, 2005

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and 2004, and the related consolidated statements of results of operations, share owners' equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated March 15, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Toledo, Ohio
March 15, 2006

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to non-officer directors is included in the Proxy Statement in the section entitled “Election of Directors” and such information is incorporated herein by reference.

Information with respect to executive officers is included herein on pages 13 - 15.

Code of Business Conduct and Ethics

The Company’s Code of Business Conduct and Ethics, which will be applicable to all directors, officers and employees of the Company, including the principal executive officer, the principal financial officer and the principal accounting officer, is available on the Investor Relations section of the Company’s website (www.o-i.com). A copy of the Code is also available in print to share owners upon request, addressed to the Corporate Secretary at Owens-Illinois, Inc., One SeaGate, Toledo, Ohio 43666. The Company intends to post amendments to or waivers from its Code of Business Conduct and Ethics (to the extent applicable to the Company’s directors, executive officers or principal financial officers) at this location on its website.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled “Director and Executive Compensation and Other Information,” exclusive of the subsections entitled “Board Compensation Committee Report on Executive Compensation” and “Performance Graph,” which is included in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled “Security Ownership of Certain Beneficial Owners and Management” which is included in the Proxy Statement is incorporated herein by reference.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	6,899,826	$ 22.05	7,332,497
Equity compensation plans not approved by security holders	—	—	—
Total	6,899,826	$ 22.05	7,332,497

(1) Represents options to purchase shares of the Company’s common stock. There are no outstanding warrants or rights.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section entitled “Director and Executive Compensation and Other Information,” exclusive of the subsections entitled “Board Compensation Committee Report on Executive Compensation” and “Performance Graph,” which is included in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to principal accountant fees and services is included in the Proxy Statement in the section entitled “Independent Registered Public Accounting Firm” and such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Index of Financial Statements and Financial Statement Schedules Covered by Report of Independent Auditors.

(i) Registrant

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2005 and 2004

For the years ended December 31, 2005, 2004, and 2003

Consolidated Results of Operations
Consolidated Share Owners' Equity
Consolidated Cash Flows

Notes to the Consolidated Financial Statements

Exhibit Index

Financial Statement Schedule	Schedule Page
For the years ended December 31, 2005, 2004, and 2003:	
II - Valuation and Qualifying Accounts (Consolidated)	

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule.

(ii) Separate Financial Statements of Affiliates Whose Securities Are Pledged As Collateral

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EXHIBIT INDEX

S-K Item 601 No.		Document
3.1	—	Restated Certificate of Incorporation of Owens-Illinois, Inc. (filed as Exhibit 3.1 to Owens-Illinois, Inc.'s Form S-2, File No. 33-43224, and incorporated herein by reference).
3.2	—	Bylaws of Owens-Illinois, Inc., as amended (filed as Exhibit 3.2 to Owens-Illinois, Inc.'s Form S-2, File No. 33-43224, and incorporated herein by reference).
4.1	—	Indenture dated as of May 15, 1997, between Owens-Illinois, Inc. and The Bank of New York, as Trustee (filed as Exhibit 4.1 to Owens-Illinois, Inc.'s Form 8-K dated May 16, 1997, File No. 1-9576, and incorporated herein by reference).
4.2	—	Officers' Certificate, dated May 16, 1997, establishing the terms of the 8.10% Senior Notes due 2007; including the Form of 8.10% Senior Note due 2007 (filed as Exhibits 4.3 and 4.5, respectively, to Owens-Illinois, Inc.'s Form 8-K dated May 16, 1997, File No. 1-9576, and incorporated herein by reference).
4.3	—	Supplemental Indenture, dated as of June 26, 2001 among Owens-Illinois, Inc., Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc. and The Bank of New York, as Trustee (May 15, 1997 Indenture) (filed as Exhibit 4.2 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended September 30, 2001, File No. 1-9576, and incorporated herein by reference).
4.4	—	Second Supplemental Indenture, dated as of May 27, 2003, among Owens-Illinois, Inc., Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc. and The Bank of New York, as Trustee (May 15, 1997 Indenture) (filed as Exhibit 4.12 to Owens-Brockway Glass Container Inc. registration statement on Form S-4 dated June 24, 2003, File No. 333-106399, and incorporated herein by reference).
4.5	—	Indenture dated as of May 20, 1998, between Owens-Illinois, Inc. and The Bank of New York, as Trustee (filed as Exhibit 4.1 to Owens-Illinois, Inc.'s Form 8-K dated May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.6	—	Officers' Certificate, dated May 20, 1998, establishing the terms of the 7.35% Senior Notes due 2008; including the Form of 7.35% Senior Note due 2008 (filed Exhibits 4.3 and 4.7, respectively, to Owens-Illinois, Inc.'s Form 8-K dated May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.7	—	Officers' Certificate, dated May 20, 1998, establishing the terms of the 7.50% Senior Notes due 2010; including the Form of 7.50% Senior Note due 2010 (filed as Exhibits 4.4 and 4.8, respectively, to Owens-Illinois, Inc.'s Form 8-K dated May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.8	—	Officers' Certificate, dated May 20, 1998, establishing the terms of the 7.80% Senior Notes due 2018; including the Form of 7.80% Senior Note due 2018 (filed as Exhibits 4.5 and 4.9, respectively, to Owens-Illinois, Inc.'s Form 8-K filed May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.9	—	Supplemental Indenture, dated as of June 26, 2001 among Owens-Illinois, Inc., Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc. and The Bank of New York, as Trustee (May 20, 1998 Indenture) (filed as Exhibit 4.1 to Owens-Illinois Inc.'s Form 10-Q for the quarter ended September 30, 2001, File No. 1-9576, and incorporated herein by reference).

S-K Item 601 No.		Document
4.10	—	Second Supplemental Indenture, dated as of December 1, 2004 among Owens-Illinois, Inc., Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc. and The Bank of New York, as Trustee (filed as Exhibit 4.1 to Owens-Illinois Inc.'s Form 8-K dated December 1, 2004, File No. 1-9576, and incorporated herein by reference).
4.11	—	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions thereof of Convertible Preferred Stock of Owens-Illinois, Inc., dated

		May 15, 1998 (filed as Exhibit 4.10 to Owens-Illinois Inc.'s Form 8-K dated May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.12	—	Third Amended and Restated Secured Credit Agreement, dated as of October 7, 2004, by and among the Borrowers named therein, Owens-Illinois General, Inc., as Borrower's Agent, Deutsche Bank Trust Company Americas, as Administrative Agent, and the other Agents, Arrangers and Lenders named therein (filed as Exhibit 4.2 to Owens-Illinois Inc.'s Form 8-K dated October 7, 2004, File No. 1-9576, and incorporated herein by reference).
4.13	—	First Amendment to Third Amended and Restated Secured Credit Agreement, dated as of June 13, 2005, by and among the Borrowers named therein, Owens-Illinois General, Inc., as Borrower's Agent, Deutsche Bank Trust Company Americas, as Administrative Agent, and the other Agents, Arrangers and Lenders named therein (filed as Exhibit 4.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2005, File No. 1-9576, and incorporated herein by reference).
4.14	—	Amended and Restated Intercreditor Agreement, dated as of June 13, 2003, by and among Deutsche Bank Trust Company Americas, as administrative agent for the lenders party to the Credit Agreement (as defined therein) and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) and any other parties thereto (filed as Exhibit 4.20 to Owens-Brockway Glass Container Inc. registration statement on Form S-4 dated June 24, 2003, File No. 333-106399, and incorporated herein by reference).
4.15	—	First Amendment to Amended and Restated Intercreditor Agreement, dated as of March 15, 2004, by and among Deutsche Bank Trust Company Americas, as administrative agent for the lenders party to the Credit Agreement (as defined therein) and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) and any other parties thereto (filed as Exhibit 4.2 to Owens-Illinois Group, Inc.'s Form 10-Q for the quarter ended March 31, 2004, File No. 33-13061, and incorporated herein by reference).
4.16	—	Amended and Restated Pledge Agreement, dated as of June 13, 2003, between Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc., and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) and any other parties thereto (filed as Exhibit 4.21 to Owens-Brockway Glass Container Inc. registration statement on Form S-4 dated June 24, 2003, File No. 333-106399, and incorporated herein by reference).
4.17	—	First Amendment to Amended and Restated Pledge Agreement, dated as of March 15, 2004, between Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc., and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) and any other parties thereto (filed as Exhibit 4.3 to Owens-Illinois Group, Inc.'s Form 10-Q for the quarter ended March 31, 2004, File No. 33-13061, and incorporated herein by reference).

S-K Item 601 No.		Document
4.18	—	Amended and Restated Security Agreement, dated as of June 13, 2003, between Owens-Illinois Group, Inc., each of the direct and indirect subsidiaries of Owens-Illinois Group, Inc. signatory thereto and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) (filed as Exhibit 4.22 to Owens-Brockway Glass Container Inc. registration statement on Form S-4 dated June 24, 2003, File No. 333-106399, and incorporated herein by reference).
4.19	—	First Amendment to Amended and Restated Security Agreement, dated as of March 15, 2004, between Owens-Illinois Group, Inc., each of the direct and indirect subsidiaries of Owens-Illinois Group, Inc. signatory thereto and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) (filed as Exhibit 4.4 to Owens-Illinois Group, Inc.'s Form 10-Q for the quarter ended March 31, 2004, File No. 33-13061, and incorporated herein by reference).
4.20	—	Indenture, dated as of January 24, 2002, among Owens-Brockway Glass Container, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.1 to Owens-Illinois Group, Inc.'s Form S-4, File No. 333-85690, and incorporated herein by reference).
4.21	—	First Supplemental Indenture, dated as of January 24, 2002, among Owens-Brockway Glass Container, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.2 to Owens-Illinois Group, Inc.'s Form S-4, File No. 333-85690, and incorporated herein by reference).
4.22	—	Second Supplemental Indenture, dated as of August 5, 2002, among Owens-Brockway Glass Container, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.1 to Owens-Illinois Group Inc.'s Form 10-Q for the quarter ended September 30, 2002, File No. 33-13061, and incorporated herein by reference).
4.23	—	Third Supplemental Indenture, dated as of November 13, 2002, among Owens-Brockway Glass Container Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.4 to Owens-Illinois Group, Inc.'s Form S-4, File No. 333-103263, and incorporated herein by reference).
4.24	—	Additional Supplemental Indenture, dated as of December 18, 2002, among Owens-Brockway Glass Container Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.5 to Owens-Illinois Group, Inc.'s Form S-4, File No. 333-103263, and incorporated herein by reference).
4.25	—	Fourth Supplemental Indenture, dated as of May 6, 2003, among Owens-Brockway Glass Container Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.2 to Owens-Illinois Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, File No. 33-13061, and incorporated herein by reference).
4.26	—	Indenture, dated as of May 6, 2003, among Owens-Brockway Glass Container Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee (filed as Exhibit 4.3 to Owens-Illinois Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, File No. 33-13061, and incorporated herein by reference).
4.27	—	Indenture, dated as of December 1, 2004, by and among Owens-Brockway Glass Container Inc., the guarantors party thereto and Law Debenture Trust Company of New York, as trustee (filed as Exhibit 4.26 to Owens-Illinois Group, Inc.'s Form S-4, File No. 333-123960, and incorporated herein by reference).

S-K Item 601 No.		Document
10.1*	—	Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 1998, File No. 1-9576, and incorporated herein by reference).

10.2*	—	First Amendment to Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.3 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2000, File No. 1-9576, and incorporated herein by reference).
10.3*	—	Second Amendment to Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2002, File No. 1-9576, and incorporated herein by reference).
10.4*	—	Third Amendment to Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2003, File No. 1-9576, and incorporated herein by reference).
10.5*	—	Form of Employment Agreement between Owens-Illinois, Inc. and various Employees (filed as Exhibit 10(m) to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1987, File No. 1-9576, and incorporated herein by reference).
10.6*	—	Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc. (filed as Exhibit 10.20 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1994, File No. 1-9576, and incorporated herein by reference).
10.7*	—	First Amendment to Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc. (filed as Exhibit 10.13 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1995, File No. 1-9576, and incorporated herein by reference).
10.8*	—	Second Amendment to Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 1997, File No. 1-9576, and incorporated herein by reference).
10.9*	—	Third Amendment to Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended September 30, 2000, File No. 1-9576, and incorporated herein by reference.)
10.10*	—	Form of Non-Qualified Stock Option Agreement for use under the Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc. (filed as Exhibit 10.21 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1994, File No. 1-9576, and incorporated herein by reference).
10.11*	—	Amended and Restated Owens-Illinois, Inc. Performance Award Plan (filed as Exhibit 10.16 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1993, File No. 1-9576, and incorporated herein by reference).
10.12*	—	First Amendment to Amended and Restated Owens-Illinois, Inc. Performance Award Plan (filed as Exhibit 10.4 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 1997, File No. 1-9576, and incorporated herein by reference).
10.13*	—	Owens-Illinois, Inc. Directors Deferred Compensation Plan (filed as Exhibit 10.26 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1995, File No. 1-9576, and incorporated herein by reference).
10.14*	—	First Amendment to Owens-Illinois, Inc. Directors Deferred Compensation Plan (filed as Exhibit 10.27 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1995, File No. 1-9576, and incorporated herein by reference).

S-K Item 601 No.		Document
10.15*	—	Second Amendment to Owens-Illinois, Inc. Directors Deferred Compensation Plan (filed as Exhibit 10.2 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 1997, File No. 1-9576, and incorporated herein by reference).
10.16*	—	Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 1999, File No. 1-9576, and incorporated herein by reference).
10.17*	—	First Amendment to Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2002, File No. 1-9576, and incorporated herein by reference).
10.18*	—	Owens-Illinois, Inc. Executive Deferred Savings Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended September 30, 2001, File No. 1-9576, and incorporated herein by reference).
10.19*	—	Employment agreement between Owens-Illinois, Inc. and Steven R. McCracken dated March 31, 2004 (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.20*	—	Amendment dated March 10, 2005 to the employment agreement between Owens-Illinois, Inc. and Steven R. McCracken dated March 31, 2004 (filed as Exhibit 10.27 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.21*	—	Restricted Stock Agreement under the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. between Owens-Illinois, Inc. and Steven R. McCracken dated March 31, 2004 (filed as Exhibit 10.2 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.22*	—	Non-Qualified Stock Option Agreement under the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. between Owens-Illinois, Inc. and Steven R. McCracken dated March 31, 2004 (filed as Exhibit 10.3 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.23*	—	2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2004, File No. 1-9576, and incorporated herein by reference).
10.24*	—	Owens-Illinois, Inc. Incentive Bonus Plan (filed as Exhibit 10.2 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2004, File No. 1-9576, and incorporated herein by reference).
10.25*	—	Owens-Illinois 2004 Executive Life Insurance Plan (filed as Exhibit 10.32 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.26*	—	Owens-Illinois 2004 Executive Life Insurance Plan for Non-U.S. Employees (filed as Exhibit 10.33 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.27*	—	Second Amended and Restated Owens-Illinois, Inc. Senior Management Incentive Plan (filed as Exhibit 10.34 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2004, File No. 1-9576, and incorporated herein by reference).
10.28*	—	Owens-Illinois, Inc. 2005 Incentive Award Plan (filed herewith).
10.29*	—	Form of Non-Qualified Stock Option Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan. (filed herewith).

S-K Item 601 No.		Document
10.30*	—	Form of Restricted Stock Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan. (filed herewith).
10.31*	—	Form of Phantom Stock Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan. (filed herewith).
10.32*	—	Form of Restricted Stock Unit Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan. (filed herewith).
12	—	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends (filed herewith).
21	—	Subsidiaries of Owens-Illinois, Inc. (filed herewith).
23	—	Consent of Independent Registered Public Accounting Firm (filed herewith).
24	—	Owens-Illinois, Inc. Power of Attorney (filed herewith).
31.1	—	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	—	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	—	Certification of Principal Executive Officer pursuant to 18 U.S.C Section 1350 (filed herewith).
32.2	—	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350 (filed herewith).

* Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 15(c).

SEPARATE FINANCIAL STATEMENTS OF AFFILIATES WHOSE SECURITIES ARE PLEDGED AS COLLATERAL.

1) Financial statements of Owens-Brockway Packaging, Inc. and subsidiaries including consolidated balance sheets as of December 31, 2005 and 2004, and the related statements of operations, net parent investment, and cash flows for the years ended December 31, 2005, 2004 and 2003.

2) Financial statements of Owens-Brockway Glass Container Inc. and subsidiaries including consolidated balance sheets as of December 31, 2005 and 2004, and the related statements of operations, net parent investment, and cash flows for the years ended December 31, 2005, 2004 and 2003.

3) Financial statements of OI Plastic Products FTS, Inc. and subsidiaries including consolidated balance sheets as of December 31, 2005 and 2004, and the related statements of operations, net parent investment, and cash flows for the years ended December 31, 2005, 2004 and 2003.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owner of
Owens-Brockway Packaging, Inc.

We have audited the accompanying consolidated balance sheets of Owens-Brockway Packaging, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of results of operations, net Parent investment, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Brockway Packaging, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Toledo, Ohio
March 15, 2006

CONSOLIDATED RESULTS OF OPERATIONS Owens-Brockway Packaging, Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Revenues:			
Net sales	$ 6,356.4	$ 5,522.3	$ 4,409.0
Other revenue	103.8	131.6	86.5

	6,460.2	5,653.9	4,495.5
Costs and expenses:			
Manufacturing, shipping, and delivery	5,169.2	4,455.3	3,549.6
Research and development	15.3	15.2	15.7
Engineering	36.1	34.1	35.5
Selling and administrative	361.9	267.2	197.8
Net intercompany interest	28.7	0.6	30.6
Other interest expense	379.5	403.7	352.9
Other	525.4	48.1	219.3
	6,516.1	5,224.2	4,401.4
Earnings (loss) before items below	(55.9)	429.7	94.1
Provision for income taxes	130.6	109.1	48.2
Minority share owners' interests in earnings of subsidiaries	35.9	33.0	25.8
Net earnings (loss)	$ (222.4)	$ 287.6	$ 20.1

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS Owens-Brockway Packaging, Inc.

Dollars in millions December 31,	2005	2004
Assets		
Current assets:		
Cash, including time deposits of $104.0 ($149.0 in 2004)	$ 243.9	$ 251.6
Receivables including amount from related parties of $0.8 ($0.1 in 2004), less allowances of $25.7 ($29.0 in 2004) for losses and discounts	939.9	761.0
Inventories	889.2	1,051.7
Prepaid expenses	31.3	62.9
Total current assets	2,104.3	2,127.2
Other assets:		
Equity investments	102.2	106.9
Repair parts inventories	162.7	185.2
Prepaid pension	17.1	18.5
Deposits, receivables, and other assets	397.2	384.4
Goodwill	2,159.7	2,799.6
Total other assets	2,838.9	3,494.6
Property, plant, and equipment:		
Land, at cost	229.5	155.0
Buildings and equipment, at cost:		
Buildings and building equipment	905.6	804.2
Factory machinery and equipment	4,070.2	4,273.5
Transportation, office, and miscellaneous equipment	98.2	103.3
Construction in progress	89.1	167.7
	5,392.6	5,503.7
Less accumulated depreciation	2,576.3	2,352.5
Net property, plant, and equipment	2,816.3	3,151.2
Total assets	$ 7,759.5	$ 8,773.0

Dollars in millions December 31,	2005	2004
Liabilities and Net Parent Investment		
Current liabilities:		
Short-term loans	$ 26.3	$ 18.2
Accounts payable including amount to related parties of $2.2 ($0.5 in 2004)	765.6	774.7
Salaries and wages	141.1	158.0
U.S. and foreign income taxes	107.8	48.9
Other accrued liabilities	253.3	286.7
Long-term debt due within one year	252.0	61.8
Total current liabilities	1,546.1	1,348.3
External long-term debt	3,958.6	4,111.0
Deferred taxes	232.9	209.6
Other liabilities	741.3	845.5

Minority share owners' interests	182.0	170.1
Net Parent investment:		
Investment by and advances from Parent	1,313.9	2,020.6
Accumulated other comprehensive loss	(215.3)	67.9
Total net Parent investment	1,098.6	2,088.5
Total liabilities and net Parent investment	$ 7,759.5	$ 8,773.0

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED NET PARENT INVESTMENT Owens-Brockway Packaging, Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Investment by and advances to Parent			
Balance at beginning of year	$ 2,020.6	$ 997.0	$ 2,154.0
Net intercompany transactions	(484.3)	736.0	(1,177.1)
Net earnings	(222.4)	287.6	20.1
Balance at end of year	1,313.9	2,020.6	997.0
Accumulated other comprehensive loss			
Balance at beginning of year	67.9	(198.3)	(541.0)
Foreign currency translation adjustments	(290.5)	294.8	363.2
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Balance at end of year	(215.3)	67.9	(198.3)
Total net Parent investment	$ 1,098.6	$ 2,088.5	$ 798.7
Total comprehensive income (loss)			
Net earnings (loss)	$ (222.4)	$ 287.6	$ 20.1
Foreign currency translation adjustments	(290.5)	294.8	363.2
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Total comprehensive income	$ (505.6)	$ 553.8	$ 362.8

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED CASH FLOWS Owens-Brockway Packaging, Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Operating activities:			
Net earnings (loss)	$ (222.4)	$ 287.6	$ 20.1
Non-cash charges (credits):			
Depreciation	431.3	384.0	341.3
Amortization of deferred costs	35.4	35.2	34.2
Deferred tax provision (credit)	(3.1)	11.4	(3.0)
Goodwill impairment	494.0		
Restructuring costs and writeoffs of certain assets			165.5
Loss on sale of long-term notes receivable			37.4
Gains on asset sales	(28.1)	(51.6)	
Other	(6.4)	(70.0)	(53.9)
Change in non-current operating assets	(14.6)	12.9	(17.5)
Change in non-current liabilities	(58.7)	(10.1)	(8.2)
Change in components of working capital	131.6	181.6	(41.2)
Cash provided by operating activities	759.0	781.0	474.7
Investing activities:			
Additions to property, plant and equipment	(366.2)	(407.6)	(312.2)
Acquisitions, net of cash acquired	(11.6)	(630.3)	
Proceeds from sale on long-term notes receivable			163.0
Net cash proceeds from divestitures and other	205.7	257.8	20.4
Cash utilized in investing activities	(172.1)	(780.1)	(128.8)
Financing activities:			
Additions to long-term debt	537.5	2,114.6	2,154.4
Repayments of long-term debt	(617.1)	(2,611.1)	(1,133.2)
Increase (decrease) in short-term loans	11.5	(23.2)	(28.0)
Net change in intercompany debt	(414.2)	675.8	(1,127.2)
Net payments for debt-related hedging activity	(98.0)	(25.9)	(123.2)

Payment of finance fees	(1.0)	(34.4)	(43.8)
Cash provided by (utilized in) financing activities	(581.3)	95.8	(301.0)
Effect of exchange rate fluctuations on cash	(13.3)	4.3	7.9
Increase (decrease) in cash	(7.7)	101.0	52.8
Cash at beginning of year	251.6	150.6	97.8
Cash at end of year	$ 243.9	$ 251.6	$ 150.6

See Accompanying Notes to Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of Owens-Brockway Packaging, Inc. ("Company") include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost.

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

For federal and certain state income tax purposes, the taxable income of the Company is included in the consolidated tax returns of OI Inc. and income taxes are allocated to the Company on a basis consistent with separate returns.

Nature of Operations The Company is a leading manufacturer of glass container products. The Company's principal product lines in the Glass Containers product segment are glass containers for the food and beverage industries. The Company has glass container operations located in 22 countries. The principal markets and operations for the Company's glass products are in North America, Europe, South America, and Australia. One customer accounted for 11.5% of the Company's sales in 2003.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly.

Cash The Company defines "cash" as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Fair Values of Financial Instruments The carrying amounts reported for cash, short-term investments and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

Derivative Instruments The Company uses interest rate swaps, currency swaps, and commodity futures contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. Whenever possible, derivative instruments are designated and effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for trading purposes and is not a party to leveraged derivatives. In accordance with FAS No. 104, cash flows from fair value hedges of debt and short-term forward exchange contracts are classified as a financing activity. Cash flows of currency swaps, interest rate swaps, and commodity futures contracts are classified as operating activities. See Note 9 for additional information related to derivative instruments.

Inventory Valuation The Company values most U.S. inventories at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued at the lower of standard costs (which approximate average costs) or market.

Goodwill Goodwill represents the excess of cost over fair value of assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant, and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years and buildings and building equipment over periods ranging from 10

to 50 years. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with manufacturing, shipping, and delivery costs in the Consolidated Statements of Operations.

Income Taxes on Undistributed Earnings In general, the Company plans to continue to reinvest the undistributed earnings of foreign subsidiaries and foreign corporate joint ventures accounted for by the equity method. Accordingly, taxes are provided only on that amount of undistributed earnings in excess of planned reinvestments.

Foreign Currency Translation The assets and liabilities of most subsidiaries and associates are translated at current exchange rates and any related translation adjustments are recorded directly in net Parent investment.

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

New Accounting Standards In May 2005, the Financial Accounting Standards Board issued FAS No. 154, "Accounting Changes and Error Corrections," which changes the requirements for accounting for and reporting a change in accounting principle. The statement requires changes in accounting principle to

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be applied retrospectively to prior periods' financial statements. The statement also redefines "restatement" as being the correction of an error. FAS No. 154 is effective for the Company beginning after January 1, 2006. The Company will apply FAS No. 154 as required.

Participation in OI Inc. Stock Option Plans The Company participates in the equity compensation plans of OI Inc. under which employees of the Company may be granted options to purchase common shares of OI Inc. or may be granted restricted common shares of OI Inc.

For options granted prior to March 31, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to accelerated exercisability provisions related to the performance of OI Inc.'s common stock or change of control, 50% of the options become exercisable on the fifth anniversary of the date of the option grant, with the remaining 50% becoming exercisable on the sixth anniversary date of the option grant. In general, options expire following termination of employment or the day after the tenth anniversary date of the option grant.

For options granted after March 30, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject change of control, options become exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant.

All options have been granted at prices equal to the market price of OI Inc.'s common stock on the date granted. Accordingly, under the disclosure-only provisions of FAS 123, the Company recognized no compensation expense related to the stock option plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions described in the accounting policies note on stock options.

During 2005, OI Inc. awarded 238,136 performance vested units under its equity compensation plans. As soon as practicable after 2007, holders of each unit will receive a number of shares ranging from .5 shares to 1.5 shares, depending upon the attainment of established performance goals. Failure to meet minimum goals will result in forfeiture of the shares. Granted but unvested shares are forfeited upon termination of employment.

During 2005, 2004 and 2003 OI Inc. awarded shares of restricted stock to certain key employees under its equity compensation plans Shares granted to employees prior to March 31, 2005, generally vest upon retirement. Shares granted to employees after March 30, 2005, vest 25% per year beginning on the first anniversary. Granted but unvested shares are forfeited upon termination of employment, unless certain retirement criteria are met.

A substantial number of the options, restricted shares and restricted share units have been granted to key employees of another subsidiary of OI Inc., some of whose compensation costs are included in an allocation of costs to all operating subsidiaries of OI Inc., including the Company. It is not practicable to determine an amount of additional compensation allocable to the Company for the restricted shares or for the options, had OI Inc. elected to recognize compensation cost based on the fair value of the options granted at grant date as allowed by FAS No. 123.

2. Changes in Components of Working Capital Related to Operations Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	2005	2004	2003
Decrease (increase) in current assets:			
Receivables	$ (18.2)	$ 75.7	$ 42.9
Inventories	58.1	83.8	(29.1)
Prepaid expenses	(4.7)	32.4	2.7
Increase (decrease) in current liabilities:			

Accounts payable and accrued liabilities	32.4	36.1	(64.2)
Salaries and wages	(2.8)	(0.9)	(6.2)
U.S. and foreign income taxes	66.8	(45.5)	12.7
	$ 131.6	$ 181.6	$ (41.2)

3. Inventories Major classes of inventory are as follows:

	2005	2004
Finished goods	$ 748.5	$ 890.6
Work in process	3.5	6.4
Raw materials	74.9	77.5
Operating supplies	62.3	77.2
	$ 889.2	$ 1,051.7

If the inventories which are valued on the LIFO method had been valued at standard costs, which approximate current costs, consolidated inventories would be higher than reported by $20.9 million and $15.1 million, at December 31, 2005 and 2004, respectively.

Inventories which are valued at the lower of standard costs (which approximate average costs), or market at December 31, 2005 and 2004 were approximately $775.6 million and $917.4 million, respectively.

4. Equity Investments. Summarized information pertaining to the Company's equity associates follows:

	2005	2004
At end of year:		
Equity in undistributed earnings:		
Foreign	$ 19.5	$ 12.9
Domestic	17.6	17.6
Total	$ 37.1	$ 30.5

	2005	2004	2003
For the year:			
Equity in earnings:			
Foreign	$ 6.8	$ 15.2	$ 15.1
Domestic	13.6	10.9	9.9
Total	$ 20.4	$ 26.1	$ 25.0
Dividends received	$ 11.0	$ 12.8	$ 31.1

5. External Long-Term Debt The following table summarizes the external long-term debt of the Company at December 31, 2005 and 2004:

	2005	2004
Secured Credit Agreement:		
Revolving Credit Facility:		
Revolving Loans	$ —	$ 30.1
Term Loans		
A1 Term Loan	223.9	315.0
B1 Term Loan	220.8	226.8
C1 Term Loan	185.6	190.6
C2 Term Loan (€46.3 million at December 31, 2005)	54.9	64.7
Accounts receivable securitization:		
European program	231.8	
Asia Pacific program	80.6	
Senior Secured Notes:		
8.875%, due 2009	1,000.0	1,000.0
7.75%, due 2011	450.0	450.0
8.75%, due 2012	625.0	625.0
Senior Notes:		
8.25%, due 2013	436.6	444.1
6.75%, due 2014	400.0	400.0
6.75%, due 2014 (€225 million at December 31, 2005)	267.0	306.4
Senior Subordinated Notes:		
10.25%, due 2009		17.4
9.25%, due 2009 (€0.4 million at December 31, 2005)	0.5	0.6
Other	33.9	102.1

	4,210.6	4,172.8
Less amounts due within one year	252.0	61.8
External long-term debt	$ 3,958.6	$ 4,111.0

On October 7, 2004, in connection with the sale of the Company's blow-molded plastic container operations, the Company's subsidiary borrowers entered into the Third Amended and Restated Secured Credit Agreement (the "Agreement"). The proceeds from the sale were used to repay C and D term loans and a portion of the B1 term loan outstanding under the previous credit agreement. On January 19, 2005, the Company completed the required divestiture of two European glass container factories and received proceeds of approximately $180 million. The proceeds were largely used to repay debt during the first quarter.

At December 31, 2005, the Agreement included a $600.0 million revolving credit facility and a $223.9 million A1 term loan, each of which has a final maturity date of April 1, 2007. It also included a $220.8 million B1 term loan, a $185.6 million C1 term loan, and a €46.3 million C2 term loan, each of which has a final maturity date of April 1, 2008. The Agreement also permits the Company, at its option, to refinance certain of its outstanding notes and debentures prior to their scheduled maturity. At December 31, 2005, the Company's subsidiary borrowers had unused credit of $511.0 million available under the Agreement.

The interest rate on borrowings under the Revolving Credit Facility is, at the Company's option, the Base Rate or a reserve adjusted Eurodollar rate. The interest rate on borrowings under the Revolving Credit Facility also includes a margin linked to the Company's Consolidated Leverage Ratio, as defined in the Agreement. The margin is limited to ranges of 2.25% to 2.75% for Eurodollar loans and 1.25% to 1.75% for Base Rate loans. The interest rate on Overdraft Account loans is the Base Rate. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2005 was 5.96%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian subsidiary, as discussed in Note 9, the weighted average interest rate at December 31, 2005 was 6.76%. While no compensating balances are required by the Agreement, the Borrowers must pay a facility fee on the Revolving Credit Facility commitments of .50%.

Borrowings under the Agreement are secured by substantially all the assets of the Company, its domestic subsidiaries and certain foreign subsidiaries, which have a book value of approximately $3.4 billion. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and certain stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by the Company and substantially all of its domestic subsidiaries and certain foreign subsidiaries for the term of the Agreement.

The Agreement contains covenants and provisions that, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, prepay other indebtedness or amend certain debt instruments, pay dividends, create liens on assets, enter into contingent obligations, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted, or engage in certain transactions with affiliates and otherwise restrict certain corporate activities. In addition, the Agreement contains financial covenants that require the Company to maintain specified financial ratios and meet specified tests based upon financial statements of the Company and its subsidiaries on a consolidated basis, including minimum fixed charge coverage ratios, maximum leverage ratios and specified capital expenditure tests.

During December 2004, a subsidiary of the Company issued Senior Notes totaling $400.0 million and Senior Notes totaling €225.0 million. The notes bear interest at 6.75%, and are due December 1, 2014. Both series of notes are guaranteed by OI Group and substantially all of its domestic subsidiaries. The indentures for both series of notes have substantially the same restrictions as the previously issued 7.75%, 8.875% and 8.75% Senior Secured Notes and 8.25% Senior Notes. The issuing subsidiary used the net proceeds from the notes of approximately $680.0 million in addition to borrowings under the Agreement to purchase in a tender offer $237.6 million of the $350.0 million of OI Inc.'s 7.15% Senior Notes due 2005, €159.6 million of the €160.0 million 9.25% BSN notes due 2009 and €127.3 million of the €140.0 million 10.25% BSN notes due 2009. As part of the issuance of these notes and the related tender offer, the Company recorded in the fourth quarter of 2004 additional interest charges of $22.8 million for note repurchase premiums and the related write-off of unamortized finance fees.

During the fourth quarter of 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The accounts receivable securitization program provides lower costs of financing than traditional bank debt. The terms of this expansion resulted in a changing from off-balance sheet to on-balance sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

The interest rate on the accounts receivable securitization program is a variable rate and also includes a margin of 1.35% for the European program and 0.85% for the Asia Pacific program. The weighted

average interest rates on borrowings on the European program were 5.0% for the UK and Italy, and 3.9% for France at December 31, 2005. The weighted average interest rates on borrowings on the Asia pacific program were 6.5% for the Australian program, and 8.5% for New Zealand program at December 31, 2005. These programs have maturity dates ranging from October of 2006 through September of 2008.

Annual maturities for all of the Company's long-term debt through 2010 are as follows: 2006, $252.0 million; 2007, $231.4 million; 2008, $543.7 million; and 2009, $1004.8 million. There are no amounts due in 2010.

Interest paid in cash, including note repurchase premiums, aggregated $365.2 million for 2005, $434.7 million for 2004, and $324.8 million for 2003.

Fair values at December 31, 2005, of the Company's significant fixed rate debt obligations were as follows:

	Principal Amount (millions of dollars)	**Indicated Market Price**	**Fair Value (millions of dollars)**	**Hedge Value (millions of dollars)**

Senior Secured Notes:				
8.875%, due 2009	$ 1,000.0	104.25	$ 1,042.5	
7.75%, due 2011	450.0	104.00	468.0	
8.75%, due 2012	625.0	107.50	671.9	
Senior Notes:				
8.25%, due 2013	450.0	102.75	462.4	$ 436.6
6.75%, due 2014	400.0	96.00	384.0	
6.75%, due 2014 (€225 million)	267.0	201.00	272.3	
Senior Subordinated Notes:				
9.25%, due 2009 (€0.4 million)	0.5	100.00	0.5	

6. Guarantees of Debt OI Group and the Company guarantee OI Inc.'s senior notes and debentures on a subordinated basis. The fair value of the OI Inc. debt being guaranteed was $1,058.0 at December 31, 2005.

7. Operating Leases Rent expense attributable to all warehouse, office buildings, and equipment operating leases was $66.5 million in 2005, $66.3 million in 2004, and $68.8 million in 2003. Minimum future rentals under operating leases are as follows: 2006, $57.5 million; 2007, $47.9 million; 2008, $32.3 million; 2009, $23.4 million; and 2010, $17.2 million; and 2011 and thereafter, $22.9 million.

8. Foreign Currency Translation Aggregate foreign currency exchange gains (losses) included in other costs and expenses were $2.8 million in 2005, $(1.4) million in 2004, and $2.2 million in 2003.

9. Derivative Instruments At December 31, 2005, the Company has the following derivative instruments related to its various hedging programs:

Hedges of Debt

At the end of 2005, the Company's subsidiary in Australia had an agreement that swaps a total of U.S. $175.0 million of borrowings into 251.8 million Australian dollars. This derivative instrument swaps the

principal from U.S. dollars to Australian dollars and also swaps the interest rate from a U.S.-based rate to an Australian-based rate. This agreement has a maturity date of March 2006.

The Company's subsidiaries in Australia, Canada and several European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap the principal amount of borrowings and in some cases they swap the related interest.

The Company recognizes the above derivatives on the balance sheet at fair value. Accordingly, the changes in the value of the swaps are recognized in current earnings and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings. For the year ended December 31, 2005, the amount not offset was immaterial.

Foreign Currency Exchange Contracts Designated as Cash Flow Hedges

In connection with debt refinancing in late December 2004, the Company's subsidiary in France borrowed approximately €91 million from Owens-Brockway Glass Container ("OBGC"), a U.S. subsidiary of the Company, at a fixed interest rate through 2009. In order to hedge the changes in the cash flows of the foreign currency interest and principal repayments, OBGC entered into a swap that converts the Euro coupon interest payments into a predetermined U.S. dollar coupon interest payment and also converts the final principal payment in December 2009 from €91.0 million to approximately $120.7 million U.S. dollars.

The Company accounts for the above cross-currency swap on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in accumulated other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. 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 above cross-currency swap is accounted for as a cash flow hedge at December 31, 2005. At December 31, 2005, an unrecognized gain of $10.5 million was included in OCI related to this cross-currency swap. The ineffectiveness related to this hedge for year ended December 31, 2005 was not material.

The Company has also entered into a foreign currency exchange contract in Europe to swap €37.5 million into $47.3 million U.S. dollars related to anticipated fuel oil purchases for 2006. A portion of European fuel oil purchases fluctuates based on U.S. dollars. The swap mitigates foreign currency exchange rate risk relating to approximately 93% of the anticipated 2006 fuel oil purchases in western Europe. Changes in the fair value of this contract are recognized in current earnings.

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 $1.05 billion that mature from 2007 through 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-variable interest rate swaps are accounted for as fair value hedges. Because the relevant terms of the swap agreements match the corresponding terms of the notes, there is no hedge

ineffectiveness. Accordingly, the Company recorded the net of the fair market values of the swaps as a long-term liability along with a corresponding net decrease in the carrying value of the hedged debt.

Under the swaps, the Company receives fixed rate interest amounts (equal to interest on the corresponding hedged note) and pays interest at a six-month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense during each six-month period over the term of the agreement.

The following selected information relates to fair value swaps at December 31, 2005 (based on a projected U.S. LIBOR rate of 4.8618%):

	Amount Hedged	Average Receive Rate	Average Spread	Asset (Liability) Recorded
OI Inc. public notes swapped by the company through intercompany loans:				
Senior Notes due 2007	$ 300.0	8.10%	4.5%	$ (5.2)
Senior Notes due 2008	250.0	7.35%	3.5%	(6.0)
Senior Debentures due 2010	250.0	7.50%	3.2%	(6.1)
Notes issued by OBGC:				
Senior Notes due 2013	250.0	8.25%	3.7%	(13.4)
Total	$ 1,050.0			$ (30.7)

Commodity Hedges

The Company enters into commodity futures contracts related to forecasted natural gas and fuel oil requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and fuel oil and the related volatility in cash flows. The Company continually evaluates the natural gas and fuel oil market with respect to its forecasted usage requirements over the next twelve to eighteen months and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements over that period. At December 31, 2005, the Company had entered into commodity futures contracts for approximately 62% (approximately 14,780,000 MM BTUs) of its expected North American natural gas usage for full year of 2006 and approximately 15% (approximately 3,600,000 MM BTUs) for the full year of 2007. At December 31, 2005, the Company had also entered into commodity futures contracts for substantially all of its expected western European fuel oil usage (approximately 43,500 metric tons) for the first quarter of 2006.

The Company accounts for the above futures contracts on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. 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.

With the exception of the European fuel oil contracts, the above futures contracts are accounted for as cash flow hedges at December 31, 2005.

At December 31, 2005, an unrecognized gain of $26.2 million ($17.0 million after tax), related to the domestic commodity futures contracts, was included in OCI. The ineffectiveness related to these natural gas hedges for 2005 was not material. Changes in the fair value of the western European commodity futures contracts are recognized in current earnings.

Other Hedges

The Company's subsidiaries may enter into short-term forward exchange agreements to purchase foreign currencies at set rates in the future. These foreign currency forward exchange agreements are used to limit exposure to fluctuations in foreign currency exchange rates for all 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 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.

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) other accrued 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.

10. Accumulated Other Comprehensive Income (Loss) The components of comprehensive income (loss) are: (a) net earnings (loss); (b) change in fair value of certain derivative instruments; (c) adjustment of minimum pension liabilities; and, (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

The following table lists the beginning balance, yearly activity and ending balance of each component of accumulated other comprehensive income (loss):

	Net Effect of Exchange Rate Fluctuations	Deferred Tax Effect for Translation	Change in Minimum Pension Liability, Net of Tax	Change in Certain Derivative	Total Accumulated Comprehensive Income (Loss)

				Instruments, Net of Tax	
Balance on January 1, 2003	$ (477.7)	$ 26.0	$ (91.5)	$ 2.2	$ (541.0)
2003 Change	367.7	(4.5)	(19.3)	(1.2)	342.7
Balance on December 31, 2003	(110.0)	21.5	(110.8)	1.0	(198.3)
2004 Change	303.5	(8.7)	(27.5)	(1.1)	266.2
Balance on December 31, 2004	193.5	12.8	(138.3)	(0.1)	67.9
2005 Change	(290.5)		(7.2)	14.5	(283.2)
Balance on December 31, 2005	$ (97.0)	$ 12.8	$ (145.5)	$ 14.4	$ (215.3)

The change in minimum pension liability for 2005, 2004, and 2003 was net of tax of $0.1 million, $8.1 million and $1.4 million, respectively. The change in minimum pension liability for 2005 included $(14.8) million ($19.5 million pretax) of translation effect on the minimum pension liability recorded in prior years. The change in minimum pension liability for 2004 included $9.0 million ($12.6 million pretax) of translation effect on the minimum pension liability recorded in prior years. The change in minimum pension liability for 2003 included $10.1 million ($14.7 million pretax) of translation effect on the minimum pension liability recorded in 2002.

The change in certain derivative instruments for 2005, 2004 and 2003 was net of tax of $9.2 million, $0.5 million, and $0.7 million, respectively.

11. Income Taxes Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (2) carryovers and credits for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Deferred tax assets:		
Tax loss carryovers	$ 259.2	$ 251.0
Capital loss carryovers	30.3	30.7
Accrued postretirement benefits	19.8	18.1
Other, principally accrued liabilities	212.7	203.3
Total deferred tax assets	522.0	503.1
Deferred tax liabilities:		
Property, plant and equipment	204.2	224.8
Inventory	27.6	32.4
Other	75.6	53.1
Total deferred tax liabilities	307.4	310.3
Valuation allowance	(349.7)	(320.8)
Net deferred tax liabilities	$ (135.1)	$ (128.0)

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

	2005	2004
Prepaid expenses	$ 3.7	$ 36.2
Deposits, receivables, and other assets	94.1	45.4
Deferred taxes	(232.9)	(209.6)
Net deferred tax liabilities	$ (135.1)	$ (128.0)

The provision for income taxes consists of the following:

	2005	2004	2003
Current:			
U.S. Federal	$ —	$ —	$ —
State	0.3	0.2	0.3
Foreign	133.4	97.5	50.9
	133.7	97.7	51.2
Deferred:			
U.S. Federal	1.7	18.5	0.2
State	8.0	13.1	(1.8)
Foreign	(12.8)	(20.2)	(1.4)
	(3.1)	11.4	(3.0)
Total:			
U.S. Federal	1.7	18.5	0.2
State	8.3	13.3	(1.5)
Foreign	120.6	77.3	49.5
	$ 130.6	$ 109.1	$ 48.2

The provision for income taxes was calculated based on the following components of earnings (loss) before income taxes:

	2005	2004	2003
Domestic	$ (20.7)	$ 25.3	$ (88.2)
Foreign	(35.2)	404.4	182.3
	$ (55.9)	$ 429.7	$ 94.1

Income taxes paid in cash were as follows:

	2005	2004	2003
Domestic	$ —	$ 0.2	$ 0.4
Foreign	112.9	95.8	45.1
	$ 112.9	$ 96.0	$ 45.5

A reconciliation of the provision for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	2005	2004	2003
Pretax earnings at statutory U.S. Federal tax rate	$ (19.6)	$ 150.4	$ 33.0
Increase (decrease) in provision for income taxes due to:			
Valuation allowance	7.0		
Goodwill impairment	172.9		
Write-down of equity investment			25.0
State taxes, net of federal benefit	2.5	13.6	(1.0)
Rate differences on international earnings	(22.5)	(24.6)	(12.4)
Australian tax consolidation	(2.8)	(33.1)	
Loss on Ardagh note sale			11.2
Adjustment for non-U.S. tax law changes	(7.1)		(9.1)
Other items	0.2	2.8	1.5
Provision for income taxes	$ 130.6	$ 109.1	$ 48.2

The Company is included in OI Inc.’s consolidated tax returns. OI Inc. has net operating losses, capital losses, alternative minimum tax credits, and research and development credits available to offset future U.S. Federal income tax.

At December 31, 2005, the Company’s equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated $1,383.4 million. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed.

12. Related Party Transactions Charges for administrative services are allocated to the Company by OI Inc. based on an annual utilization level. Such services include compensation and benefits administration, payroll processing, use of certain general accounting systems, auditing, income tax planning and compliance, and treasury services. Management believes that such transactions are on terms no less favorable to the Company than those that could be obtained from unaffiliated third parties. The following information summarizes the Company’s significant related party transactions:

	Years ended December 31,		
	2005	2004	2003
Revenues:			
Sales to affiliated companies	$ 0.7	$ 4.7	$ 0.8
Expenses:			
Administrative services	19.9	15.6	17.7
Corporate management fee	23.4	18.0	16.6
Total expenses	$ 43.3	$ 33.6	$ 34.3

The above expenses are recorded in the statement of operations as follows:

	Years ended December 31,		
	2005	2004	2003
Cost of sales	$ 17.7	$ 13.7	$ 15.7
Selling, general, and adminstrative expenses	25.6	19.9	18.6
Total expenses	$ 43.3	$ 33.6	$ 34.3

Intercompany interest is charged to the Company from OI Inc. based on intercompany debt balances. An interest rate is calculated monthly based on OI Inc’s total consolidated monthly external debt balance and the related interest expense, including finance fee amortization and commitment fees. The calculated rate (8.5% at December 31, 2005) is applied monthly to the intercompany debt balance to determine intercompany interest expense.

13. Pension Benefit Plans The Company participates in OI Inc.'s defined benefit pension plans for substantially all employees located in the United States. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. OI Inc.'s policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. Independent actuaries determine pension costs for each subsidiary of OI Inc. included in the plans; however, accumulated benefit obligation information and plan assets pertaining to each subsidiary have not been separately determined. As such, the accumulated benefit obligation and the plan assets related to the pension plans for domestic employees have been retained by another subsidiary of OI Inc. Net credits to results of operations for the Company's allocated portion of the domestic pension costs amounted to $21.5 million in 2005, $20.8 million in 2004, and $40.1 million in 2003.

OI Inc. also sponsors several defined contribution plans for all salaried and hourly U.S. employees of the Company. Participation is voluntary and participants' contributions are based on their compensation. OI Inc. matches contributions of participants, up to various limits, in substantially all plans. OI Inc. charges the Company for its share of the match. The Company's share of the contributions to these plans amounted to $5.2 million in 2005, $4.9 million in 2004, and $4.3 million in 2003.

The Company's subsidiaries in the United Kingdom, the Netherlands, Canada, Australia, Germany and France also have pension plans covering substantially all employees. The following tables relate to the Company's principal defined benefit pension plans in the United Kingdom, the Netherlands, Canada, Australia, Germany and France (the International Pension Plans).

The International Pension Plans use a December 31 measurement date.

The changes in the International Pension Plans benefit obligations for the year were as follows:

	2005	2004
Obligations at beginning of year	$ 1,417.3	$ 791.5
Change in benefit obligations:		
Service cost	23.0	20.3
Interest cost	68.4	57.0
Actuarial loss, including the effect of changing in discount rates	118.7	57.2
Acquisitions		448.8
Participant contributions	9.4	7.7
Benefit payments	(65.4)	(71.8)
Plan amendments		(12.7)
Foreign currency translation	(123.7)	119.3
Net increase in benefit obligations	30.4	625.8
Obligations at end of year	$ 1,447.7	$ 1,417.3

The changes in the fair value of the International Pension Plans' assets for the year were as follows:

	2005	2004
Fair value at beginning of year	$ 1,008.5	$ 577.3
Change in fair value:		
Actual gain on plan assets	162.1	72.8
Acquisitions		285.1
Benefit payments	(65.4)	(71.8)
Employer contributions	39.4	55.0
Participant contributions	9.4	7.7
Foreign currency translation	(85.4)	82.4
Net increase in fair value of assets	60.1	431.2
Fair value at end of year	$ 1,068.6	$ 1,008.5

The funded status of the International Pension Plans at year end was as follows:

	2005	2004
Plan assets at fair value	$ 1,068.6	$ 1,008.5
Projected benefit obligations	1,447.7	1,417.3
Plan assets less than projected benefit obligations	(379.1)	(408.8)
Net unrecognized items:		
Actuarial loss	282.5	289.4
Prior service cost	14.0	5.5
	296.5	294.9
Net amount recognized	$ (82.6)	$ (113.9)

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

	2005	2004
Prepaid pension	$ 17.1	$ 18.5
Accrued pension, included with other liabilities	(163.2)	(205.5)

Minimum pension liability, included with other liabilities	(143.7)	(134.7)
Intangible asset, included with deposits and other assets	9.4	12.2
Accumulated other comprehensive income	197.8	195.6
Net amount recognized	$ (82.6)	$ (113.9)

The accumulated benefit obligation for all defined benefit pension plans was $1,288.1 million and $1,286.3 million at December 31, 2005 and 2004, respectively.

The components of the International Pension Plans' net pension expense were as follows:

	2005	2004	2003
Service cost	$ 23.0	$ 20.3	$ 14.6
Interest cost	68.4	57.0	39.2
Expected asset return	(75.0)	(62.5)	(46.7)
Amortization:			
Prior service cost	0.7	1.6	1.4
Loss	9.7	7.9	0.3
Net amortization	10.4	9.5	1.7
Net expense	$ 26.8	$ 24.3	$ 8.8

The following information is for plans with projected benefit obligations in excess of the fair value of plan assets at year end:

	2005	2004
Projected benefit obligations	$ 1,353.2	$ 1,317.3
Fair value of plan assets	961.2	906.8

The following information is for plans with accumulated benefit obligations in excess of the fair value of plan assets at year end:

	2005	2004
Accumulated benefit obligations	$ 876.3	$ 1,197.9
Fair value of plan assets	621.5	906.8

The weighted average assumptions used to determine benefit obligations were as follows:

	2005	2004
Discount rate	4.57%	5.15%
Rate of compensation increase	3.78%	3.41%

The weighted average assumptions used to determine net periodic pension costs were as follows:

	2005	2004	2003
Discount rate	5.15%	5.68%	5.76%
Rate of compensation increase	3.41%	3.86%	3.79%
Expected long-term rate of return on assets	7.15%	7.35%	7.56%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above. Amortization included in net pension expense is based on the average remaining service of employees.

As of December 31, 2005, the Company recorded an additional minimum pension liability for the pension plan in the United Kingdom in addition to the minimum liabilities recorded in 2002, 2003 and 2004. Pursuant to this requirement, the Company decreased the minimum pension liability by $4.6 million, reduced the intangible asset by $1.4 million, and decreased accumulated other comprehensive loss by $3.2 million.

As of December 31, 2005, the Company adjusted the minimum pension liability for the pension plan in Canada from the minimum liabilities recorded in 2002, 2003 and 2004. Pursuant to this requirement, the Company increased the minimum pension liability by $13.2 million, reduced the intangible asset by $0.1 million, and increased accumulated other comprehensive loss by $13.3 million.

As of December 31, 2005, the Company recorded an additional minimum pension liability for the pension plan in Germany. Pursuant to this requirement, the Company recorded a minimum pension liability of $11.9 million and increased accumulated other comprehensive loss by $11.9 million.

For 2005, the Company's weighted average expected long-term rate of return on assets was 7.15%. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2004), which was in line with the expected long-term rate of return assumption for 2005.

The weighted average actual asset allocations and weighted average target allocation ranges by asset category for the Company's pension plan assets were as follows:

Target

Asset Category	Actual Allocation 2005	2004	Allocation Ranges
Equity securites	64%	61%	56 - 66%
Debt securities	29%	29%	26 - 36%
Real estate	7%	7%	2 - 12%
Other		3%	0 - 2%
Total	100%	100%	

It is the Company's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within the above target asset allocation ranges. The investment risk of the assets is limited

by appropriate diversification both within and between asset classes. The assets are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

The Company expects to contribute $47.1 million to its defined benefit pension plans in 2006.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2006	$ 64.1
2007	63.1
2008	64.3
2009	66.5
2010	67.4
2011 - 2015	374.8

14. Postretirement Benefits Other Than Pensions OI Inc. provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees and substantially all employees in Canada and the Netherlands. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Independent actuaries determine postretirement benefit costs for each subsidiary of OI Inc.; however, accumulated postretirement benefit obligation information pertaining to each subsidiary has not been separately determined. As such, the accumulated postretirement benefit obligation has been retained by another subsidiary of OI Inc.

The Company's net periodic postretirement benefit cost, as allocated by OI Inc., for domestic employees was $14.5 million, $25.9 million, and $26.7 million at December 31, 2005, 2004, and 2003, respectively.

The Company's subsidiaries in Canada and the Netherlands also have postretirement benefit plans covering substantially all employees. The following tables relate to the Company's postretirement benefit plan in Canada and the Netherlands (the International Postretirement Benefit Plans).

The changes in the International Postretirement Benefit Plans obligations were as follows:

	2005	2004
Obligations at beginning of year	$ 87.4	$ 55.3
Change in benefit obligations:		
Service cost	1.9	1.5
Interest cost	4.6	3.9
Actuarial loss, including the effect of changing discount rates	9.3	1.8
Acquisitions		20.9
Benefit payments	(2.5)	(2.0)
Foreign currency translation	(0.7)	6.0
Net change in benefit obligations	12.6	32.1
Obligations at end of year	$ 100.0	$ 87.4

The funded status of the International Postretirement Benefit Plans at year end was as follows:

	2005	2004
Projected postretirement benefit obligations	$ 100.0	$ 87.4
Net unrecognized items:		
Actuarial loss	(15.9)	(5.7)
Nonpension accumulated postretirement benefit obligations	$ 84.1	$ 81.7

The Company's nonpension postretirement benefit obligations are included with other long term liabilities on the balance sheet.

The components of International Postretirement Benefit Plans net postretirement benefit cost were as follows:

	2005	2004
Service cost	$ 1.9	$ 1.5
Interest cost	4.6	3.9
Amortization:		
Loss	(0.2)	0.1
Net postretirement benefit cost	$ 6.3	$ 5.5

The weighted average discount rate used to determine the accumulated postretirement benefit obligation was 4.8% and 5.4% at December 31, 2005 and 2004, respectively.

The weighted average discount rate used to determine net postretirement benefit cost was 5.4% at December 31, 2005, 6.0% at December 31, 2004, and 6.5% at December 31, 2003.

The weighted average assumed health care cost trend rates at December 31 were as follows:

	2005	2004
Health care cost trend rate assumed for next year	6.74%	6.84%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.81%	4.67%
Year that the rate reaches the ultimate trend rate	2009	2009

Assumed health care cost trend rates affect on the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 1.2	$ (1.0)
Effect on accumulated postretirement benefit obligations	12.1	(10.1)

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2006	$ 3.2
2007	3.4
2008	3.6
2009	3.9
2010	4.2
2011 - 2015	24.6

Benefits provided by OI Inc. for certain hourly retirees of the Company are determined by collective bargaining. Most other domestic hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were $5.7 million in 2005, $5.7 million in 2004, and $6.0 million in 2003. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

15. Other Revenue Other revenue in 2005 includes $28.1 million (pre-tax and after tax) for the sale of the Company's Corsico, Italy glass container facility.

Other revenue in 2004 includes a gain of $20.6 million ($14.5 million after tax) for the sale of certain real property and a gain of $31.0 million ($13.1 million after tax) for a restructuring in the Italian Specialty Glass business.

16. Other Costs and Expenses Other costs and expenses for the year ended December 31, 2005 included the following:

- During the fourth quarter of 2005 the Company recorded a charge of $494.0 million to write down a portion of the goodwill in its Asia Pacific Glass business unit. See Note 23 for more information.
- Manufacturing costs for the second quarter of 2005 included a favorable adjustment for depreciation and amortization in connection with finalizing the fair values of the BSN Glasspack assets acquired in June 2004. The difference between the estimated amounts recorded in 2004 and the final amounts related to 2004 accounted for a benefit of approximately $6.5 million.

Other costs and expenses for the year ended December 31, 2003 included pretax charges of $202.9 million ($172.2 after tax) related to the following:

- On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable. The notes were received from Ardagh in 1999 by the Company's wholly-owned subsidiary, United Glass Limited, in connection with its sale of Rockware, a United Kingdom glass container manufacturer obtained in the 1998 acquisition of the worldwide glass and plastics packaging businesses of BTR plc. The notes were due in 2006 and interest had previously been paid in kind through periodic increases in outstanding principal balances. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Agreement. The notes were sold at a discount of approximately 22.6 million British pounds sterling which resulted in a loss of US$37.4 million (US$37.4 million after tax).

- In August of 2003, the Company initiated a review of its Plastics Packaging assets in the Asia Pacific region. The review was completed during the fourth quarter of 2003. The Company used a combination of estimated divestment cash flows, which included bid prices from potential purchasers, and partial liquidation values for certain assets to determine the net realizable values of the assets. The Company compared the estimated net realizable values to the book values of the asset and determined that an asset impairment existed. As a result, the Company recorded a charge of $43.0 million ($30.1 million after tax) to write-down the assets to realizable values. Certain of the plastics businesses in the Asia Pacific region operate in highly competitive markets leading to reduced profit margins. In addition, the Company's PET container business has lost a significant amount of business in the past few years. The reduced business and overall excess capacity in the industry has caused a reduction in the overall value of the business.

- During the fourth quarter of 2003, the Company determined that the value of its 25% investment in a North American soda ash mining operation was impaired and not likely to recover. Increasing global competition and recent development of foreign sources of soda ash have created significant excess capacity in that industry. The resulting competitive environment caused management of the soda ash mining operation to significantly lower its projections of earnings and cash flows. Following an evaluation of future estimated earnings and cash flows, the Company determined that its carrying value should be written down to estimated fair value and recorded a $50 million charge in the fourth quarter which substantially reduced the carrying value of this equity method investment.

- In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June 2003 following a major leak in its only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5 million ($17.8 million after tax) in the third quarter of 2003. The closing of this factory resulted in the

elimination of approximately 170 jobs and a corresponding reduction in the Company's workforce. Substantially all of the closing costs were paid out by the end of 2005.

- In November 2003, the Company announced the permanent closing of its Milton, Ontario glass container factory. This closing was part of an effort to bring capacity and inventory levels in line with anticipated demand. As a result, the Company recorded a capacity curtailment charge of $20.1 million ($19.5 million after tax) in the fourth quarter of 2003. The closing of this factory in November 2003 resulted in the elimination of approximately 150 jobs and a corresponding reduction in the Company's workforce. Substantially all of the closing costs were paid out by the end of 2005.

- In December 2003, the Company announced the permanent closing of its Perth, Australia glass container factory. This closing was part of an effort to reduce overall capacity in Australia and bring inventory levels in line with anticipated demand. The Perth plant's western location and small size contributed to the plant being a higher cost facility that was no longer economically feasible to operate. As a result, the Company recorded a capacity curtailment charge of $23.9 million ($17.4 million after tax) in other costs and expenses in the results of operations for 2003.

  The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The closing costs were paid out by the end of 2005.

  Selected information related to glass container factory closings is as follows:

	Hayward	Milton	Total
Plant closing charges	$ 28.5	$ 20.1	$ 48.6
Write-down of assets to net realizable value	(12.2)	(6.4)	(18.6)
Net cash paid	(4.1)	(1.7)	(5.8)
Remaining accruals related to plant closing charges as of December 31, 2003	12.2	12.0	24.2
Net cash paid	(2.7)	(4.4)	(7.1)
Other, principally translation	2.5	(2.8)	(0.3)
Remaining accruals related to plant closing charges as of December 31, 2004	12.0	4.8	16.8
Net cash paid	2.8	(0.9)	1.9
Other	(4.1)	(0.5)	(4.6)
Remaining accruals related to plant closing charges as of December 31, 2005	$ 10.7	$ 3.4	$ 14.1

17. Contingencies Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. In

accordance with FAS No. 5, "Accounting for Contingencies," 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 in respect to this 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 or financial condition.

18. Geographic Information The Company operates in the rigid packaging industry. The Company has one primary reportable product segment within the rigid packaging industry: Glass Containers. The Glass Containers segment includes operations in North America, Europe, the Asia Pacific region, and South America.

The Company currently evaluates performance and allocates resources based on earnings before interest income, interest expense, provision for income taxes, and minority share owners' interests in earnings of subsidiaries ("Operating Profit") excluding amounts related to certain items that management considers not representative of ongoing operations and, ("Segment Operating Profit"). Net sales as shown in the geographic segment information are based on the location of the Company's affiliate which recorded the sales.

Financial information regarding the Company's geographic segments is as follows:

	North America	Europe	Asia Pacific	South America	Total Geographic Segments
Net sales:					
2005	$ 1,986.6	$ 2,840.0	$ 844.7	$ 685.1	$ 6,356.4
2004	1,926.1	2,164.1	870.9	561.2	5,522.3
2003	1,876.7	1,245.3	798.8	488.2	4,409.0
Segment Operating Profit:					
2005	$ 227.7	$ 279.7	$ 136.3	$ 156.9	$ 800.6
2004	253.5	244.1	142.1	124.0	763.7
2003	276.4	170.2	118.9	96.2	661.7
Items excluded from Segment Operating Profit:					
2005:					
Gain on the sale of the Corsico, Italy glass container facility		$ 28.1			$ 28.1
Mark to market effect of certain commodity futures contracts	$ 3.8				3.8
Goodwill impairment			$ (494.0)		(494.0)
2004:					
Gain on sale of certain real property		20.6			20.6
Italian Specialty Glass gain		31.0			31.0
Mark to market effect of certain commodity futures contracts	4.9				4.9
2003:					
Capacity curtailment charge	(48.6)		$ (23.9)		(72.5)
Write-down of equity investment	(50.0)				(50.0)
Write-down of Plastics Packaging assets in the Asia Pacific region			(43.0)		(43.0)
Loss on the sale of notes receivable		(37.4)			(37.4)

One customer accounted for 11.5% of the Company's sales in 2003.

Operations in individual countries outside the United States that accounted for more than 10% of consolidated net sales were in Italy (2005 – 10.2%, 2004 – 11.9%, and 2003 – 13.2%), France (2005 – 15.4%) and Australia (2004 – 11.7%, and 2003 – 13.6%).

The Company's net property, plant, and equipment by location are as follows:

	United States	Foreign	Total
2005	$ 694.7	$ 2,121.6	$ 2,816.3
2004	648.4	2,502.8	3,151.2
2003	589.7	1,720.5	2,310.2

The Company's net sales by geographic segment are as follows:

	United States	Foreign	Total
2005	$ 1,621.1	$ 4,735.3	$ 6,356.4

2004	1,574.8	3,947.5	5,522.3
2003	1,546.4	2,862.6	4,409.0

Reconciliations to consolidated totals are as follows:

	2005	2004	2003
Revenues:			
Net sales	$ 6,356.4	$ 5,522.3	$ 4,409.0
Royalties and net technical assistance	16.4	20.9	17.9
Equity earnings	20.4	26.1	25.0
Interest	13.8	13.8	18.8
Other	53.2	70.8	24.8
Total	$ 6,460.2	$ 5,653.9	$ 4,495.5
Reconciliation of Segment Operating Profit to earnings before income taxes, minority share owners' interests in earnings of subsidiaries:			
Segment Operating Profit	$ 800.6	$ 763.7	$ 661.7
Items excluded from Segment Operating Profit	(462.1)	56.5	(202.9)
Interest expense	(408.2)	(404.3)	(383.5)
Interest income	13.8	13.8	18.8
Total	$ (55.9)	$ 429.7	$ 94.1

19. Additional Interest Charges from Early Extinguishment of Debt During 2005, the Company recorded additional interest charges of $1.4 million ($1.0 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's bank credit agreement. During 2004, the Company recorded additional interest charges of $22.8 million ($14.9 million after tax) for note repurchase premiums and $7.1 million ($4.7 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's bank credit agreement. During 2003, the Company recorded additional interest charges of $12.6 million ($7.9 million

after tax) for note repurchase premiums and related write-off of unamortized finance fees and $3.6 million ($2.5 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's previous bank credit agreement.

20. Acquisition of BSN Glasspack, S.A. On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. ("BSN") from Glasspack Participations (the "BSN Acquisition"). Total consideration for the BSN Acquisition was approximately $1.3 billion, including the assumption of approximately $650 million of debt, a portion of which was refinanced in connection with the BSN Acquisition. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and the Netherlands. The BSN Acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement. In order to secure the European Commission's approval, the Company committed to divest the Barcelona, Spain, and Corsico, Italy glass plants. The Company completed the sale of these plants in January 2005 and received cash proceeds of approximately €138.2 million.

The BSN Acquisition was part of the Company's overall strategy to improve its presence in the European market in order to better serve the needs of its customers throughout the European region and to take advantage of synergies including purchasing leverage and cost reductions. This integration strategy should lead to significant improvement in earnings from the European operations by the end of 2006.

During the second quarter of 2005, the Company concluded its evaluation of acquired capacity and announced the permanent closing of its Düsseldorf, Germany glass container factory, and the shutdown of a furnace at its Reims, France glass container facility, both in 2005. These actions were part of the previously announced European integration strategy to optimally align the manufacturing capacities with the market and improve operational efficiencies. As a result, the Company recorded an accrual of €47.1 million through an adjustment to goodwill.

These second quarter actions will result in the elimination of approximately 400 jobs and a corresponding reduction in the Company's workforce. The Company expects to reduce fixed cash costs by approximately €35 million per year by closing the Düsseldorf factory, shutting down the furnace at Reims and moving most of the production to other locations. The Company anticipates that it will pay out approximately €110.9 million in cash related to severance, benefits, plant clean-up, and other plant closing costs related to restructuring accruals. In addition, the Company expects to pay approximately €65 million for other European reorganization and integration activities, approximately 60% of which will be expensed. Approximately 50% of these payments were made by the end of 2005 and the Company expects that most of the balance will be paid in 2006.

The restructuring accrual recorded in the second quarter of 2005 was in addition to the initial estimated accrual of €63.8 recorded in 2004. Selected information related to the restructuring accrual is as follows, with activity translated from Euros into dollars at the December 31, 2005 exchange rate:

Total restructuring accrual (€110.9 million)	$ 134.1
Net cash paid, principally severance and related benefits	(41.0)
Other, principally translation	(12.2)
Remaining European restructuring accrual as of December 31, 2005	$ 80.9

The total purchase cost of approximately $1.3 billion was allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The following table summarizes the fair values of the assets acquired and liabilities assumed on June 21, 2004, translated from Euros into dollars at the exchange rate on that date:

		June 21, 2004
Inventories	$	294.3
Accounts receivable		197.7
Other current assets (excluding cash acquired)		31.8
Total current assets		523.8
Goodwill		716.6
Other long-term assets		85.4
Net property, plant and equipment		762.1
Assets acquired	$	2,087.9
Accounts payable and other current liabilities		(425.4)
Other long-term liabilities		(387.5)
Aggregate purchase costs	$	1,275.0

The assets above include $48.1 million of intangible assets related to customer relationships, which will be amortized over the next 13 years. The liabilities above include $133.6 million (€110.9 million) for the restructuring actions discussed above, the majority of which relates to employee termination costs and related fringe benefits.

21. Pro Forma Information - Acquisition of BSN Glasspack, S.A. Had the Acquisition described in Note 20 and the related financing described in Note 5 occurred at the beginning of each respective period, pro forma consolidated net sales and net earnings, and would have been as follows:

	Year ended December 31, 2004			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 5,522.3	$ 752.5		$ 6,274.8
Net earnings	$ 287.6	$ 17.6	$ (6.4)	$ 298.8

	Year ended December 31, 2003			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 4,409.0	$ 1,417.5		$ 5,826.5
Net earnings	$ 20.1	$ 28.9	$ (18.5)	$ 30.5

The 2004 earnings included the step-up effect of the finished goods inventory acquired in the Acquisition that reduced gross profit by approximately $31.1 million. The 2004 and 2003 earnings include estimated amortization related to the $48.1 million of intangible assets recorded for customer relationships. At average exchange rates for each respective year, the pro forma amortization of the intangible asset was $4.0 million (net of tax) for 2004 and $3.6 million (net of tax) for 2003.

22. Accounts Receivable Securitization Program As part of the acquisition of BSN, the Company acquired a trade accounts receivable securitization program through a BSN subsidiary, BSN Glasspack Services. The program was entered into by BSN in order to provide lower interest costs on a portion of its financing. In November 2000, BSN created a securitization program for its trade receivables through a sub-fund (the “fund”) created in accordance with French Law.

According to the program, subject to eligibility criteria, certain, but not all, receivables held by the BSN Glasspack Services are sold to the fund on a weekly basis. The purchase price for the receivables is determined as a function of the book value and the term of each receivable and a Euribor three-month rate increased by a 1.51% margin. A portion of the purchase price for the receivables is deferred and paid by the fund to BSN Glasspack Services only when receivables are collected or at the end of the program. This deferred portion varies based on the status and updated collection history of BSN Glasspack Services’ receivable portfolio.

The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. For the period from January 1, 2005 through December 13, 2005, the Company received $1.2 billion from the sale of receivables to the fund and paid interest of approximately $6.9 million.

Prior to December 2005, the transfer of the receivables to the fund was deemed to be a sale for U.S. GAAP purposes. Effective December 13, 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy

and the United Kingdom. The terms of this expansion resulted in a changing from off-balance sheet to on-balance sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

BSN Glasspack Services continues to service, administer and collect the receivables on behalf of the fund. This service rendered to the fund is invoiced to the fund at a normal market rate.

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23. Goodwill The changes in the carrying amount of goodwill for the years ended December 31, 2003, 2004 and 2005 are as follows:

Balance as of January 1, 2003	$	1,661.1
Translation effects		285.5
Other changes, principally adjustments to acquisition-related deferred tax assets		(27.0)
Balance as of December 31, 2003		1,919.6
Goodwill acquired during the year		696.0
Translation effects		165.6
Other changes		18.4
Balance as of December 31, 2004		2,799.6
Translation effects		(160.9)
Write-down of goodwill		(494.0)
Other changes, principally adjustments to finalize acquisition purchase price		15.0
Balance as of December 31, 2005	$	2,159.7

During the fourth quarter of 2005, the Company completed its annual impairment testing and determined that impairment existed in the goodwill of its Asia Pacific Glass business unit. Lower projected cash flows principally as a result of competitive pricing pressures in the Company's Australian glass operations caused the decline in the business enterprise value. Following a review of the valuation of the unit's identifiable assets, the Company recorded an impairment charge of $494.0 million to reduce the reported value of its goodwill.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owner of
Owens-Brockway Glass Container Inc.

We have audited the accompanying consolidated balance sheets of Owens-Brockway Glass Container Inc. as of December 31, 2005 and 2004, and the related consolidated statements of results of operations, net Parent investment, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Brockway Glass Container Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Toledo, Ohio
March 15, 2006

CONSOLIDATED RESULTS OF OPERATIONS Owens-Brockway Glass Container Inc.

Dollars in millions **Years ended December 31,**		**2005**		**2004**		**2003**
Revenues:						
Net sales	$	6,356.4	$	5,522.3	$	4,409.0
Other revenue		103.8		131.6		86.5
		6,460.2		5,653.9		4,495.5
Costs and expenses:						
Manufacturing, shipping, and delivery		5,169.2		4,455.3		3,549.6

Research and development	15.3	15.2	15.7
Engineering	36.1	34.1	35.5
Selling and administrative	361.9	267.2	197.8
Net intercompany interest	28.7	0.6	30.6
Other interest expense	379.5	403.7	352.9
Other	525.4	48.1	219.3
	6,516.1	5,224.2	4,401.4
Earnings (loss) before items below	(55.9)	429.7	94.1
Provision for income taxes	130.6	109.1	48.2
Minority share owners' interests in earnings of subsidiaries	35.9	33.0	25.8
Net earnings (loss)	$ (222.4)	$ 287.6	$ 20.1

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS Owens-Brockway Glass Container Inc.

Dollars in millions December 31,	2005	2004
Assets		
Current assets:		
Cash, including time deposits of $104.0 ($149.0 in 2004)	$ 243.9	$ 251.6
Receivables including amount from related parties of $0.8 ($0.1 in 2004), less allowances of $25.7 ($29.0 in 2004) for losses and discounts	939.9	761.0
Inventories	889.2	1,051.7
Prepaid expenses	31.3	62.9
Total current assets	2,104.3	2,127.2
Other assets:		
Equity investments	102.2	106.9
Repair parts inventories	162.7	185.2
Prepaid pension	17.1	18.5
Deposits, receivables, and other assets	397.2	384.4
Goodwill	2,159.7	2,799.6
Total other assets	2,838.9	3,494.6
Property, plant, and equipment:		
Land, at cost	229.5	155.0
Buildings and equipment, at cost:		
Buildings and building equipment	905.6	804.2
Factory machinery and equipment	4,070.2	4,273.5
Transportation, office, and miscellaneous equipment	98.2	103.3
Construction in progress	89.1	167.7
	5,392.6	5,503.7
Less accumulated depreciation	2,576.3	2,352.5
Net property, plant, and equipment	2,816.3	3,151.2
Total assets	$ 7,759.5	$ 8,773.0

See accompanying Notes to the Consolidated Financial Statements.

Dollars in millions December 31,	2005	2004
Liabilities and Net Parent Investment		
Current liabilities:		
Short-term loans	$ 26.3	$ 18.2
Accounts payable including amount to related parties of $2.2 ($0.5 in 2004)	765.6	774.7
Salaries and wages	141.1	158.0
U.S. and foreign income taxes	107.8	48.9
Other accrued liabilities	253.3	286.7
Long-term debt due within one year	252.0	61.8
Total current liabilities	1,546.1	1,348.3
External long-term debt	3,958.6	4,111.0
Deferred taxes	232.9	209.6
Other liabilities	741.3	845.5
Minority share owners' interests	182.0	170.1
Net Parent investment:		

Investment by and advances from Parent	1,313.9	2,020.6
Accumulated other comprehensive loss	(215.3)	67.9
Total net Parent investment	1,098.6	2,088.5
Total liabilities and net Parent investment	$ 7,759.5	$ 8,773.0

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED NET PARENT INVESTMENT Owens-Brockway Glass Container Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Investment by and advances to Parent			
Balance at beginning of year	$ 2,020.6	$ 997.0	$ 2,154.0
Net intercompany transactions	(484.3)	736.0	(1,177.1)
Net earnings	(222.4)	287.6	20.1
Balance at end of year	1,313.9	2,020.6	997.0
Accumulated other comprehensive loss			
Balance at beginning of year	67.9	(198.3)	(541.0)
Foreign currency translation adjustments	(290.5)	294.8	363.2
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Balance at end of year	(215.3)	67.9	(198.3)
Total net Parent investment	$ 1,098.6	$ 2,088.5	$ 798.7
Total comprehensive income (loss)			
Net earnings (loss)	$ (222.4)	$ 287.6	$ 20.1
Foreign currency translation adjustments	(290.5)	294.8	363.2
Change in minimum pension liability, net of tax	(7.2)	(27.5)	(19.3)
Change in fair value of certain derivative instruments, net of tax	14.5	(1.1)	(1.2)
Total comprehensive income	$ (505.6)	$ 553.8	$ 362.8

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED CASH FLOWS Owens-Brockway Glass Container Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Operating activities:			
Net earnings (loss)	$ (222.4)	$ 287.6	$ 20.1
Non-cash charges (credits):			
Depreciation	431.3	384.0	341.3
Amortization of deferred costs	35.4	35.2	34.2
Deferred tax provision (credit)	(3.1)	11.4	(3.0)
Goodwill impairment	494.0		
Restructuring costs and writeoffs of certain assets			165.5
Loss on sale of long-term notes receivable			37.4
Gains on asset sales	(28.1)	(51.6)	
Other	(6.4)	(70.0)	(53.9)
Change in non-current operating assets	(14.6)	12.9	(17.5)
Change in non-current liabilities	(58.7)	(10.1)	(8.2)
Change in components of working capital	131.6	181.6	(41.2)
Cash provided by operating activities	759.0	781.0	474.7
Investing activities:			
Additions to property, plant and equipment	(366.2)	(407.6)	(312.2)
Acquisitions, net of cash acquired	(11.6)	(630.3)	
Proceeds from sale on long-term notes receivable			163.0
Net cash proceeds from divestitures and other	205.7	257.8	20.4
Cash utilized in investing activities	(172.1)	(780.1)	(128.8)
Financing activities:			
Additions to long-term debt	537.5	2,114.6	2,154.4
Repayments of long-term debt	(617.1)	(2,611.1)	(1,133.2)
Increase (decrease) in short-term loans	11.5	(23.2)	(28.0)
Net change in intercompany debt	(414.2)	675.8	(1,127.2)
Net payments for debt-related hedging activity	(98.0)	(25.9)	(123.2)
Payment of finance fees	(1.0)	(34.4)	(43.8)
Cash provided by (utilized in) financing activities	(581.3)	95.8	(301.0)

Effect of exchange rate fluctuations on cash	(13.3)	4.3	7.9
Increase (decrease) in cash	(7.7)	101.0	52.8
Cash at beginning of year	251.6	150.6	97.8
Cash at end of year	$ 243.9	$ 251.6	$ 150.6

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of Owens-Brockway Glass Container Inc. ("Company") include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost.

Relationship with Owens-Brockway Packaging, Inc., Owens-Illinois Group, Inc. and Owens-Illinois, Inc. The Company is a wholly-owned subsidiary of Owens-Brockway Packaging, Inc. ("OB Packaging"), and an indirect subsidiary of Owens-Illinois Group, Inc. ("OI Group") and Owens-Illinois, Inc. ("OI Inc."). Although OI Inc. does not conduct any operations, it has substantial obligations related to outstanding indebtedness, dividends for preferred stock and asbestos-related payments. OI Inc. relies primarily on distributions from its direct and indirect subsidiaries to meet these obligations.

For federal and certain state income tax purposes, the taxable income of the Company is included in the consolidated tax returns of OI Inc. and income taxes are allocated to the Company on a basis consistent with separate returns.

Nature of Operations The Company is a leading manufacturer of glass container products. The Company's principal product lines in the Glass Containers product segment are glass containers for the food and beverage industries. The Company has glass container operations located in 22 countries. The principal markets and operations for the Company's glass products are in North America, Europe, South America, and Australia. One customer accounted for 11.5% of the Company's sales in 2003.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly.

Cash The Company defines "cash" as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Fair Values of Financial Instruments The carrying amounts reported for cash, short-term investments and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

Derivative Instruments The Company uses interest rate swaps, currency swaps, and commodity futures contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. Whenever possible, derivative instruments are designated and effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for trading purposes and is not a party to leveraged derivatives. In accordance with FAS No. 104, cash flows from fair value hedges of debt and short-term forward exchange contracts are classified as a financing activity. Cash flows of currency swaps, interest rate swaps, and commodity futures contracts are classified as operating activities. See Note 8 for additional information related to derivative instruments.

Inventory Valuation The Company values most U.S. inventories at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued at the lower of standard costs (which approximate average costs) or market.

Goodwill Goodwill represents the excess of cost over fair value of assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant, and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years and buildings and building equipment over periods ranging from 10 to 50 years. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with manufacturing, shipping, and delivery costs in the Consolidated Statements of Operations.

Income Taxes on Undistributed Earnings In general, the Company plans to continue to reinvest the undistributed earnings of foreign subsidiaries and foreign corporate joint ventures accounted for by the equity method. Accordingly, taxes are provided only on that amount of undistributed earnings in excess of planned reinvestments.

Foreign Currency Translation The assets and liabilities of most subsidiaries and associates are translated at current exchange rates and any related translation adjustments are recorded directly in net Parent investment.

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

New Accounting Standards In May 2005, the Financial Accounting Standards Board issued FAS No. 154, "Accounting Changes and Error Corrections," which changes the requirements for accounting for and reporting a change in accounting principle. The statement requires changes in accounting principle to be applied retrospectively to prior periods' financial statements. The statement also redefines

"restatement" as being the correction of an error. FAS No. 154 is effective for the Company beginning after January 1, 2006. The Company will apply FAS No. 154 as required.

Participation in OI Inc. Stock Option Plans The Company participates in the equity compensation plans of OI Inc. under which employees of the Company may be granted options to purchase common shares of OI Inc. or may be granted restricted common shares of OI Inc.

For options granted prior to March 31, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to accelerated exercisability provisions related to the performance of OI Inc.'s common stock or change of control, 50% of the options become exercisable on the fifth anniversary of the date of the option grant, with the remaining 50% becoming exercisable on the sixth anniversary date of the option grant. In general, options expire following termination of employment or the day after the tenth anniversary date of the option grant.

For options granted after March 30, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject change of control, options become exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant.

All options have been granted at prices equal to the market price of OI Inc.'s common stock on the date granted. Accordingly, under the disclosure-only provisions of FAS 123, the Company recognized no compensation expense related to the stock option plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions described in the accounting policies note on stock options.

During 2005, OI Inc. awarded 238,136 performance vested units under its equity compensation plans. As soon as practicable after 2007, holders of each unit will receive a number of shares ranging from .5 shares to 1.5 shares, depending upon the attainment of established performance goals. Failure to meet minimum goals will result in forfeiture of the shares. Granted but unvested shares are forfeited upon termination of employment.

During 2005, 2004 and 2003 OI Inc. awarded shares of restricted stock to certain key employees under its equity compensation plans Shares granted to employees prior to March 31, 2005, generally vest upon retirement. Shares granted to employees after March 30, 2005, vest 25% per year beginning on the first anniversary. Granted but unvested shares are forfeited upon termination of employment, unless certain retirement criteria are met.

A substantial number of the options, restricted shares and restricted share units have been granted to key employees of another subsidiary of OI Inc., some of whose compensation costs are included in an allocation of costs to all operating subsidiaries of OI Inc., including the Company. It is not practicable to determine an amount of additional compensation allocable to the Company for the restricted shares or for the options, had OI Inc. elected to recognize compensation cost based on the fair value of the options granted at grant date as allowed by FAS No. 123.

2. Changes in Components of Working Capital Related to Operations Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	2005	2004	2003
Decrease (increase) in current assets:			
Receivables	$ (18.2)	$ 75.7	$ 42.9
Inventories	58.1	83.8	(29.1)
Prepaid expenses	(4.7)	32.4	2.7
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	32.4	36.1	(64.2)
Salaries and wages	(2.8)	(0.9)	(6.2)

U.S. and foreign income taxes	66.8	(45.5)	12.7
	$ 131.6	$ 181.6	$ (41.2)

3. Inventories Major classes of inventory are as follows:

	2005	2004
Finished goods	$ 748.5	$ 890.6
Work in process	3.5	6.4
Raw materials	74.9	77.5
Operating supplies	62.3	77.2
	$ 889.2	$ 1,051.7

If the inventories which are valued on the LIFO method had been valued at standard costs, which approximate current costs, consolidated inventories would be higher than reported by $20.9 million and $15.1 million, at December 31, 2005 and 2004, respectively.

Inventories which are valued at the lower of standard costs (which approximate average costs), or market at December 31, 2005 and 2004 were approximately $775.6 million and $917.4 million, respectively.

4. Equity Investments. Summarized information pertaining to the Company's equity associates follows:

	2005	2004
At end of year:		
Equity in undistributed earnings:		
Foreign	$ 19.5	$ 12.9
Domestic	17.6	17.6
Total	$ 37.1	$ 30.5

	2005	2004	2003
For the year:			
Equity in earnings:			
Foreign	$ 6.8	$ 15.2	$ 15.1
Domestic	13.6	10.9	9.9
Total	$ 20.4	$ 26.1	$ 25.0
Dividends received	$ 11.0	$ 12.8	$ 31.1

5. External Long-Term Debt The following table summarizes the external long-term debt of the Company at December 31, 2005 and 2004:

	2005	2004
Secured Credit Agreement:		
Revolving Credit Facility:		
Revolving Loans	$ —	$ 30.1
Term Loans		
A1 Term Loan	223.9	315.0
B1 Term Loan	220.8	226.8
C1 Term Loan	185.6	190.6
C2 Term Loan (€46.3 million at December 31, 2005)	54.9	64.7
Accounts receivable securitization:		
European program	231.8	
Asia Pacific program	80.6	
Senior Secured Notes:		
8.875%, due 2009	1,000.0	1,000.0
7.75%, due 2011	450.0	450.0
8.75%, due 2012	625.0	625.0
Senior Notes:		
8.25%, due 2013	436.6	444.1
6.75%, due 2014	400.0	400.0
6.75%, due 2014 (€225 million at December 31, 2005)	267.0	306.4
Senior Subordinated Notes:		
10.25%, due 2009		17.4
9.25%, due 2009 (€0.4 million at December 31, 2005)	0.5	0.6
Other	33.9	102.1
	4,210.6	4,172.8
Less amounts due within one year	252.0	61.8
External long-term debt	$ 3,958.6	$ 4,111.0

On October 7, 2004, in connection with the sale of the Company's blow-molded plastic container operations, the Company's subsidiary borrowers entered into the Third Amended and Restated Secured Credit Agreement (the "Agreement"). The proceeds from the sale were used to repay C and D term loans and a

portion of the B1 term loan outstanding under the previous credit agreement. On January 19, 2005, the Company completed the required divestiture of two European glass container factories and received proceeds of approximately $180 million. The proceeds were largely used to repay debt during the first quarter.

At December 31, 2005, the Agreement included a $600.0 million revolving credit facility and a $223.9 million A1 term loan, each of which has a final maturity date of April 1, 2007. It also included a $220.8 million B1 term loan, a $185.6 million C1 term loan, and a €46.3 million C2 term loan, each of which has a final maturity date of April 1, 2008. The Agreement also permits the Company, at its option, to refinance certain of its outstanding notes and debentures prior to their scheduled maturity. At December 31, 2005, the Company's subsidiary borrowers had unused credit of $511.0 million available under the Agreement.

The interest rate on borrowings under the Revolving Credit Facility is, at the Company's option, the Base Rate or a reserve adjusted Eurodollar rate. The interest rate on borrowings under the Revolving Credit Facility also includes a margin linked to the Company's Consolidated Leverage Ratio, as defined in the Agreement. The margin is limited to ranges of 2.25% to 2.75% for Eurodollar loans and 1.25% to 1.75% for Base Rate loans. The interest rate on Overdraft Account loans is the Base Rate. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2005 was 5.96%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian subsidiary, as discussed in Note 9, the weighted average interest rate at December 31, 2005 was 6.76%. While no compensating balances are required by the Agreement, the Borrowers must pay a facility fee on the Revolving Credit Facility commitments of .50%.

Borrowings under the Agreement are secured by substantially all the assets of the Company, its domestic subsidiaries and certain foreign subsidiaries, which have a book value of approximately $3.4 billion. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and certain stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by the Company and substantially all of its domestic subsidiaries and certain foreign subsidiaries for the term of the Agreement.

The Agreement contains covenants and provisions that, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, prepay other indebtedness or amend certain debt instruments, pay dividends, create liens on assets, enter into contingent obligations, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted, or engage in certain transactions with affiliates and otherwise restrict certain corporate activities. In addition, the Agreement contains financial covenants that require the Company to maintain specified financial ratios and meet specified tests based upon financial statements of the Company and its subsidiaries on a consolidated basis, including minimum fixed charge coverage ratios, maximum leverage ratios and specified capital expenditure tests.

During December 2004, a subsidiary of the Company issued Senior Notes totaling $400.0 million and Senior Notes totaling €225.0 million. The notes bear interest at 6.75%, and are due December 1, 2014. Both series of notes are guaranteed by OI Group and substantially all of its domestic subsidiaries. The indentures for both series of notes have substantially the same restrictions as the previously issued 7.75%, 8.875% and 8.75% Senior Secured Notes and 8.25% Senior Notes. The issuing subsidiary used the net proceeds from the notes of approximately $680.0 million in addition to borrowings under the Agreement to purchase in a tender offer $237.6 million of the $350.0 million of OI Inc.'s 7.15% Senior Notes due 2005, €159.6 million of the €160.0 million 9.25% BSN notes due 2009 and €127.3 million of the €140.0 million 10.25% BSN notes due 2009. As part of the issuance of these notes and the related tender offer, the Company recorded in the fourth quarter of 2004 additional interest charges of $22.8 million for note repurchase premiums and the related write-off of unamortized finance fees.

During the fourth quarter of 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The accounts receivable securitization program provides lower costs of financing than traditional bank debt. The terms of this expansion resulted in a changing from off-balance sheet to on-balance sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

The interest rate on the accounts receivable securitization program is a variable rate and also includes a margin of 1.35% for the European program and 0.85% for the Asia Pacific program. The weighted

average interest rates on borrowings on the European program were 5.0% for the UK and Italy, and 3.9% for France at December 31, 2005. The weighted average interest rates on borrowings on the Asia pacific program were 6.5% for the Australian program, and 8.5% for New Zealand program at December 31, 2005. These programs have maturity dates ranging from October of 2006 through September of 2008.

Annual maturities for all of the Company's long-term debt through 2010 are as follows: 2006, $252.0 million; 2007, $231.4 million; 2008, $543.7 million; and 2009, $1004.8 million. There are no amounts due in 2010.

Interest paid in cash, including note repurchase premiums, aggregated $365.2 million for 2005, $434.7 million for 2004, and $324.8 million for 2003.

Fair values at December 31, 2005, of the Company's significant fixed rate debt obligations were as follows:

	Principal Amount (millions of dollars)	Indicated Market Price	Fair Value (millions of dollars)	Hedge Value (millions of dollars)
Senior Secured Notes:				
8.875%, due 2009	$ 1,000.0	104.25	$ 1,042.5	
7.75%, due 2011	450.0	104.00	468.0	
8.75%, due 2012	625.0	107.50	671.9	
Senior Notes:				

8.25%, due 2013	450.0	102.75	462.4	$	436.6
6.75%, due 2014	400.0	96.00	384.0		
6.75%, due 2014 (€225 million)	267.0	201.00	272.3		
Senior Subordinated Notes:					
9.25%, due 2009 (€0.4 million)	0.5	100.00	0.5		

6. Operating Leases Rent expense attributable to all warehouse, office buildings, and equipment operating leases was $66.5 million in 2005, $66.3 million in 2004, and $68.8 million in 2003. Minimum future rentals under operating leases are as follows: 2006, $57.5 million; 2007, $47.9 million; 2008, $32.3 million; 2009, $23.4 million; and 2010, $17.2 million; and 2011 and thereafter, $22.9 million.

7. Foreign Currency Translation Aggregate foreign currency exchange gains (losses) included in other costs and expenses were $2.8 million in 2005, $(1.4) million in 2004, and $2.2 million in 2003.

8. Derivative Instruments At December 31, 2005, the Company has the following derivative instruments related to its various hedging programs:

Hedges of Debt

At the end of 2005, the Company's subsidiary in Australia had an agreement that swaps a total of U.S. $175.0 million of borrowings into 251.8 million Australian dollars. This derivative instrument swaps the principal from U.S. dollars to Australian dollars and also swaps the interest rate from a U.S.-based rate to an Australian-based rate. This agreement has a maturity date of March 2006.

The Company's subsidiaries in Australia, Canada and several European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap the principal amount of borrowings and in some cases they swap the related interest.

The Company recognizes the above derivatives on the balance sheet at fair value. Accordingly, the changes in the value of the swaps are recognized in current earnings and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings. For the year ended December 31, 2005, the amount not offset was immaterial.

Foreign Currency Exchange Contracts Designated as Cash Flow Hedges

In connection with debt refinancing in late December 2004, the Company's subsidiary in France borrowed approximately €91 million from Owens-Brockway Glass Container ("OBGC"), a U.S. subsidiary of the Company, at a fixed interest rate through 2009. In order to hedge the changes in the cash flows of the foreign currency interest and principal repayments, OBGC entered into a swap that converts the Euro coupon interest payments into a predetermined U.S. dollar coupon interest payment and also converts the final principal payment in December 2009 from €91.0 million to approximately $120.7 million U.S. dollars.

The Company accounts for the above cross-currency swap on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in accumulated other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. 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 above cross-currency swap is accounted for as a cash flow hedge at December 31, 2005. At December 31, 2005, an unrecognized gain of $10.5 million was included in OCI related to this cross-currency swap. The ineffectiveness related to this hedge for year ended December 31, 2005 was not material.

The Company has also entered into a foreign currency exchange contract in Europe to swap €37.5 million into $47.3 million U.S. dollars related to anticipated fuel oil purchases for 2006. A portion of European fuel oil purchases fluctuates based on U.S. dollars. The swap mitigates foreign currency exchange rate risk relating to approximately 93% of the anticipated 2006 fuel oil purchases in western Europe. Changes in the fair value of this contract are recognized in current earnings.

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 $1.05 billion that mature from 2007 through 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-variable interest rate swaps are accounted for as fair value hedges. Because the relevant terms of the swap agreements match the corresponding terms of the notes, there is no hedge ineffectiveness. Accordingly, the Company recorded the net of the fair market values of the swaps as a long-term liability along with a corresponding net decrease in the carrying value of the hedged debt.

Under the swaps, the Company receives fixed rate interest amounts (equal to interest on the corresponding hedged note) and pays interest at a six-month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense during each six-month period over the term of the agreement.

The following selected information relates to fair value swaps at December 31, 2005 (based on a projected U.S. LIBOR rate of 4.8618%):

	Average	Asset

	Amount Hedged	Receive Rate	Average Spread	(Liability) Recorded
OI Inc. public notes swapped by the company through intercompany loans:				
Senior Notes due 2007	$ 300.0	8.10%	4.5%	$ (5.2)
Senior Notes due 2008	250.0	7.35%	3.5%	(6.0)
Senior Debentures due 2010	250.0	7.50%	3.2%	(6.1)
Notes issued by OBGC:				
Senior Notes due 2013	250.0	8.25%	3.7%	(13.4)
Total	$ 1,050.0			$ (30.7)

Commodity Hedges

The Company enters into commodity futures contracts related to forecasted natural gas and fuel oil requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and fuel oil and the related volatility in cash flows. The Company continually evaluates the natural gas and fuel oil market with respect to its forecasted usage requirements over the next twelve to eighteen months and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements over that period. At December 31, 2005, the Company had entered into commodity futures contracts for approximately 62% (approximately 14,780,000 MM BTUs) of its expected North American natural gas usage for full year of 2006 and approximately 15% (approximately 3,600,000 MM BTUs) for the full year of 2007. At December 31, 2005, the Company had also entered into commodity futures contracts for substantially all of its expected western European fuel oil usage (approximately 43,500 metric tons) for the first quarter of 2006.

The Company accounts for the above futures contracts on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods

during which the underlying hedged item affects earnings. 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.

With the exception of the European fuel oil contracts, the above futures contracts are accounted for as cash flow hedges at December 31, 2005.

At December 31, 2005, an unrecognized gain of $26.2 million ($17.0 million after tax), related to the domestic commodity futures contracts, was included in OCI. The ineffectiveness related to these natural gas hedges for 2005 was not material. Changes in the fair value of the western European commodity futures contracts are recognized in current earnings.

Other Hedges

The Company's subsidiaries may enter into short-term forward exchange agreements to purchase foreign currencies at set rates in the future. These foreign currency forward exchange agreements are used to limit exposure to fluctuations in foreign currency exchange rates for all 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 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.

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) other accrued 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.

9. Accumulated Other Comprehensive Income (Loss) The components of comprehensive income (loss) are: (a) net earnings (loss); (b) change in fair value of certain derivative instruments; (c) adjustment of minimum pension liabilities; and, (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

The following table lists the beginning balance, yearly activity and ending balance of each component of accumulated other comprehensive income (loss):

	Net Effect of Exchange Rate Fluctuations	Deferred Tax Effect for Translation	Change in Minimum Pension Liability, Net of Tax	Change in Certain Derivative Instruments, Net of Tax	Total Accumulated Comprehensive Income (Loss)
Balance on January 1, 2003	$ (477.7)	$ 26.0	$ (91.5)	$ 2.2	$ (541.0)
2003 Change	367.7	(4.5)	(19.3)	(1.2)	342.7
Balance on December 31, 2003	(110.0)	21.5	(110.8)	1.0	(198.3)
2004 Change	303.5	(8.7)	(27.5)	(1.1)	266.2
Balance on December 31, 2004	193.5	12.8	(138.3)	(0.1)	67.9
2005 Change	(290.5)		(7.2)	14.5	(283.2)
Balance on December 31, 2005	$ (97.0)	$ 12.8	$ (145.5)	$ 14.4	$ (215.3)

The change in minimum pension liability for 2005, 2004, and 2003 was net of tax of $0.1 million, $8.1 million and $1.4 million, respectively. The change in minimum pension liability for 2005 included $(14.8) million ($19.5 million pretax) of translation effect on the minimum pension liability recorded in prior years. The change in minimum pension liability for 2004 included $9.0 million ($12.6 million pretax) of translation effect on the minimum pension liability recorded in prior years. The change in minimum pension liability for 2003 included $10.1 million ($14.7 million pretax) of translation effect on the minimum pension liability recorded in 2002.

The change in certain derivative instruments for 2005, 2004 and 2003 was net of tax of $9.2 million, $0.5 million, and $0.7 million, respectively.

10. Income Taxes Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (2) carryovers and credits for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Deferred tax assets:		
Tax loss carryovers	$ 259.2	$ 251.0
Capital loss carryovers	30.3	30.7
Accrued postretirement benefits	19.8	18.1
Other, principally accrued liabilities	212.7	203.3
Total deferred tax assets	522.0	503.1
Deferred tax liabilities:		
Property, plant and equipment	204.2	224.8
Inventory	27.6	32.4
Other	75.6	53.1
Total deferred tax liabilities	307.4	310.3
Valuation allowance	(349.7)	(320.8)
Net deferred tax liabilities	$ (135.1)	$ (128.0)

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

	2005	2004
Prepaid expenses	$ 3.7	$ 36.2
Deposits, receivables, and other assets	94.1	45.4
Deferred taxes	(232.9)	(209.6)
Net deferred tax liabilities	$ (135.1)	$ (128.0)

The provision for income taxes consists of the following:

	2005	2004	2003
Current:			
U.S. Federal	$ —	$ —	$ —
State	0.3	0.2	0.3
Foreign	133.4	97.5	50.9
	133.7	97.7	51.2
Deferred:			
U.S. Federal	1.7	18.5	0.2
State	8.0	13.1	(1.8)
Foreign	(12.8)	(20.2)	(1.4)
	(3.1)	11.4	(3.0)
Total:			
U.S. Federal	1.7	18.5	0.2
State	8.3	13.3	(1.5)
Foreign	120.6	77.3	49.5
	$ 130.6	$ 109.1	$ 48.2

The provision for income taxes was calculated based on the following components of earnings (loss) before income taxes:

	2005	2004	2003
Domestic	$ (20.7)	$ 25.3	$ (88.2)
Foreign	(35.2)	404.4	182.3
	$ (55.9)	$ 429.7	$ 94.1

Income taxes paid in cash were as follows:

	2005	2004	2003
Domestic	$ —	$ 0.2	$ 0.4
Foreign	112.9	95.8	45.1
	$ 112.9	$ 96.0	$ 45.5

A reconciliation of the provision for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	2005	2004	2003
Pretax earnings at statutory U.S. Federal tax rate	$ (19.6)	$ 150.4	$ 33.0
Increase (decrease) in provision for income taxes due to:			
Valuation allowance	7.0		
Goodwill impairment	172.9		
Write-down of equity investment			25.0
State taxes, net of federal benefit	2.5	13.6	(1.0)
Rate differences on international earnings	(22.5)	(24.6)	(12.4)
Australian tax consolidation	(2.8)	(33.1)	
Loss on Ardagh note sale			11.2
Adjustment for non-U.S. tax law changes	(7.1)		(9.1)
Other items	0.2	2.8	1.5
Provision for income taxes	$ 130.6	$ 109.1	$ 48.2

The Company is included in OI Inc.'s consolidated tax returns. OI Inc. has net operating losses, capital losses, alternative minimum tax credits, and research and development credits available to offset future U.S. Federal income tax.

At December 31, 2005, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated $1,383.4 million. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed.

11. Related Party Transactions Charges for administrative services are allocated to the Company by OI Inc. based on an annual utilization level. Such services include compensation and benefits administration, payroll processing, use of certain general accounting systems, auditing, income tax planning and compliance, and treasury services. Management believes that such transactions are on terms no less favorable to the Company than those that could be obtained from unaffiliated third parties. The following information summarizes the Company's significant related party transactions:

	Years ended December 31,		
	2005	2004	2003
Revenues:			
Sales to affiliated companies	$ 0.7	$ 4.7	$ 0.8
Expenses:			
Administrative services	19.9	15.6	17.7
Corporate management fee	23.4	18.0	16.6
Total expenses	$ 43.3	$ 33.6	$ 34.3

The above expenses are recorded in the statement of operations as follows:

	Years ended December 31,		
	2005	2004	2003
Cost of sales	$ 17.7	$ 13.7	$ 15.7
Selling, general, and adminstrative expenses	25.6	19.9	18.6
Total expenses	$ 43.3	$ 33.6	$ 34.3

Intercompany interest is charged to the Company from OI Inc. based on intercompany debt balances. An interest rate is calculated monthly based on OI Inc's total consolidated monthly external debt balance and the related interest expense, including finance fee amortization and commitment fees. The calculated rate (8.5% at December 31, 2005) is applied monthly to the intercompany debt balance to determine intercompany interest expense.

12. Pension Benefit Plans The Company participates in OI Inc.'s defined benefit pension plans for substantially all employees located in the United States. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. OI Inc.'s policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. Independent actuaries determine pension costs for each subsidiary of OI Inc. included in the plans; however, accumulated benefit obligation information and plan assets pertaining to each subsidiary have not been separately determined. As such, the accumulated benefit obligation and the plan assets related to the pension plans for domestic employees have been retained by another subsidiary of OI Inc. Net credits to results of operations for the Company's allocated portion of the domestic pension costs amounted to $21.5 million in 2005, $20.8 million in 2004, and $40.1 million in 2003.

OI Inc. also sponsors several defined contribution plans for all salaried and hourly U.S. employees of the Company. Participation is voluntary and participants' contributions are based on their compensation. OI Inc. matches contributions of participants, up to various limits, in substantially all plans. OI Inc. charges the Company for its share of the match. The Company's share of the contributions to these plans amounted to $5.2 million in 2005, $4.9 million in 2004, and $4.3 million in 2003.

The Company's subsidiaries in the United Kingdom, the Netherlands, Canada, Australia, Germany and France also have pension plans covering substantially all employees. The following tables relate to the Company's principal defined benefit pension plans in the United Kingdom, the Netherlands, Canada, Australia, Germany and France (the International Pension Plans).

The International Pension Plans use a December 31 measurement date.

The changes in the International Pension Plans benefit obligations for the year were as follows:

	2005	2004
Obligations at beginning of year	$ 1,417.3	$ 791.5
Change in benefit obligations:		
Service cost	23.0	20.3
Interest cost	68.4	57.0
Actuarial loss, including the effect of changing in discount rates	118.7	57.2
Acquisitions		448.8
Participant contributions	9.4	7.7
Benefit payments	(65.4)	(71.8)
Plan amendments		(12.7)
Foreign currency translation	(123.7)	119.3
Net increase in benefit obligations	30.4	625.8
Obligations at end of year	$ 1,447.7	$ 1,417.3

The changes in the fair value of the International Pension Plans' assets for the year were as follows:

	2005	2004
Fair value at beginning of year	$ 1,008.5	$ 577.3
Change in fair value:		
Actual gain on plan assets	162.1	72.8
Acquisitions		285.1
Benefit payments	(65.4)	(71.8)
Employer contributions	39.4	55.0
Participant contributions	9.4	7.7
Foreign currency translation	(85.4)	82.4
Net increase in fair value of assets	60.1	431.2
Fair value at end of year	$ 1,068.6	$ 1,008.5

The funded status of the International Pension Plans at year end was as follows:

	2005	2004
Plan assets at fair value	$ 1,068.6	$ 1,008.5
Projected benefit obligations	1,447.7	1,417.3
Plan assets less than projected benefit obligations	(379.1)	(408.8)
Net unrecognized items:		
Actuarial loss	282.5	289.4
Prior service cost	14.0	5.5
	296.5	294.9
Net amount recognized	$ (82.6)	$ (113.9)

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

	2005	2004
Prepaid pension	$ 17.1	$ 18.5
Accrued pension, included with other liabilities	(163.2)	(205.5)
Minimum pension liability, included with other liabilities	(143.7)	(134.7)
Intangible asset, included with deposits and other assets	9.4	12.2
Accumulated other comprehensive income	197.8	195.6
Net amount recognized	$ (82.6)	$ (113.9)

The accumulated benefit obligation for all defined benefit pension plans was $1,288.1 million and $1,286.3 million at December 31, 2005 and 2004, respectively.

The components of the International Pension Plans' net pension expense were as follows:

	2005	2004	2003
Service cost	$ 23.0	$ 20.3	$ 14.6

Interest cost	68.4	57.0	39.2
Expected asset return	(75.0)	(62.5)	(46.7)
Amortization:			
Prior service cost	0.7	1.6	1.4
Loss	9.7	7.9	0.3
Net amortization	10.4	9.5	1.7
Net expense	$ 26.8	$ 24.3	$ 8.8

The following information is for plans with projected benefit obligations in excess of the fair value of plan assets at year end:

	2005	2004
Projected benefit obligations	$ 1,353.2	$ 1,317.3
Fair value of plan assets	961.2	906.8

The following information is for plans with accumulated benefit obligations in excess of the fair value of plan assets at year end:

	2005	2004
Accumulated benefit obligations	$ 876.3	$ 1,197.9
Fair value of plan assets	621.5	906.8

The weighted average assumptions used to determine benefit obligations were as follows:

	2005	2004
Discount rate	4.57%	5.15%
Rate of compensation increase	3.78%	3.41%

The weighted average assumptions used to determine net periodic pension costs were as follows:

	2005	2004	2003
Discount rate	5.15%	5.68%	5.76%
Rate of compensation increase	3.41%	3.86%	3.79%
Expected long-term rate of return on assets	7.15%	7.35%	7.56%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above. Amortization included in net pension expense is based on the average remaining service of employees.

As of December 31, 2005, the Company recorded an additional minimum pension liability for the pension plan in the United Kingdom in addition to the minimum liabilities recorded in 2002, 2003 and 2004. Pursuant to this requirement, the Company decreased the minimum pension liability by $4.6 million, reduced the intangible asset by $1.4 million, and decreased accumulated other comprehensive loss by $3.2 million.

As of December 31, 2005, the Company adjusted the minimum pension liability for the pension plan in Canada from the minimum liabilities recorded in 2002, 2003 and 2004. Pursuant to this requirement, the Company increased the minimum pension liability by $13.2 million, reduced the intangible asset by $0.1 million, and increased accumulated other comprehensive loss by $13.3 million.

As of December 31, 2005, the Company recorded an additional minimum pension liability for the pension plan in Germany. Pursuant to this requirement, the Company recorded a minimum pension liability of $11.9 million and increased accumulated other comprehensive loss by $11.9 million.

For 2005, the Company’s weighted average expected long-term rate of return on assets was 7.15%. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2004), which was in line with the expected long-term rate of return assumption for 2005.

The weighted average actual asset allocations and weighted average target allocation ranges by asset category for the Company’s pension plan assets were as follows:

	Actual Allocation		Target Allocation Ranges
Asset Category	**2005**	**2004**	
Equity securites	64%	61%	56 - 66 %
Debt securities	29%	29%	26 - 36 %
Real estate	7%	7%	2 - 12 %
Other		3%	0 - 2 %
Total	100%	100%	

It is the Company’s policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within the above target asset allocation ranges. The investment risk of the assets is limited

by appropriate diversification both within and between asset classes. The assets are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

The Company expects to contribute $47.1 million to its defined benefit pension plans in 2006.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2006	$ 64.1
2007	63.1
2008	64.3
2009	66.5
2010	67.4
2011 - 2015	374.8

13. Postretirement Benefits Other Than Pensions OI Inc. provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees and substantially all employees in Canada and the Netherlands. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Independent actuaries determine postretirement benefit costs for each subsidiary of OI Inc.; however, accumulated postretirement benefit obligation information pertaining to each subsidiary has not been separately determined. As such, the accumulated postretirement benefit obligation has been retained by another subsidiary of OI Inc.

The Company's net periodic postretirement benefit cost, as allocated by OI Inc., for domestic employees was $14.5 million, $25.9 million, and $26.7 million at December 31, 2005, 2004, and 2003, respectively.

The Company's subsidiaries in Canada and the Netherlands also have postretirement benefit plans covering substantially all employees. The following tables relate to the Company's postretirement benefit plan in Canada and the Netherlands (the International Postretirement Benefit Plans).

The changes in the International Postretirement Benefit Plans obligations were as follows:

	2005	2004
Obligations at beginning of year	$ 87.4	$ 55.3
Change in benefit obligations:		
Service cost	1.9	1.5
Interest cost	4.6	3.9
Actuarial loss, including the effect of changing discount rates	9.3	1.8
Acquisitions		20.9
Benefit payments	(2.5)	(2.0)
Foreign currency translation	(0.7)	6.0
Net change in benefit obligations	12.6	32.1
Obligations at end of year	$ 100.0	$ 87.4

The funded status of the International Postretirement Benefit Plans at year end was as follows:

	2005	2004
Projected postretirement benefit obligations	$ 100.0	$ 87.4
Net unrecognized items:		
Actuarial loss	(15.9)	(5.7)
Nonpension accumulated postretirement benefit obligations	$ 84.1	$ 81.7

The Company's nonpension postretirement benefit obligations are included with other long term liabilities on the balance sheet.

The components of International Postretirement Benefit Plans net postretirement benefit cost were as follows:

	2005	2004
Service cost	$ 1.9	$ 1.5
Interest cost	4.6	3.9
Amortization:		
Loss	(0.2)	0.1
Net postretirement benefit cost	$ 6.3	$ 5.5

The weighted average discount rate used to determine the accumulated postretirement benefit obligation was 4.8% and 5.4% at December 31, 2005 and 2004, respectively.

The weighted average discount rate used to determine net postretirement benefit cost was 5.4% at December 31, 2005, 6.0% at December 31, 2004, and 6.5% at December 31, 2003.

The weighted average assumed health care cost trend rates at December 31 were as follows:

	2005	2004
Health care cost trend rate assumed for next year	6.74%	6.84%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.81%	4.67%
Year that the rate reaches the ultimate trend rate	2009	2009

Assumed health care cost trend rates affect on the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 1.2	$ (1.0)
Effect on accumulated postretirement benefit obligations	12.1	(10.1)

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	Amount
2006	$ 3.2
2007	3.4
2008	3.6
2009	3.9
2010	4.2
2011 - 2015	24.6

Benefits provided by OI Inc. for certain hourly retirees of the Company are determined by collective bargaining. Most other domestic hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were $5.7 million in 2005, $5.7 million in 2004, and $6.0 million in 2003. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

14. Other Revenue Other revenue in 2005 includes $28.1 million (pre-tax and after tax) for the sale of the Company's Corsico, Italy glass container facility.

Other revenue in 2004 includes a gain of $20.6 million ($14.5 million after tax) for the sale of certain real property and a gain of $31.0 million ($13.1 million after tax) for a restructuring in the Italian Specialty Glass business.

15. Other Costs and Expenses Other costs and expenses for the year ended December 31, 2005 included the following:

- During the fourth quarter of 2005 the Company recorded a charge of $494.0 million to write down a portion of the goodwill in its Asia Pacific Glass business unit. See Note 21 for more information.

- Manufacturing costs for the second quarter of 2005 included a favorable adjustment for depreciation and amortization in connection with finalizing the fair values of the BSN Glasspack assets acquired in June 2004. The difference between the estimated amounts recorded in 2004 and the final amounts related to 2004 accounted for a benefit of approximately $6.5 million.

Other costs and expenses for the year ended December 31, 2003 included pretax charges of $202.9 million ($172.2 after tax) related to the following:

- On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable. The notes were received from Ardagh in 1999 by the Company's wholly-owned subsidiary, United Glass Limited, in connection with its sale of Rockware, a United Kingdom glass container manufacturer obtained in the 1998 acquisition of the worldwide glass and plastics packaging businesses of BTR plc. The notes were due in 2006 and interest had previously been paid in kind through periodic increases in outstanding principal balances. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Agreement. The notes were sold at a discount of approximately 22.6 million British pounds sterling which resulted in a loss of US$37.4 million (US$37.4 million after tax).

- In August of 2003, the Company initiated a review of its Plastics Packaging assets in the Asia Pacific region. The review was completed during the fourth quarter of 2003. The Company used a combination of estimated divestment cash flows, which included bid prices from potential purchasers, and partial liquidation values for certain assets to determine the net realizable values of the assets. The Company compared the estimated net realizable values to the book values of the asset and determined that an asset impairment existed. As a result, the Company recorded a charge of $43.0 million ($30.1 million after tax) to write-down the assets to realizable values. Certain of the plastics businesses in the Asia Pacific region operate in highly competitive markets leading to reduced profit margins. In addition, the Company's PET container business has lost a significant amount of business in the past few years. The reduced business and overall excess capacity in the industry has caused a reduction in the overall value of the business.

- During the fourth quarter of 2003, the Company determined that the value of its 25% investment in a North American soda ash mining operation was impaired and not likely to recover. Increasing global competition and recent development of foreign sources of soda ash have created significant excess capacity in that industry. The resulting competitive environment caused management of the soda ash mining operation to significantly lower its projections of earnings and cash flows. Following an evaluation of future estimated earnings and cash flows, the Company determined that its carrying value should be written down to estimated fair value and recorded a $50 million charge in the fourth quarter which substantially reduced the carrying value of this equity method investment.

- In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June 2003 following a major leak in its only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5

million

($17.8 million after tax) in the third quarter of 2003. The closing of this factory resulted in the elimination of approximately 170 jobs and a corresponding reduction in the Company's workforce. Substantially all of the closing costs were paid out by the end of 2005.

- In November 2003, the Company announced the permanent closing of its Milton, Ontario glass container factory. This closing was part of an effort to bring capacity and inventory levels in line with anticipated demand. As a result, the Company recorded a capacity curtailment charge of $20.1 million ($19.5 million after tax) in the fourth quarter of 2003. The closing of this factory in November 2003 resulted in the elimination of approximately 150 jobs and a corresponding reduction in the Company's workforce. Substantially all of the closing costs were paid out by the end of 2005.

- In December 2003, the Company announced the permanent closing of its Perth, Australia glass container factory. This closing was part of an effort to reduce overall capacity in Australia and bring inventory levels in line with anticipated demand. The Perth plant's western location and small size contributed to the plant being a higher cost facility that was no longer economically feasible to operate. As a result, the Company recorded a capacity curtailment charge of $23.9 million ($17.4 million after tax) in other costs and expenses in the results of operations for 2003.

  The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The closing costs were paid out by the end of 2005.

  Selected information related to glass container factory closings is as follows:

	Hayward	Milton	Total
Plant closing charges	$ 28.5	$ 20.1	$ 48.6
Write-down of assets to net realizable value	(12.2)	(6.4)	(18.6)
Net cash paid	(4.1)	(1.7)	(5.8)
Remaining accruals related to plant closing charges as of December 31, 2003	12.2	12.0	24.2
Net cash paid	(2.7)	(4.4)	(7.1)
Other, principally translation	2.5	(2.8)	(0.3)
Remaining accruals related to plant closing charges as of December 31, 2004	12.0	4.8	16.8
Net cash paid	2.8	(0.9)	1.9
Other	(4.1)	(0.5)	(4.6)
Remaining accruals related to plant closing charges as of December 31, 2005	$ 10.7	$ 3.4	$ 14.1

16. Contingencies Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. In accordance with FAS No. 5, "Accounting for Contingencies," 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 in respect to this 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 or financial condition.

17. Geographic Information The Company operates in the rigid packaging industry. The Company has one primary reportable product segment within the rigid packaging industry: Glass Containers. The Glass Containers segment includes operations in North America, Europe, the Asia Pacific region, and South America.

The Company currently evaluates performance and allocates resources based on earnings before interest income, interest expense, provision for income taxes, and minority share owners' interests in earnings of subsidiaries ("Operating Profit") excluding amounts related to certain items that management considers not representative of ongoing operations and, ("Segment Operating Profit"). Net sales as shown in the geographic segment information are based on the location of the Company's affiliate which recorded the sales.

Financial information regarding the Company's geographic segments is as follows:

	North America	Europe	Asia Pacific	South America	Total Geographic Segments
Net sales:					
2005	$ 1,986.6	$ 2,840.0	$ 844.7	$ 685.1	$ 6,356.4
2004	1,926.1	2,164.1	870.9	561.2	5,522.3
2003	1,876.7	1,245.3	798.8	488.2	4,409.0
Segment Operating Profit:					
2005	$ 227.7	$ 279.7	$ 136.3	$ 156.9	$ 800.6
2004	253.5	244.1	142.1	124.0	763.7
2003	276.4	170.2	118.9	96.2	661.7
Items excluded from Segment Operating Profit:					
2005:					

Gain on the sale of the Corsico, Italy glass container facility		$ 28.1		$ 28.1
Mark to market effect of certain commodity futures contracts	$ 3.8			3.8
Goodwill impairment			$ (494.0)	(494.0)
2004:				
Gain on sale of certain real property		20.6		20.6
Italian Specialty Glass gain		31.0		31.0
Mark to market effect of certain commodity futures contracts	4.9			4.9
2003:				
Capacity curtailment charge	(48.6)		$ (23.9)	(72.5)
Write-down of equity investment	(50.0)			(50.0)
Write-down of Plastics Packaging assets in the Asia Pacific region			(43.0)	(43.0)
Loss on the sale of notes receivable		(37.4)		(37.4)

One customer accounted for 11.5% of the Company's sales in 2003.

Operations in individual countries outside the United States that accounted for more than 10% of consolidated net sales were in Italy (2005 – 10.2%, 2004 – 11.9%, and 2003 – 13.2%), France (2005 – 15.4%) and Australia (2004 – 11.7%, and 2003 – 13.6%).

The Company's net property, plant, and equipment by location are as follows:

	United States	Foreign	Total
2005	$ 694.7	$ 2,121.6	$ 2,816.3
2004	648.4	2,502.8	3,151.2
2003	589.7	1,720.5	2,310.2

The Company's net sales by geographic segment are as follows:

	United States	Foreign	Total
2005	$ 1,621.1	$ 4,735.3	$ 6,356.4
2004	1,574.8	3,947.5	5,522.3
2003	1,546.4	2,862.6	4,409.0

Reconciliations to consolidated totals are as follows:

	2005	2004	2003
Revenues:			
Net sales	$ 6,356.4	$ 5,522.3	$ 4,409.0
Royalties and net technical assistance	16.4	20.9	17.9
Equity earnings	20.4	26.1	25.0
Interest	13.8	13.8	18.8
Other	53.2	70.8	24.8
Total	$ 6,460.2	$ 5,653.9	$ 4,495.5
Reconciliation of Segment Operating Profit to earnings before income taxes, minority share owners' interests in earnings of subsidiaries:			
Segment Operating Profit	$ 800.6	$ 763.7	$ 661.7
Items excluded from Segment Operating Profit	(462.1)	56.5	(202.9)
Interest expense	(408.2)	(404.3)	(383.5)
Interest income	13.8	13.8	18.8
Total	$ (55.9)	$ 429.7	$ 94.1

18. Additional Interest Charges from Early Extinguishment of Debt During 2005, the Company recorded additional interest charges of $1.4 million ($1.0 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's bank credit agreement. During 2004, the Company recorded additional interest charges of $22.8 million ($14.9 million after tax) for note repurchase premiums and $7.1 million ($4.7 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's bank credit agreement. During 2003, the Company recorded additional interest charges of $12.6 million ($7.9 million

after tax) for note repurchase premiums and related write-off of unamortized finance fees and $3.6 million ($2.5 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's previous bank credit agreement.

19. Acquisition of BSN Glasspack, S.A. On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. ("BSN") from Glasspack Participations (the "BSN Acquisition"). Total consideration for the BSN Acquisition was approximately $1.3 billion, including the assumption of approximately $650 million of debt, a portion of which was refinanced in connection with the BSN Acquisition. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and the Netherlands. The BSN Acquisition was financed with borrowings

under the Company's Second Amended and Restated Secured Credit Agreement. In order to secure the European Commission's approval, the Company committed to divest the Barcelona, Spain, and Corsico, Italy glass plants. The Company completed the sale of these plants in January 2005 and received cash proceeds of approximately €138.2 million.

The BSN Acquisition was part of the Company's overall strategy to improve its presence in the European market in order to better serve the needs of its customers throughout the European region and to take advantage of synergies including purchasing leverage and cost reductions. This integration strategy should lead to significant improvement in earnings from the European operations by the end of 2006.

During the second quarter of 2005, the Company concluded its evaluation of acquired capacity and announced the permanent closing of its Düsseldorf, Germany glass container factory, and the shutdown of a furnace at its Reims, France glass container facility, both in 2005. These actions were part of the previously announced European integration strategy to optimally align the manufacturing capacities with the market and improve operational efficiencies. As a result, the Company recorded an accrual of €47.1 million through an adjustment to goodwill.

These second quarter actions will result in the elimination of approximately 400 jobs and a corresponding reduction in the Company's workforce. The Company expects to reduce fixed cash costs by approximately €35 million per year by closing the Düsseldorf factory, shutting down the furnace at Reims and moving most of the production to other locations. The Company anticipates that it will pay out approximately €110.9 million in cash related to severance, benefits, plant clean-up, and other plant closing costs related to restructuring accruals. In addition, the Company expects to pay approximately €65 million for other European reorganization and integration activities, approximately 60% of which will be expensed. Approximately 50% of these payments were made by the end of 2005 and the Company expects that most of the balance will be paid in 2006.

The restructuring accrual recorded in the second quarter of 2005 was in addition to the initial estimated accrual of €63.8 recorded in 2004. Selected information related to the restructuring accrual is as follows, with activity translated from Euros into dollars at the December 31, 2005 exchange rate:

Total restructuring accrual (€110.9 million)	$	134.1
Net cash paid, principally severance and related benefits		(41.0)
Other, principally translation		(12.2)
Remaining European restructuring accrual as of December 31, 2005	$	80.9

The total purchase cost of approximately $1.3 billion was allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The following table summarizes the fair values of the assets acquired and liabilities assumed on June 21, 2004, translated from Euros into dollars at the exchange rate on that date:

		June 21, 2004
Inventories	$	294.3
Accounts receivable		197.7
Other current assets (excluding cash acquired)		31.8
Total current assets		523.8
Goodwill		716.6
Other long-term assets		85.4
Net property, plant and equipment		762.1
Assets acquired	$	2,087.9
Accounts payable and other current liabilities		(425.4)
Other long-term liabilities		(387.5)
Aggregate purchase costs	$	1,275.0

The assets above include $48.1 million of intangible assets related to customer relationships, which will be amortized over the next 13 years. The liabilities above include $133.6 million (€110.9 million) for the restructuring actions discussed above, the majority of which relates to employee termination costs and related fringe benefits.

20. Pro Forma Information - Acquisition of BSN Glasspack, S.A. Had the Acquisition described in Note 19 and the related financing described in Note 5 occurred at the beginning of each respective period, pro forma consolidated net sales and net earnings, and would have been as follows:

	Year ended December 31, 2004			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 5,522.3	$ 752.5		$ 6,274.8
Net earnings	$ 287.6	$ 17.6	$ (6.4)	$ 298.8

	Year ended December 31, 2003			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 4,409.0	$ 1,417.5		$ 5,826.5
Net earnings	$ 20.1	$ 28.9	$ (18.5)	$ 30.5

The 2004 earnings included the step-up effect of the finished goods inventory acquired in the Acquisition that reduced gross profit by approximately $31.1 million. The 2004 and 2003 earnings include estimated amortization related to the $48.1 million of intangible assets recorded for customer relationships. At average exchange rates for each respective year, the pro forma amortization of the intangible asset was $4.0 million (net of tax) for 2004 and $3.6 million (net of tax) for 2003.

21. Accounts Receivable Securitization Program As part of the acquisition of BSN, the Company acquired a trade accounts receivable securitization program through a BSN subsidiary, BSN Glasspack Services. The program was entered into by BSN in order to provide lower interest costs on a portion of its financing. In November 2000, BSN created a securitization program for its trade receivables through a sub-fund (the "fund") created in accordance with French Law.

According to the program, subject to eligibility criteria, certain, but not all, receivables held by the BSN Glasspack Services are sold to the fund on a weekly basis. The purchase price for the receivables is determined as a function of the book value and the term of each receivable and a Euribor three-month rate increased by a 1.51% margin. A portion of the purchase price for the receivables is deferred and paid by the fund to BSN Glasspack Services only when receivables are collected or at the end of the program. This deferred portion varies based on the status and updated collection history of BSN Glasspack Services' receivable portfolio.

The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. For the period from January 1, 2005 through December 13, 2005, the Company received $1.2 billion from the sale of receivables to the fund and paid interest of approximately $6.9 million.

Prior to December 2005, the transfer of the receivables to the fund was deemed to be a sale for U.S. GAAP purposes. Effective December 13, 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The terms of this expansion resulted in a changing from off-balance sheet to on-balance sheet accounting for the program. The net impact was an increase, at December 31, 2005, in reported accounts receivable and consolidated debt of $191.8 million.

BSN Glasspack Services continues to service, administer and collect the receivables on behalf of the fund. This service rendered to the fund is invoiced to the fund at a normal market rate.

22. Goodwill The changes in the carrying amount of goodwill for the years ended December 31, 2003, 2004 and 2005 are as follows:

Balance as of January 1, 2003	$	1,661.1
Translation effects		285.5
Other changes, principally adjustments to acquisition-related deferred tax assets		(27.0)
Balance as of December 31, 2003		1,919.6
Goodwill acquired during the year		696.0
Translation effects		165.6
Other changes		18.4
Balance as of December 31, 2004		2,799.6
Translation effects		(160.9)
Write-down of goodwill		(494.0)
Other changes, principally adjustments to finalize acquisition purchase price		15.0
Balance as of December 31, 2005	$	2,159.7

During the fourth quarter of 2005, the Company completed its annual impairment testing and determined that impairment existed in the goodwill of its Asia Pacific Glass business unit. Lower projected cash flows principally as a result of competitive pricing pressures in the Company's Australian glass operations caused the decline in the business enterprise value. Following a review of the valuation of the unit's identifiable assets, the Company recorded an impairment charge of $494.0 million to reduce the reported value of its goodwill.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owner of
OI Plastic Products FTS Inc.

We have audited the accompanying consolidated balance sheets of OI Plastic Products FTS Inc. as of December 31, 2005 and 2004, and the related consolidated statements of results of operations, net Parent investment, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OI Plastic Products FTS Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Toledo, Ohio
March 15, 2006

CONSOLIDATED RESULTS OF OPERATIONS OI Plastic Products FTS Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Revenues:			
Net sales	$ 723.1	$ 631.5	$ 632.0
Other revenue	1.9	0.2	2.0
	725.0	631.7	634.0
Costs and expenses:			
Manufacturing, shipping, and delivery	562.5	478.7	484.6
Research and development	14.4	11.3	14.4
Engineering	(0.4)	(0.5)	(0.5)
Selling and administrative	31.9	34.5	37.5
Net intercompany interest	(47.2)	10.2	(2.7)
Other interest expense	0.8	0.8	15.4
Other	0.3	1.9	45.9
	562.3	536.9	594.6
Earnings from continuing operations before items below	162.7	94.8	39.4
Provision for income taxes	56.8	33.6	22.0
Earnings from continuing operations	105.9	61.2	17.4
Net earnings (loss) of discontinued operations	1.2	66.4	(658.5)
Net earnings (loss)	$ 107.1	$ 127.6	$ (641.1)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS OI Plastic Products FTS Inc.

Dollars in millions December 31,	2005	2004
Assets		
Current assets:		
Cash	$ 1.5	$ 1.0
Receivables including $0.5 ($0.6 in 2004) from related parties, less allowances of $21.8 ($20.7 in 2004) for losses and discounts	57.7	49.5
Inventories	49.9	64.7
Prepaid expenses	15.6	12.5
Total current assets	124.7	127.7
Other assets:		
Equity investments	11.6	9.1
Repair parts inventories	7.6	7.0
Deposits, receivables, and other assets	10.5	13.7
Goodwill	209.5	209.5
Total other assets	239.2	239.3
Property, plant, and equipment:		
Land, at cost	5.8	5.4
Buildings and equipment, at cost:		
Buildings and building equipment	86.1	85.4
Factory machinery and equipment	539.7	532.3

Transportation, office, and miscellaneous equipment	6.4	7.3
Construction in progress	20.8	17.9
	658.8	648.3
Less accumulated depreciation	347.4	324.8
Net property, plant, and equipment	311.4	323.5
Total assets	$ 675.3	$ 690.5

Dollars in millions December 31,	2005	2004
Liabilities and Net Parent Investment		
Current liabilities:		
Accounts payable including $9.6 ($4.7 in 2004) to related parties	$ 54.4	$ 48.2
Salaries and wages	9.8	8.3
U.S. and foreign income taxes		0.2
Other accrued liabilities	24.1	66.9
Long-term debt due within one year		0.1
Total current liabilities	88.3	123.7
External long-term debt	0.3	11.0
Deferred taxes	50.0	50.0
Other liabilities	0.5	0.2
Net Parent investment		
Investment by and advances from Parent	556.8	527.8
Accumulated other comprehensive loss	(20.6)	(22.2)
Total net Parent investment	536.2	505.6
Total liabilities and net Parent investment	$ 675.3	$ 690.5

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED NET PARENT INVESTMENT OI Plastic Products FTS Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Investment by and advances to Parent			
Balance at beginning of year	$ 527.8	$ 1,658.0	$ 1,675.7
Net intercompany transactions	(78.1)	(1,257.8)	623.4
Net (loss) earnings	107.1	127.6	(641.1)
Balance at end of year	556.8	527.8	1,658.0
Accumulated other comprehensive loss			
Balance at beginning of year	(22.2)	(44.9)	(42.5)
Foreign currency translation adjustments	1.6	22.7	(2.4)
Balance at end of year	(20.6)	(22.2)	(44.9)
Total net Parent investment	$ 536.2	$ 505.6	$ 1,613.1
Total comprehensive (loss) income			
Net earnings (loss)	$ 107.1	$ 127.6	$ (641.1)
Foreign currency translation adjustments	1.6	22.7	(2.4)
Total comprehensive income (loss)	$ 108.7	$ 150.3	$ (643.5)

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED CASH FLOWS OI Plastic Products FTS Inc.

Dollars in millions Years ended December 31,	2005	2004	2003
Operating activities:			
Net earnings from continuing operations	$ 105.9	$ 61.2	$ 17.4

Non-cash charges (credits):			
Depreciation	44.1	54.4	47.9
Amortization of deferred costs	3.9	3.5	5.1
Loss on sale of certain closures assets			41.3
Deferred tax provision	55.0	31.5	20.4
Other	(7.1)	0.1	(54.7)
Change in non-current operating assets	(0.7)	(4.7)	6.0
Change in components of working capital	6.7	25.5	(5.2)
Cash provided by continuing operating activities	207.8	171.5	78.2
Cash provided by discontinued operating activities		51.2	44.9
Cash provided by total operating activities	207.8	222.7	123.1
Investing activities:			
Additions to property, plant and equipment - continuing	(31.1)	(30.7)	(37.3)
Additions to property, plant and equipment - discontinued		(25.0)	(84.6)
Net cash proceeds from divestitures and other	(38.7)	1,172.3	46.3
Cash provided by (utilized in) investing activities	(69.8)	1,116.6	(75.6)
Financing activities:			
Net change in intercompany debt	(126.8)	(1,357.6)	623.7
Repayments of long-term debt	(10.8)	(0.3)	(666.6)
Additions to long-term debt	0.1	10.5	
Cash utilized in financing activities	(137.5)	(1,347.4)	(42.9)
Effect of exchange rate fluctuations on cash		(0.7)	0.1
Increase (decrease) in cash	0.5	(8.8)	4.7
Cash at beginning of year	1.0	9.8	5.1
Cash at end of year	$ 1.5	$ 1.0	$ 9.8

See accompanying Notes to Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of OI Plastic Products FTS Inc. (“Company”) include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition. Results of operations for the divested blow-molded plastic container business which was sold in 2004 have been presented as a discontinued operation for 2004 and 2003.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost.

Relationship with Owens-Illinois, Inc. and Owens-Illinois, Group Inc. The Company is a wholly-owned subsidiary of Owens-Illinois Group, Inc. (“OI Group”) and an indirect subsidiary of Owens-Illinois, Inc. (“OI Inc.”). Although OI Inc. does not conduct any operations, it has substantial obligations related to outstanding indebtedness, dividends for preferred stock and asbestos-related payments. OI Inc. relies primarily on distributions from its direct and indirect subsidiaries to meet these obligations.

For federal and certain state income tax purposes, the taxable income of the Company is included in the consolidated tax returns of OI Inc. and income taxes are allocated to the Company on a basis consistent with separate returns. Current income taxes are recorded by the Company on a basis consistent with separate returns.

Nature of Operations The Company is a manufacturer of plastics packaging products. The Company’s principal product lines include healthcare containers, closures and prescription containers. The Company’s principal operations are in North America, however, the Company does have minor operations in Europe and South America. Major markets include the United States healthcare market. One customer accounted for 10.4% and 15.7% of the Company’s sales in 2005 and 2003 respectively.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly.

Cash The Company defines “cash” as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Fair Values of Financial Instruments The carrying amounts reported for cash, short-term investments and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. The Company is not a party to any material derivative financial instruments.

Inventory Valuation The Company values most U.S. inventories at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued at the lower of standard costs (which approximate average costs) or market.

Goodwill Goodwill represents the excess of cost over fair value of assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant, and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years and buildings and building equipment over periods ranging from 10 to 50 years. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with manufacturing, shipping, and delivery costs in the Consolidated Statements of Operations.

Income Taxes on Undistributed Earnings In general, the Company plans to continue to reinvest the undistributed earnings of foreign subsidiaries and foreign corporate joint ventures accounted for by the equity method. Accordingly, taxes are provided only on that amount of undistributed earnings in excess of planned reinvestments.

Foreign Currency Translation The assets and liabilities of most affiliates and associates are translated at current exchange rates and any related translation adjustments are recorded directly in net Parent investment.

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

New Accounting Standards In May 2005, the Financial Accounting Standards Board issued FAS No. 154, "Accounting Changes and Error Corrections," which changes the requirements for accounting for and reporting a change in accounting principle. The statement requires changes in accounting principle to be applied retrospectively to prior periods' financial statements. The statement also redefines "restatement" as being the correction of an error. FAS No. 154 is effective for the Company beginning after January 1, 2006. The Company will apply FAS No. 154 as required.

Participation in OI Inc. Stock Option Plans The Company participates in the equity compensation plans of OI Inc. under which employees of the Company may be granted options to purchase common shares of OI Inc. or may be granted restricted common shares of OI Inc.

For options granted prior to March 31, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to accelerated exercisability provisions related to the performance of OI Inc.'s common stock or change of control, 50% of the options become exercisable on the fifth anniversary of the date of the option grant, with the remaining 50% becoming exercisable on the sixth anniversary date of the option grant. In general, options expire following termination of employment or the day after the tenth anniversary date of the option grant.

For options granted after March 30, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject change of control, options become exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant.

All options have been granted at prices equal to the market price of OI Inc.'s common stock on the date granted. Accordingly, under the disclosure-only provisions of FAS 123, the Company recognized no compensation expense related to the stock option plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions described in the accounting policies note on stock options.

During 2005, OI Inc. awarded 238,136 performance vested units under its equity compensation plans. As soon as practicable after 2007, holders of each unit will receive a number of shares ranging from .5 shares to 1.5 shares, depending upon the attainment of established performance goals. Failure to meet minimum goals will result in forfeiture of the shares. Granted but unvested shares are forfeited upon termination of employment.

During 2005, 2004 and 2003 OI Inc. awarded shares of restricted stock to certain key employees under its equity compensation plans Shares granted to employees prior to March 31, 2005, generally vest upon retirement. Shares granted to employees after March 30, 2005, vest 25% per year beginning on the first anniversary. Granted but unvested shares are forfeited upon termination of employment, unless certain retirement criteria are met.

A substantial number of the options, restricted shares and restricted share units have been granted to key employees of another subsidiary of OI Inc., some of whose compensation costs are included in an allocation of costs to all operating subsidiaries of OI Inc., including the Company. It is not practicable to determine an amount of additional compensation allocable to the Company for the restricted shares or for the options, had OI Inc. elected to recognize compensation cost based on the fair value of the options granted at grant date as allowed by FAS No. 123.

2. Changes in Components of Working Capital Related to Operations Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	2005	2004	2003
Decrease (increase) in current assets:			
Receivables	$ (7.9)	$ 2.9	$ (9.3)
Inventories	14.9	22.7	5.2
Prepaid expenses	0.3	(2.8)	(0.7)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	2.1	(98.0)	(45.1)
Salaries and wages	1.4	64.2	(6.0)
U.S. and foreign income taxes	(4.1)	(3.7)	(4.2)
	$ 6.7	$ (14.7)	$ (60.1)
Continuing operations	$ 6.7	$ 25.5	$ (5.2)
Discontinued operations		(40.2)	(54.9)
	$ 6.7	$ (14.7)	$ (60.1)

3. Inventories Major classes of inventory are as follows:

	2005	2004
Finished goods	$ 30.5	$ 38.8
Raw materials	16.1	22.6
Operating supplies	3.3	3.3
	$ 49.9	$ 64.7

If the inventories which are valued on the LIFO method had been valued at standard costs, which approximate current costs, consolidated inventories would be higher than reported by $19.7 million and $13.6 million at December 31, 2005 and 2004, respectively.

Inventories which are valued at the lower of standard costs (which approximate average costs), or market at December 31, 2005 and 2004 were approximately $4.0 million and $4.3 million, respectively.

4. Supplemental Cash Flow Information Interest paid in cash aggregated $0.7 million for 2005, $0.3 million for 2004, and $14.2 million for 2003.

5. Guarantees of Debt Under the Third Amended and Restated Secured Credit Agreement, the Company has guaranteed certain of OI Group's domestic and foreign subsidiaries which amounted to $685.2 million at December 31, 2005. This guarantee expires with the Agreement on April 1, 2007.

The Company also has guaranteed $1.0 billion of 8.875%, $625.0 million of 8.75%, and $450.0 million of 7.75% Senior Secured Notes, and $450.0 million of 8.25%, $400.0 million of 6.75%, and €225.0 million of 6.75% Senior notes issued by an affiliate of the Company. These guarantees expire in 2009 for the $1.0 billion of 8.875% Senior Secured Notes, 2012 for the $625.0 million of 8.75% Senior Secured Notes, 2011 for the $450.0 million of 7.75% Senior Secured Notes, 2013 for the $450.0 million of 8.25% Senior Notes, and 2009 for the $400.0 million of 6.75% Senior Notes and €225 million of 6.75% Senior Notes. The assets of the Company and most of its domestic subsidiaries are pledged as security for the Senior Secured Notes.

The Company will be obligated under the above guarantees in the event that OI Group's domestic or foreign subsidiaries cannot make the required interest or principal payments under the above obligations.

6. Operating Leases Rent expense attributable to all warehouse, office buildings, and equipment operating leases was $3.5 million in 2005, $3.4 million in 2004, and $4.1 million in 2003. Minimum future rentals under operating leases are as follows: 2006, $1.3 million; 2007, $0.6 million; 2008, $0.3 million; 2009, $0.1 million; and 2010, $0.1 million.

7. Foreign Currency Translation Aggregate foreign currency exchange gains (losses) included in other costs and expenses were $(0.6) million in 2004 and $(0.1) million in 2003. Amounts for 2005 were not significant.

8. Income Taxes Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (2) carryovers and credits for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Deferred tax assets:		
Tax loss carryovers	$ 4.3	$ 7.8
Receivables	7.5	7.1
Other, principally accrued liabilities	6.7	7.6
Total deferred tax assets	18.5	22.5
Deferred tax liabilities:		

Property, plant and equipment	47.6	48.5
Inventory	1.9	1.0
Other	6.9	8.1
Total deferred tax liabilities	56.4	57.6
Valuation allowance	(2.5)	(3.6)
Net deferred tax liabilities	$ (40.4)	$ (38.7)

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2005 and 2004 as follows:

	2005	2004
Prepaid expenses	$ 8.9	$ 10.6
Deposits, receivables, and other assets	0.7	0.7
Deferred taxes	(50.0)	(50.0)
Net deferred tax liabilities	$ (40.4)	$ (38.7)

The provision for income taxes consists of the following:

	2005	2004	2003
Current:			
U.S. Federal	$ —	$ —	$ —
State	1.3	2.7	1.3
Foreign	0.5	4.1	4.5
	1.8	6.8	5.8
Deferred:			
U.S. Federal	49.9	8.4	21.1
State	(0.7)	5.5	0.4
Foreign	0.4	(0.4)	(0.4)
	49.6	13.5	21.1
Total:			
U.S. Federal	49.9	8.4	21.1
State	0.6	8.2	1.7
Foreign	0.9	3.7	4.1
	$ 51.4	$ 20.3	$ 26.9
Total for continuing operations	$ 56.8	$ 33.6	$ 22.0
Total for discontinued operations	(5.4)	(13.3)	4.9
	$ 51.4	$ 20.3	$ 26.9

The provision for income taxes was calculated based on the following components of earnings (loss) before income taxes:

Continuing operations	2005	2004	2003
Domestic	$ 158.4	$ 87.0	$ 41.4
Foreign	4.3	7.8	(2.0)
	$ 162.7	$ 94.8	$ 39.4

Discontinued operations	2005	2004	2003
Domestic	$ (4.2)	$ 45.2	$ (670.4)
Foreign		8.0	16.8
	$ (4.2)	$ 53.2	$ (653.6)

Income taxes paid in cash were as follows:

	2005	2004	2003
Domestic	$ 0.6	$ 2.1	$ 1.8
Foreign	0.1	3.0	6.0
	$ 0.7	$ 5.1	$ 7.8

A reconciliation of the provision for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	2005	2004	2003

	2005	2004	2003
Pretax earnings at statutory U.S. Federal tax rate	$ 56.9	$ 33.2	$ 13.8
Increase (decrease) in provision for income taxes due to:			
State taxes, net of federal benefit	(0.1)	1.5	0.9
Rate differences on international earnings	(0.6)	(1.2)	0.5
Valuation allowance	0.5		
Other items	0.1	0.1	6.8
Provision for income taxes	$ 56.8	$ 33.6	$ 22.0
Effective tax rate	31.6%	35.4%	55.6%

The Company is included with OI Inc.'s consolidated tax returns. OI Inc. has net operating losses, capital losses, alternative minimum tax credits, and research and development credits available to offset future U.S. Federal income tax.

At December 31, 2005, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated $2.0 million. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed.

9. Related Party Transactions Charges for administrative services are allocated to the Company by OI Inc. based on an annual utilization level. Such services include compensation and benefits administration, payroll processing, use of certain general accounting systems, auditing, income tax planning and compliance, and treasury services. Management believes that such transactions are on terms no less favorable to the Company than those that could be obtained from unaffiliated third parties. The following information summarizes the Company's significant related party transactions:

	Years ended December 31,		
	2005	2004	2003
Revenues:			
Sales to affiliated companies	$ 0.3	$ 0.3	$ 0.3
Expenses:			
Administrative services	8.5	5.5	7.4
Corporate management fee	2.6	2.7	2.7
Total expenses	$ 11.1	$ 8.2	$ 10.1
The above expenses are recorded in the statement of operations as follows:			
Cost of sales	$ 3.5	$ 4.8	$ 6.1
Selling, general, and adminstrative expenses	7.6	3.4	4.0
Total expenses	$ 11.1	$ 8.2	$ 10.1

Intercompany interest is charged to the Company from OI Inc. based on intercompany debt balances. An interest rate is calculated monthly based on OI Inc's total consolidated monthly external debt balance and the related interest expense, including finance fee amortization and commitment fees. The calculated rate (8.5% at December 31, 2005) is applied monthly to the intercompany debt balance to determine intercompany interest expense.

10. Pension Benefit Plans The Company participates in OI Inc.'s defined benefit pension plans for substantially all employees located in the United States. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. OI Inc.'s policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. Independent actuaries determine pension costs for each subsidiary of OI Inc. included in the plans; however, accumulated benefit obligation information and plan assets pertaining to each subsidiary have not been separately determined. As such, the accumulated benefit obligation and the plan assets related to the pension plans for domestic employees have been retained by another subsidiary of OI Inc. Net credits to results of operations for the Company's allocated portion of the domestic pension costs amounted to $2.9 million in 2005, $0.2 million in 2004, and $0.8 million in 2003.

OI Inc. also sponsors several defined contribution plans for all salaried and hourly U.S. employees of the Company. Participation is voluntary and participants' contributions are based on their compensation. OI Inc. matches contributions of participants, up to various limits, in substantially all plans. OI Inc. charges the Company for its share of the match. The Company's share of the contributions to these plans amounted to $1.7 million in 2005, $1.4 million in 2004, and $1.8 million in 2003.

11. Postretirement Benefits Other Than Pensions OI Inc. provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees. Employees are

generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Independent actuaries determine postretirement benefit costs for each subsidiary of OI Inc.; however, accumulated postretirement benefit obligation information pertaining to each subsidiary has not been separately determined. As such, the accumulated postretirement benefit obligation has been retained by another subsidiary of OI Inc.

The Company's net periodic postretirement benefit cost, as allocated by OI Inc., was $3.3 million, $4.3 million, and $1.9 million at December 31, 2005, 2004, and 2003, respectively.

12. Other Costs and Expenses Other costs and expenses for the year ended December 31, 2003 included pretax charges of $41.3 million ($25.8 after tax) related to the following:

- During the fourth quarter of 2003, the Company completed the sale of its assets related to the production of plastic trigger sprayers and finger pumps. Included in the sale were manufacturing facilities in Bridgeport, Connecticut and El Paso, Texas, in addition to related production assets at the Erie, Pennsylvania plant. As a result of the sale, the Company recorded a loss of $41.3 million ($25.8 million after tax) in the third and fourth quarters of 2003. The net cash proceeds from the sale of approximately $44 million, including liquidation of related working capital, were used to reduce debt.

  The Company's decision to sell its assets related to the production of plastic trigger sprayers and finger pumps is consistent with its objectives to improve liquidity and to focus on its core businesses.

13. Contingencies 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. In accordance with FAS No. 5, "Accounting for Contingencies," 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 in respect to this 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 or financial condition.

14. Goodwill The changes in the carrying amount of goodwill for the years ended December 31, 2003, 2004 and 2005 are as follows:

Balance as of January 1, 2003	$	1,030.0
Write-down of goodwill - discontinued operations		(670.0)
Other changes		0.6
Balance as of December 31, 2003		360.6
Sale of discontinued operations		(151.1)
Balance as of December 31, 2004		209.5
Balance as of December 31, 2005	$	209.5

During the fourth quarter of 2003, the Company completed its annual impairment testing and determined that an impairment existed in the goodwill of its consumer products reporting unit. The consumer products unit operates in a highly competitive and fragmented industry. During the course of 2003, a number of the product lines within this reporting unit experienced price reductions, principally as a result of the Company's strategy to preserve and expand market share. The reduced pricing, along with continued capital expenditures, caused the Company to lower its earnings and cash flow projections for the consumer products reporting unit for several years following the measurement date (October 1, 2003) resulting in an estimated fair value for the unit that was lower than its book value. Following a review of the valuation of the unit's identifiable assets, the Company recorded an impairment charge of $670.0 million to reduce the reported value of its goodwill.

15. Discontinued Operations On October 7, 2004, the Company announced that it had completed the sale of its blow-molded plastic container operations in North America, South America and Europe, to Graham Packaging Company.

Cash proceeds of approximately $1.2 billion were used to repay term loans under the Company's bank credit facility, which was amended to permit the sale. The sale agreement included a post-closing purchase price adjustment based on changes in certain working capital components and certain other assets and liabilities of the business. This adjustment was finalized in April 2005, and Graham was paid approximately $39 million. The adjustment did not impact results of operations.

Included in the sale were 24 plastics manufacturing plants in the U.S., two in Mexico, two in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries. The blow-molded plastic container operations were part of the consumer products business unit of the plastics packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the blow-molded plastic container business in the Consolidated Results of Operations for 2004 and 2003 as a discontinued operation. Interest expense was allocated to discontinued operations based on debt that was required to be repaid from the proceeds.

The following summarizes the revenues and expenses of the discontinued operations as reported in the condensed consolidated results of operations for the periods indicated:

	Year ended December 31,			
		2004		2003
Revenues:				
Net sales	$	853.7	$	1,025.9
Other revenue		7.6		9.0
		861.3		1,034.9
Costs and expenses:				
Manufacturing, shipping and delivery		736.8		897.8
Research, development and engineering		14.9		19.6
Selling and administrative		22.8		32.0
Interest		44.8		59.4
Other		22.9		679.7
		842.2		1,688.5

Earnings before items below	19.1	(653.6)
Provision for income taxes	26.5	4.9
Gain on sale of discontinued operations	73.8	
Net earnings from discontinued operations	$ 66.4	$ (658.5)

Other costs and expenses for the year ended December 31, 2003 included an impairment charge of $670.0 million to reduce the reported value of goodwill in the consumer products reporting unit, all of which was attributable to the discontinued operations.

The sale of the blow-molded plastic business resulted in a substantial capital loss, primarily related to previous goodwill write downs that were not deductible when recorded. The gain on the sale of discontinued operations of $73.8 million includes a credit for income taxes of $39.7 million, representing the tax benefit from offsetting a portion of the loss against otherwise taxable capital gains.

Net earnings of discontinued operations of $1.2 million in 2005 relates to an adjustment of the 2004 gain on the sale of the blow-molded plastic container operations principally from finalizing certain tax allocations.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OWENS-ILLINOIS, INC.

(Registrant)

By: /s/ Edward C. White

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

Date: March 16, 2006

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Owens-Illinois, Inc. and in the capacities and on the dates indicated.

Signatures	Title
Gary F. Colter	Director
Robert J. Dineen	Director
Anastasia D. Kelly	Director
Steven R. McCracken	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer); Director
John J. McMackin, Jr.	Director
Corbin A. McNeill, Jr.	Director
Albert P.L. Stroucken	Director
Helge H. Wehmeier	Director
Thomas L. Young	Director

By: /s/ James W. Baehren
James W. Baehren

Attorney-in-fact

Date: March 16, 2006

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Financial Statement Schedule of Owens-Illinois, Inc. and Subsidiaries:

For the years ended December 31, 2005, 2004, and 2003:

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OWENS-ILLINOIS, INC.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS (CONSOLIDATED)

Years ended December 31, 2005, 2004, and 2003
(Millions of Dollars)

Reserves deducted from assets in the balance sheets:

Allowances for losses and discounts on receivables

	Balance at beginning of period	Additions		Deductions (Note 1)	Balance at end of period
		Charged to costs and expenses	Other		
2005	$ 50.3	$ 71.1	$ 4.3	$ 69.7	$ 47.4
2004	$ 44.5	$ 76.9	$ 7.2	$ 78.3	$ 50.3
2003	$ 44.8	$ 80.1	$ —	$ 80.4	$ 44.5

(1) Deductions from allowances for losses and discounts on receivables represent uncollectible notes and accounts written off.

OWENS-ILLINOIS, INC.
2005 INCENTIVE AWARD PLAN

ARTICLE 1

PURPOSE

The purpose of the Owens-Illinois, Inc. 2005 Incentive Award Plan (the *"Plan")* is to promote the success and enhance the value of, as well as aid Owens-Illinois, Inc. (the *"Company")* by linking the personal interests of current and future Employees and Consultants to those of Company stockholders. The Plan is intended to incentivise these individuals to continue providing the Company with outstanding performance, to generate superior returns to Company stockholders, and to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Employees and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 *"Award"* means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Share award, a Performance Stock Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock award, a Restricted Stock Unit award, an Other Stock-Based Award, a Performance Bonus Award, or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.2 *"Award Agreement"* means any written agreement, contract, or other instrument or document evidencing an Award, including through any electronic medium.

2.3 *"Board"* means the Board of Directors of the Company.

2.4 *"Change in Control"* means and includes each of the following:

(a) A transaction or series of transactions (other than an offering of Stock to

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the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its Subsidiaries, an employee benefit plan maintained by the Company or any of its Subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(b) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 2.4(a) or Section 2.4(c)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) Which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the *"Successor Entity"))* directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(ii) After which no person or group beneficially owns voting

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securities representing 50% or more of the combined voting power of the Successor Entity; *provided, however,* that no person or group shall be treated for purposes of this Section 2.4(c)(ii) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(d) The Company's stockholders approve a liquidation or dissolution of the Company.

The Committee shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

2.5 *"Code"* means the Internal Revenue Code of 1986, as amended.

2.6 *"Committee"* means the committee of the Board described in Article 12.

2.7 *"Consultant"* means any consultant or adviser if:

(a) The consultant or adviser renders bona fide services to the Company;

(b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities; and

(c) The consultant or adviser is a natural person who has contracted directly with the Company to render such services.

2.8 *"Covered Employee"* means an Employee who is, or could be, a "covered employee" within the meaning of Section 162(m) of the Code.

2.9 *"CSAR"* shall have the meaning set forth in Section 7.2(a).

2.10 *"Deferred Stock"* means a right to receive a specified number of shares of Stock during specified time periods pursuant to Article 8.

2.11 *"Disability"* means that the Participant qualifies to receive long-term disability payments under the Company's long-term disability insurance program, as it may be

amended from time to time.

2.12 *"Dividend Equivalents"* means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.13 *"Effective Date"* shall have the meaning set forth in Section 13.1.

2.14 *"Eligible Individual"* means any person who is an Employee or a Consultant, as determined by the Committee.

2.15 *"Employee"* means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Subsidiary.

2.16 *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

2.17 *"Fair Market Value"* means, with respect to a share of Stock as of a given date: (i) the closing price of a Stock on the principal exchange on which shares of Stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the Stock on the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if the Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the Stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if the Stock is not publicly traded, the fair market value established by the Committee acting in good faith.

2.18 *"Full Value Award"* means any Award other than an Option, SAR or other Award for which the Participant pays the intrinsic value (whether directly or by forgoing a right to receive a cash payment from the Company).

2.19 *"Incentive Stock Option"* means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.20 *"ISAR"* shall have the meaning set forth in Section 7.3(a).

2.21 *"Non-Employee Director"* means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or

any successor definition adopted by the Board.

2.22 *"Non-Qualified Stock Option"* means an Option that is not intended to be an Incentive Stock Option.

2.23 *"Option"* means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.24 *"Other Stock-Based Award"* means an Award granted or denominated in Stock or units of Stock pursuant to Section 8.7 of the Plan.

2.25 *"Participant"* means any Eligible Individual who, as a member of the Board, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.26 *"Performance-Based Award"* means an Award granted to selected Covered Employees pursuant to Articles 6 and 8, but which is subject to the terms and conditions set forth in Article 9. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

2.27 *"Performance Bonus Award"* has the meaning set forth in Section 8.8.

2.28 *"Performance Criteria"* means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per share of Stock; (v) book value per share of Stock; (vi) return on equity; (vii) expense management; (viii) return on investment before or after the cost of capital; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) Stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) return on assets; (xix) cost reduction goals; (xx) return on sales; (xxi) gross margin; (xxii) debt reduction; (xxiii) new product launches; (xxiv) completion of joint ventures, divestitures, acquisitions or other corporate transactions; (xxv) new business or expansion of customers or clients; or (xxvi) productivity improvement. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or one or more of its divisions or units or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any

combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Committee may adjust, modify or amend the above business criteria, either in establishing any performance goal or in determining the extent to which any performance goal has been achieved. Without limiting the generality of the foregoing, the Committee shall have the authority, at the time it establishes the performance goals for the applicable Performance Period, to make equitable adjustments in the business criteria in recognition of unusual or non-recurring events affecting the Company or its operating units, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles, or as the Committee determines to be appropriate to reflect a true measurement of the profitability of the Company or its operating units, as applicable and to otherwise satisfy the objectives of this Plan. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.29 *"Performance Goals"* means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (b) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

2.30 *"Performance Period"* means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance

Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

2.31 *"Performance Share"* means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.32 *"Performance Stock Unit"* means a right granted to a Participant pursuant to

Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.33 *"Plan"* means this Owens-Illinois, Inc. 2005 Incentive Award Plan, as it may be amended from time to time.

2.34 *"Qualified Performance-Based Compensation"* means any compensation that is intended to qualify as "qualified performance-based compensation" as described in Section 162(m)(4)(C) of the Code.

2.35 *"Restricted Stock"* means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.36 *"Restricted Stock Unit"* means an Award granted pursuant to Section 8.6.

2.37 *"Securities Act"* shall mean the Securities Act of 1933, as amended.

2.38 *"Stock"* means the common stock of the Company, par value $0.01 per share, and such other securities of the Company that may be substituted for Stock pursuant to Article 11.

2.39 *"Stock Appreciation Right"* or *"SAR"* means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.40 *"Stock Payment"* means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Article 8.

2.41 *"Subsidiary"* means any "subsidiary corporation" as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

2.42 *"Successor Entity"* shall have the meaning set forth in Section 2.4(c)(i).

ARTICLE 3

SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares.*

(a) Subject to Article 11 and Section 3.1(b), the aggregate number of shares of Stock which may be issued or transferred pursuant to Awards under the Plan shall be 7,000,000 shares, *provided, however,* that such aggregate number of shares of Stock available for issuance under the Plan shall be reduced by 1.75 shares for each share of Stock delivered in settlement of any Full Value Award.

(b) To the extent that an Award terminates, expires, or lapses for any reason, any shares of Stock subject to the Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by applicable law or any exchange rule, shares of Stock issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against shares of Stock available for grant pursuant to this Plan. The payment of Dividend Equivalents in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan.

3.2 *Stock Distributed.* Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

3.3 *Limitation on Number of Shares Subject to Awards.* Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Participant during a calendar year (measured from the date of any grant) shall be 700,000.

ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 *Eligibility.* Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

4.2 *Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan.

4.3 *Foreign Participants.* In order to assure the viability of Awards granted to

Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however,* that no such supplements, amendments, restatements or alternative versions shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

ARTICLE 5

STOCK OPTIONS

5.1 *General.* The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) *Exercise Price.* The exercise price per share of Stock subject to an Option shall be determined by the Committee and set forth in the Award Agreement; *provided* that the exercise price for any Option shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant.

(b) *Time and Conditions of Exercise.* The Committee shall determine the time or times at which an Option may be exercised in whole or in part; *provided* that the term of any Option granted under the Plan shall not exceed ten years and one day. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) *Payment.* The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation: (i) cash, (ii) promissory note bearing interest at no less than such rate as shall then preclude the imputation of interest under the Code, (iii) shares of Stock held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, or (iv) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds

is then made to the Company upon settlement of such sale), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other

provision of the Plan to the contrary, no Participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act

(d) *Evidence of Grant.* All Options shall be evidenced by a written Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

5.2 *Incentive Stock Options.* The terms of any Incentive Stock Options granted pursuant to the Plan must comply with the conditions and limitations contained in Section 13.2 and this Section 5.2.

(a) *Eligibility.* Incentive Stock Options may be granted only to employees of the Company or any "subsidiary corporation" thereof (within the meaning of Section 424(f) of the Code and the applicable regulations promulgated thereunder).

(b) *Exercise Price.* The exercise price per share of Stock shall be set by the Committee; *provided* that subject to Section 5.2(d) the exercise price for any Incentive Stock Option shall not be less than 100% of the Fair Market Value on the date of grant.

(c) *Individual Dollar Limitation.* The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed $100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(d) *Ten Percent Owners.* An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(e) *Notice of Disposition.* The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock

Option or (ii) one year after the transfer of such shares of Stock to the Participant.

(f) *Right to Exercise.* During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

5.3 *Substitution of Stock Appreciation Rights.* The Committee may provide in the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option, subject to the provisions of Section 7.2 hereof; provided that such Stock Appreciation Right shall be exercisable with respect to the same number of shares of Stock for which such substituted Option would have been exercisable.

5.4 *Paperless Exercise.* In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Options, such as a system using an internet website or interactive voice response, then the paperless exercise of options by a Participant may be permitted through the use of such an automated system.

ARTICLE 6

RESTRICTED STOCK AWARDS

6.1 *Grant of Restricted Stock.* The Committee is authorized to make Awards of Restricted Stock to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by a written Restricted Stock Award Agreement.

6.2 *Issuance and Restrictions.* Subject to Section 10.6, Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.3 *Forfeiture.* Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; *provided, however,* that, except as otherwise provided by

Section 10.6, the Committee may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or

forfeiture conditions relating to Restricted Stock.

6.4 *Certificates for Restricted Stock.* Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

ARTICLE 7

STOCK APPRECIATION RIGHTS

7.1 *Grant of Stock Appreciation Rights.* A Stock Appreciation Right may be granted to any Participant selected by the Committee. A Stock Appreciation Right may be granted (a) in connection and simultaneously with the grant of an Option, (b) with respect to a previously granted Option, or (c) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

7.2 *Coupled Stock Appreciation Rights.*

(a) A Coupled Stock Appreciation Right *("CSAR")* shall be related to a particular Option and shall be exercisable only when and to the extent the related Option is exercisable.

(b) A CSAR may be granted to a Participant for no more than the number of shares subject to the simultaneously or previously granted Option to which it is coupled.

(c) A CSAR shall entitle the Participant (or other person entitled to exercise the Option pursuant to the Plan) to surrender to the Company the unexercised portion of the Option to which the CSAR relates (to the extent then exercisable pursuant to its terms) and to receive from the Company in exchange

therefor an amount determined by multiplying the difference obtained by subtracting the Option exercise price from the Fair Market Value of a share of Stock on the date of exercise of the CSAR by the number of shares of Stock with respect to which the CSAR shall have been exercised, subject to any limitations the Committee may impose.

7.3 *Independent Stock Appreciation Rights.*

(a) An Independent Stock Appreciation Right *("ISAR")* shall be unrelated to any Option and shall have a term set by the Committee. An ISAR shall be exercisable in such installments as the Committee may determine. An ISAR shall cover such number of shares of Stock as the Committee may determine. The exercise price per share of Stock subject to each ISAR shall be set by the Committee; *provided, however,* that the exercise price for any ISAR shall not be less than 100% of the Fair Market Value on the date of grant; and *provided, further,* that, the Committee in its sole and absolute discretion may provide that the ISAR may be exercised subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or Disability, or otherwise.

(b) An ISAR shall entitle the Participant (or other person entitled to exercise the ISAR pursuant to the Plan) to exercise all or a specified portion of the ISAR (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the ISAR from the Fair Market Value of a share of Stock on the date of exercise of the ISAR by the number of shares of Stock with respect to which the ISAR shall have been exercised, subject to any limitations the Committee may impose.

7.4 *Payment and Limitations on Exercise.*

(a) Payment in respect of a Stock Appreciation Right shall be in cash, in Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee in the Award Agreement.

(b) To the extent payment for a Stock Appreciation Right is to be made in cash, the Award Agreement shall, to the extent necessary to comply with the requirements to Section 409A of the Code, specify the date of payment which may be different than the date of exercise of the Stock Appreciation Right. If the date of payment for a Stock Appreciation Right is later than the date of exercise,

the Award Agreement may specify that the Participant be entitled to earnings on such amount until paid.

(c) To the extent any payment in respect of a Stock Appreciation Right is effected in Stock, it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options.

ARTICLE 8

OTHER TYPES OF AWARDS

8.1 *Performance Share Awards.* Any Participant selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making

such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.2 *Performance Stock Units.* Any Participant selected by the Committee may be granted one or more Performance Stock Unit awards which shall be denominated in units of value including dollar value of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.3 *Dividend Equivalents.*

(a) Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee.

(b) Dividend Equivalents granted with respect to Options or SARs that are intended to be Qualified Performance-Based Compensation shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

8.4 *Stock Payments.* Any Participant selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee; *provided,* that unless otherwise determined by the Committee such Stock Payments shall be made in lieu of base salary, bonus, or other cash compensation otherwise payable to such Participant. The number of shares shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5 *Deferred Stock.* Any Participant selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee subject to Section 10.6. Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the Stock underlying the Deferred Stock Award has been issued.

8.6 *Restricted Stock Units.* The Committee is authorized to make Awards of Restricted Stock Units to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate subject to Section 10.6. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to Section 10.5(b), transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Company for such shares of Stock.

8.7 *Other Stock-Based Awards.* Any Participant selected by the Committee may be

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granted one or more Awards that provide Participants with shares of Stock or the right to purchase shares of Stock or that have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee subject to Section 10.6. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant.

8.8 *Performance Bonus Awards.* Any Participant selected by the Committee may be granted one or more Performance-Based Awards in the form of a cash bonus (a *"Performance Bonus Award")* payable upon the attainment of Performance Goals that are established by the Committee and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Committee subject to Section 10.6. Any such Performance Bonus Award paid to a Covered Employee shall be based upon objectively determinable bonus formulas established in accordance with Article 9. The maximum amount of any Performance Bonus Award payable to a Covered Employee with respect to any fiscal year of the Company shall not exceed $5,000,000.

8.9 *Term.* Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award shall be set by the Committee in its discretion.

8.10 *Exercise or Purchase Price.* The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Stock Units, Deferred Stock, Stock Payments, Restricted Stock Units or Other Stock-Based Award; *provided, however,* that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.

8.11 *Exercise Upon Termination of Employment or Service.* An Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Deferred Stock, Stock Payments, Restricted Stock Units and Other Stock-Based Award shall only be exercisable or payable while the Participant is an Employee or Consultant, as applicable; *provided, however,* that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award may be

exercised or paid subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or Disability, or otherwise; *provided, however,* that any

such provision with respect to Performance Shares or Performance Stock Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation.

8.12 *Form of Payment.* Payments with respect to any Awards granted under this Article 8 shall be made in cash, in Stock or a combination of both, as determined by the Committee.

8.13 *Award Agreement.* All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by a written Award Agreement.

ARTICLE 9

PERFORMANCE-BASED AWARDS

9.1 *Purpose.* The purpose of this Article 9 is to provide the Committee the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however,* that the Committee may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 *Applicability.* This Article 9 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 *Procedures with Respect to Performance-Based Awards.* To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 6 and 8 which may be granted to one or more Covered Employees, no later than ninety (90) days

following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 *Payment of Performance-Based Awards.* Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Subsidiary on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

9.5 *Additional Limitations.* Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

ARTICLE 10

PROVISIONS APPLICABLE TO AWARDS

10.1 *Stand-Alone and Tandem Awards.* Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

10.2 *Award Agreement.* Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

10.3 *Limits on Transfer.* No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. The Committee by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Stock Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's termination of employment or service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

10.4 *Beneficiaries.* Notwithstanding Section 10.3, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

10.5 *Stock Certificates; Book Entry Procedures.*

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

(b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any applicable law, rule or regulation, the Company shall not deliver to any Participant certificates evidencing shares of Stock issued in connection with any Award and instead such shares of Stock shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

10.6 *Full Value Award Vesting Limitations.* Notwithstanding any other provision of this Plan to the contrary, Full Value Awards made to Employees or Consultants shall become vested over a period of not less than three years (or, in the case of vesting based upon the attainment of Performance Goals or other performance based objectives, over a period of not less than one year) following the date the Award is made; *provided, however,* that, notwithstanding the foregoing, Full Value Awards that result in the issuance of an aggregate of up to 5% of the shares of Stock available pursuant to Section 3.1(a) may be granted to any one or more Participants without respect to such minimum vesting provisions.

ARTICLE 11

CHANGES IN CAPITAL STRUCTURE

11.1 *Adjustments.*

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of Company assets to stockholders (other than normal cash dividends), or any other corporate event affecting the Stock or the share price of the Stock, the Committee may make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such changes with respect to (i) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3); (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and/or (iii) the grant or exercise price per share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section 11.1(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate (including without limitation any Change in Control), or of changes in applicable laws, regulations or accounting principles, and whenever the Committee determines that action is appropriate in order to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, either by amendment of the terms of any outstanding Awards or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash and/ or other property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 11.1(b) the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor

corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(iii) To make adjustments in the number and type of shares of Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

11.2 *Impact of a Change in Control.* Subject to any applicable requirements of Section 409A of the Code, upon or in anticipation of, a Change in Control, the Committee, in its sole and absolute discretion, may (a) cause any and all Awards outstanding hereunder to become fully exercisable, (b) cause all forfeiture conditions to lapse and to terminate at a specific time in the future, including but not limited to the date of such Change in Control, (c) give each Participant the right to exercise such Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine, and/or (d) cause any and all Awards outstanding hereunder to terminate at a specific time in the future, including but not limited to the date of such Change in Control. In the event that the terms of any agreement between the Company or any Company Subsidiary or affiliate and a Participant contains provisions that conflict with and are more restrictive than the provisions of this Section 11.2, this Section 11.2 shall prevail and control and the more restrictive terms of such agreement (and only such terms) shall be of no force or effect.

11.3 *Outstanding Awards—Certain Mergers.* Subject to any required action by the stockholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Stock receive securities of another corporation), each Award outstanding on the date of such merger or consolidation shall pertain to and apply to the securities that a holder of the number of shares of Stock subject to such Award would have received in such merger or consolidation.

11.4 *Outstanding Awards—Other Changes.* In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 11, the Committee may, in its sole and absolute discretion, make such adjustments in the number and kind of shares or other securities subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights hereunder.

11.5 *No Other Rights.* Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

ARTICLE 12

ADMINISTRATION

12.1 *Committee.* Unless and until the Board delegates administration of the Plan to a Committee as set forth below, the Plan shall be administered by the full Board, and for such purposes the term "Committee" as used in this Plan shall be deemed to refer to the Board. The Board, at its discretion or as otherwise necessary to comply with the requirements of Section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act or to the extent required by any other applicable law, rule or regulation, shall delegate administration of the Plan to a Committee. The Committee shall consist solely of two or more members of the Board each of whom is both an "outside director," within the meaning of Section 162(m) of the Code, and a Non-Employee Director. Notwithstanding the foregoing, the Committee may delegate its authority hereunder to the extent permitted by Section 12.5. Appointment of Committee members shall be effective upon acceptance of appointment. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may only be filled by the Board.

12.2 *Action by the Committee.* A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a

meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

12.3 *Authority of Committee.* Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

(a) Designate Participants to receive Awards;

(b) Determine the type or types of Awards to be granted to each Participant;

(c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any reload provision, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to noncompetition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines; *provided, however,* that the Committee shall not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards;

(e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and

(j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

12.4 *Decisions Binding.* The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

12.5 *Delegation of Authority.* To the extent permitted by applicable law, the Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards to Participants other than (a) senior executives of the Company who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or members of the Board) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation, and the Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.5 shall serve in such capacity at the pleasure of the Committee.

ARTICLE 13

EFFECTIVE AND EXPIRATION DATE

13.1 *Effective Date.* The Plan is effective as of the date the Plan is approved by the Company's stockholders (the *"Effective Date").* The Plan will be deemed to be approved by the stockholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company's Bylaws.

13.2 *Expiration Date.* The Plan will expire on, and no Incentive Stock Option or other Award may be granted pursuant to the Plan after, the earlier of the tenth anniversary of (i) the Effective Date or (ii) the date this Plan is approved by the Board. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

ARTICLE 14

AMENDMENT, MODIFICATION, AND TERMINATION

14.1 *Amendment, Modification And Termination.* With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; *provided, however,* that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) stockholder approval is required for any amendment to the Plan that (i) increases the number of shares available under the Plan (other than any adjustment as provided by Article 11), (ii) permits the Committee to grant Options with an exercise price that is below Fair Market Value on the date of grant, (iii) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant, or (iv) results in a material increase in benefits or a change in eligibility requirements. Notwithstanding any provision in this Plan to the contrary, absent approval of the stockholders of the Company, no Option may be amended to reduce the per share exercise price of the shares subject to such Option below the per share exercise price as of the date the Option is granted and, except as permitted by Article 11, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per share exercise price.

14.2 *Awards Previously Granted.* No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

ARTICLE 15

GENERAL PROVISIONS

15.1 *No Rights to Awards.* No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

15.2 *No Stockholders Rights.* Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to shares of Stock covered by any Award until the Participant becomes the record owner of such shares of Stock.

15.3 *Withholding.* The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award within six months (or such other period as may be determined by the Committee) after such shares of Stock were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

15.4 *No Right to Employment or Services.* Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

15.5 *Unfunded Status of Awards.* The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

15.6 *Indemnification.* To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of

indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

15.7 *Relationship to other Benefits.* No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

15.8 *Expenses.* The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

15.9 *Titles and Headings.* The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

15.10 *Fractional Shares.* No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

15.11 *Limitations Applicable to Section 16 Persons.* Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

15.12 *Government and Other Regulations.* The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act of 1933, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

15.13 *Section 409A.* To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance.

15.14 *Governing Law.* The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

* * * * *

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of Owens-Illinois, Inc. on March 24, 2005.

* * * * *

I hereby certify that the foregoing Plan was approved by the stockholders of Owens-Illinois, Inc. on May 11, 2005.

Executed on this 12th day of May, 2005.

/s/ James W. Baehren
Corporate Secretary

Exhibit 10.29

2005 INCENTIVE AWARD PLAN

OF

OWENS-ILLINOIS, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated , 20 , is made by and between Owens-Illinois, Inc., a Delaware corporation hereinafter referred to as "Company," and , an employee of the Company or a Subsidiary of the Company, hereinafter referred to as "Optionee":

WHEREAS, the Company wishes to afford Optionee the opportunity to purchase shares of its $.01 par value Common Stock (as defined hereunder); and

WHEREAS, the Company wishes to carry out the 2005 Incentive Award Plan of Owens-Illinois, Inc. (the terms of which are hereby incorporated by reference and made a part of this Agreement); and

WHEREAS, the Compensation Committee of the Company's Board of Directors (hereinafter referred to as the "Committee"), appointed to administer said Plan, has determined that it would be to the advantage and best interest of the Company and its stockholders to grant the Non-Qualified Option provided for herein to Optionee as an inducement to remain in the service of the Company, its Parent Corporations or its Subsidiaries (each as defined hereunder) and as an incentive for increased efforts during such service, and has advised the Company thereof and instructed the undersigned Officers (as defined hereunder) to issue said Option.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I

DEFINITIONS

Whenever the following terms are used in this Agreement, they shall have the meaning specified below unless the context clearly indicates to the contrary. The masculine pronoun shall include the feminine and neuter, and the singular the plural, where the context so indicates.

Section 1.1 - ***Board***

"Board" shall mean the Board of Directors of the Company.

Section 1.2 - ***Cause***

"Cause" shall mean dishonesty, disloyalty, misconduct, insubordination, failure to reasonably devote working time to assigned duties, failure or refusal to comply with any reasonable rule, regulation, standard or policy which from time to time may be established by the Company, including, without limitation, those policies set forth in the Owens-Illinois Policy Manual in effect from time to time, or failure to fully cooperate with any investigation of an alleged violation of any such rule, regulation, standard or policy.

Section 1.3 - ***Code***

"Code" shall mean the Internal Revenue Code of 1986, as amended.

Section 1.4 - ***Common Stock***

"Common Stock" shall mean the Company's common stock, $.01 par value.

Section 1.5 - ***Company***

"Company" shall mean Owens-Illinois, Inc. In addition, "Company" shall mean any corporation assuming, or issuing new employee stock options in substitution for, the Option and Incentive Stock Options (as defined in Section 1.14 of the Plan), outstanding under the Plan, in a transaction to which Section 424(a) of the Code applies.

Section 1.6 – ***Disability***

"Disability" means the total disability of the Optionee, as determined in the sole discretion of the Committee.

Section 1.7 – Exchange Act

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.8 - ***Fair Market Value***

"Fair Market Value" of a share of the Company's stock as of a given date shall be: (i) the closing price of a share of the Company's stock on the principal exchange on which shares of the Company's stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if such stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the stock on the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if such stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if

the Company's stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 1.9 - ***Officer***

"Officer" shall mean an officer of the Company, as defined in Rule 16a-1(f) under the Exchange Act, as such Rule may be amended in the future.

Section 1.10 - ***Option***

"Option" shall mean the Non-Qualified Option (as defined in Section 1.15 of the Plan) to purchase Common Stock of the Company under this Agreement. This Option is a Transferable Option (as defined in Section 1.31 of the Plan).

Section 1.11 - ***Parent Corporation***

"Parent Corporation" shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.12 - ***Plan***

"Plan" shall mean the 2005 Incentive Award Plan of Owens-Illinois, Inc.

Section 1.13 - ***Retirement***

"Retirement" shall mean Optionee's retirement and "separation from service" (within the meaning of Section 409A of the Code) from the Company, a Parent Corporation or a Subsidiary after reaching the Company's normal retirement age or Optionee's early retirement from the Company, a Parent Corporation or a Subsidiary after reaching the age of 60.

Section 1.14 - ***Rule 16b-3***

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such rule may be amended in the future.

Section 1.15 - ***Secretary***

"Secretary" shall mean the Secretary of the Company.

Section 1.16 - ***Securities Act***

"Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.17 - ***Subsidiary***

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. "Subsidiary" shall also mean any partnership in which the Company and/or any Subsidiary owns more than 50% of the capital of profits interests.

Section 1.18 - ***Termination of Employment***

"Termination of Employment" shall mean the time when the employee-employer relationship between Optionee and the Company, a Parent Corporation or a Subsidiary is terminated for any reason, with or without Cause, including, but not by way of limitation, a termination by resignation, discharge, or retirement (including a Retirement), but excluding (i) any termination where there is a simultaneous reemployment by the Company, a Parent Corporation or a Subsidiary, (ii) any termination where Optionee continues a relationship (e.g., as a director or as a consultant) with the Company, a Parent Corporation or a Subsidiary or (iii) any termination resulting from the death or Disability of Optionee. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for Cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment. Notwithstanding any other provision of this Agreement, the Company, any Parent Corporation or any Subsidiary has an absolute and unrestricted right to terminate Optionee's employment at any time for any reason whatsoever, with or without Cause.

Section 1.19 - ***Transferee***

"Transferee" shall mean any person or entity to whom or to which Optionee has transferred all or any part of the Option in accordance with Section 5.2.

ARTICLE II

GRANT OF OPTION

Section 2.1 - ***Grant of Option***

In consideration of Optionee's agreement to remain in the employ of the Company, its Parent Corporations or its Subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Optionee the option to purchase any part or all of an aggregate of shares of its $.01 par value Common Stock upon the terms and conditions set forth in this Agreement.

Section 2.2 - ***Purchase Price***

The purchase price of the shares of stock covered by the Option shall be $ per share without commission or other charge.

Section 2.3 - ***Consideration to Company***

In consideration of the granting of this Option by the Company, Optionee agrees to render faithful and efficient services to the Company, a Parent Corporation or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon Optionee any right to continue in the employ of the Company, any Parent Corporation or any Subsidiary or shall interfere with or restrict in any way the rights of the Company, any Parent Corporation and any Subsidiary, which are hereby expressly reserved, to discharge Optionee at any time for any reason whatsoever, with or without cause.

Section 2.4 - ***Adjustments in Option***

In the event that the outstanding shares of Common Stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, or the number of shares is increased or decreased by reason of a stock split up, stock dividend, combination of shares or any other increase or decrease in the number of such shares of Common Stock effected without receipt of consideration by the Company (provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration") the Committee shall make appropriate adjustments in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable, to the end that after such event Optionee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in the Option price per share. Any such adjustment made by the Committee shall be final and binding upon Optionee, the Company and all other interested persons.

ARTICLE III

PERIOD OF EXERCISABILITY

Section 3.1 - ***Commencement of Exercisability***

(a) Except as provided in Section 3.4, no Option may be exercised in whole or in part during the first year after such Option is granted.

(b) Except to the extent that such Option becomes exercisable sooner pursuant to Section 3.4, the Option shall become exercisable as to 25% of the shares covered by the Option on each of the first four anniversaries of the date of grant of such Option. Such installments shall be cumulative.

(c) Except as provided in Section 3.4, no portion of the Option which is unexercisable at Termination of Employment, other than a Termination of Employment due to Retirement, shall thereafter become exercisable.

Following a Termination of Employment due to Retirement, Options shall continue to vest and become exercisable as provided in Section 3.1(b).

Section 3.2 - ***Duration of Exercisability***

The installments provided for in Section 3.1 are cumulative. Each such installment which becomes exercisable pursuant to Section 3.1 shall remain exercisable until it becomes unexercisable under Section 3.3.

Section 3.3 - ***Expiration of Option***

The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of seven years from the date the Option was granted; or

(b) Except as provided in clauses (c) through (h) below, the date of Optionee's Termination of Employment, other than due to Retirement; or

(c) If Optionee is discharged not for Cause or retires (other than a Retirement), the expiration of the earlier of (i) one (1) year from Optionee's Termination of Employment or (ii) seven years from the date the Option was granted, unless Optionee dies within said period; or

(d) If Optionee's right to exercise his Option is extended by the Committee, which extension shall not exceed the earlier of (i) three years from the date of Optionee's Termination of Employment or (ii) seven years from the date the Option was granted, the date upon which such extension expires; or

(e) If Optionee is determined by the Committee to have a Disability, the expiration of the earlier of (i) one year from the date Optionee is determined by the Committee to have a Disability, or (ii) seven years from the date the Option was granted, unless Optionee dies within said period; or

(f) In the case of Optionee's death, including during an extended exercise period provided in subsection (c) or (e) of this Section 3.3, the expiration of the earlier of (i) one year from the date of Optionee's death, or (ii) seven years from the date the Option was granted; or

(g) In the case of the Optionee's Retirement, the expiration of seven years from the date the Option was granted; or

(h) The effective date of either the merger or consolidation of the Company with or into another corporation, or the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of all or substantially all of the Company's assets or 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, unless the Committee waives this provision in connection with such transaction. At least ten days prior to the effective date of

such merger, consolidation, acquisition, liquidation or dissolution, the Committee shall give Optionee notice of such event if the Option has then neither been fully exercised nor become unexercisable under this Section 3.3.

Section 3.4 - ***Acceleration of Exercisability***

(a) In the event the Optionee dies, or experiences a Disability, in either case, prior to the Optionee's Termination of Employment, the Option shall become immediately exercisable as to all shares covered hereby, notwithstanding that this Option may not have become fully exercisable under Section 3.1; or

(b) In the event of the merger or consolidation of the Company with or into another corporation, or the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of all or substantially all of the Company's assets or 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, the Committee shall then provide by resolution, adopted prior to such event and incorporated in the notice referred to in Section 3.3(g), that at some time prior to the effective date of such event this Option shall be exercisable as to all the shares covered hereby, notwithstanding that this Option may not yet have become fully exercisable under Section 3.1; provided, however, that this acceleration of exercisability shall not take place if:

(i) This Option becomes unexercisable under Section 3.3 prior to said effective date; or

(ii) In connection with such an event, provision is made for an assumption of this Option or a substitution therefor of a new option by an employer corporation or a parent or subsidiary of such corporation.

The Committee may make such determinations and adopt such rules and conditions as it, in its absolute discretion, deems appropriate in connection with such acceleration of exercisability, including, but not by way of limitation, provisions to ensure that any such acceleration and resulting exercise shall be conditioned upon the consummation of the contemplated corporate transaction.

ARTICLE IV

EXERCISE OF OPTION

Section 4.1 - ***Person Eligible to Exercise***

During the lifetime of Optionee, only he or his Transferee, if any, may exercise the Option or any portion thereof. After the death of Optionee, any exercisable portion of the Option may, prior to the time when such portion becomes unexercisable under Section 3.3, be exercised by his Transferee, if any, or by his personal representative or any other person empowered to do so under Optionee's will or under the then applicable laws of descent and distribution. All of the terms and conditions of this Option in the hands of Optionee during his lifetime shall be and remain fully applicable and binding on his Transferee, if any, and on any other person who may become eligible to exercise this Option.

Section 4.2 - ***Partial Exercise***

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3; provided, however, that each partial exercise shall be for not less

than one hundred (100) shares (or the minimum installment set forth in Section 3.1, if a smaller number of shares) and shall be for whole shares only.

Section 4.3 - ***Manner of Exercise***

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his office of all of the following prior to the time when the Option or such portion becomes unexercisable under Section 3.3:

(a) Notice in electronic form approved by the Committee or, if no such form has been approved by the Committee, in writing signed by Optionee or the other person then entitled to exercise the Option or portion, stating that the Option or portion is thereby exercised, such electronic form or notice complying with all applicable rules established by the Committee; and

(b) (i) Full payment (in cash or by check) for the shares with respect to which such Option or portion is exercised; or

(ii) With the consent of the Committee, (A) shares of the Company's Common Stock owned by Optionee duly endorsed for transfer to the Company, or (B) shares of the Company's Common Stock issuable to Optionee upon exercise of the Option, with a Fair Market Value on the date of option exercise equal to the aggregate purchase price of the shares with respect to which such Option or portion is exercised; or

(iii) With the consent of the Committee, a full recourse promissory note bearing interest (at least such rate as shall then preclude the imputation of interest under the Code or successor provision) and payable upon such terms as may be prescribed by the Committee. The

Committee may also prescribe the form of such note and the security to be given for such note. The Option may not be exercised, however, by delivery of a promissory note or by a loan from the Company when or where such loan or other extension of credit is prohibited by law; or;

(iv) With the consent of the Committee, any combination of the consideration provided in the foregoing subparagraphs (i), (ii) and (iii); and

(c) A bona fide written or electronic representation and agreement, in a form satisfactory to the Committee, signed by Optionee or other person then entitled to exercise such Option or portion, stating that the shares of stock are being acquired for his own account, for investment and without any present intention of distributing or reselling said shares or any of them except as may be permitted under the Securities Act and then applicable rules and regulations thereunder, and that Optionee or other person then entitled to exercise such Option or portion will indemnify the Company against and hold it free and harmless from any loss, damage, expense or liability resulting to the Company if any sale or distribution of the shares by such person is contrary to the representation and agreement referred to above. The Committee may, in its absolute discretion, take whatever additional actions it deems appropriate to insure the observance and performance of such representation and agreement and to effect compliance with the Securities Act and any other federal or state securities laws or regulations. Without limiting the generality of the foregoing, the Committee may require an opinion of counsel acceptable to it to the effect that any subsequent transfer of shares acquired on an Option exercise does not violate the Securities Act, and may issue stop-transfer orders covering such shares. Share certificates evidencing stock issued on exercise of this Option shall bear an appropriate legend referring to the provisions of this subsection (c) and the agreements herein. The written or electronic representation and agreement referred to in the first sentence of this subsection (c) shall, however, not be required if the shares to be issued pursuant to such exercise have been registered under the Securities Act, and such registration is then effective in respect of such shares; and

(d) Full payment to the Company (or other employer corporation) of all amounts which, under federal, state or local tax law, it is required to withhold upon exercise of the Option; with the consent of the Committee, (i) shares of the Company's Common Stock owned by Optionee duly endorsed for transfer, or, (ii) shares of the Company's Common Stock issuable to Optionee upon exercise of the Option, valued at Fair Market Value as of the date of Option exercise, may be used to make all or part of such payment; *provided,* that notwithstanding anything herein to the contrary, the number of shares which may be withheld with respect to the satisfaction of any such taxes shall be limited to the number of shares which have a Fair Market Value on the date of withholding equal to the aggregate amount of such withholding obligations based on the minimum applicable statutory withholding rates for federal, state and/or local income and payroll tax purposes; and

(e) In the event the Option or portion shall be exercised pursuant to Section 4.1 by any person or persons other than Optionee, appropriate proof of the right of such person or persons to exercise the Option.

Section 4.4 - Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The payment to the Company (or other employer corporation) of all amounts, if any, which, under federal, state or local tax law, it is required to withhold upon exercise of the Option; and

(e) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience.

Section 4.5 - ***Rights as Stockholder***

The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect to any shares purchasable upon the exercise of any part of the Option unless and until certificates representing such shares shall have been issued by the Company to such holder.

ARTICLE V

OTHER PROVISIONS

Section 5.1 - ***Administration***

The Committee shall have the power to interpret the Plan, this Agreement and all other documents relating to the Option and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Optionee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Option and all members of the Committee shall be fully protected by the Company in respect to any such action, determination or interpretation. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

Section 5.2 - ***Option Not Transferable***

Neither the Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section 5.2 shall not prevent:

(a) any transfer by gift, without the receipt of any consideration, of the Option or any part thereof by Optionee, in writing and with written notice thereof to the Committee, (i) to Optionee’s spouse; (ii) to any child or more remote lineal descendant of Optionee or to the spouse of any such child or more remote lineal descendant; or (iii) to any trust, custodianship, or other similar fiduciary relationship maintained for the benefit of any one or more of such persons; or

(b) any transfer by will or by the applicable laws of descent and distribution.

Section 5.3 - ***Shares to Be Reserved***

The Company shall at all times during the term of the Option reserve and keep available such number of shares of stock as will be sufficient to satisfy the requirements of this Agreement.

Section 5.4 - ***Notices***

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary, and any notice to be given to Optionee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section 5.4, either party may hereafter designate a different address for notices to be given to it or him. Any notice which is required to be given to Optionee shall, if Optionee is then deceased, be given to Optionee’s personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 5.4. Any notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

Section 5.5 - ***Titles***

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

Section 5.6 - ***Rule 16b-3***

The Company shall take such actions with respect to the Plan as may be necessary to satisfy the requirements of Rule 16b-3.

Section 5.7 - ***Conformity to Securities Laws***

This Agreement is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation Rule 16b-3. Notwithstanding anything herein to the contrary, this Agreement shall be administered, and the Option shall be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, this Agreement and the Option granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 5.8 - ***Amendment***

This Agreement may be amended only by a writing executed by the parties hereto which specifically states that it is amending this Agreement.

Section 5.9 - ***Governing Law***

The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

IN WITNESS HEREOF, this Agreement has been executed and delivered by the parties hereto.

OWENS-ILLINOIS, INC.

By ________________________________

Its Sr. VP Chief Human Resources Manager

____

Employee

Address

Employee’s Taxpayer
Identification Number:

____

2005 INCENTIVE AWARD PLAN

OF

OWENS-ILLINOIS, INC.

RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT (the "Agreement"), dated as of , 20 is made by and between Owens-Illinois, Inc., a Delaware corporation (the "Company") and [ ], an employee of the Company or a Parent Corporation or a Subsidiary (the "Employee"):

WHEREAS, the Company has established the 2005 Incentive Award Plan (the "Plan"); and

WHEREAS, the Plan provides for the issuance of shares of the Company's Common Stock , subject to certain restrictions thereon and to other conditions stated herein; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company (the "Committee") has determined it would be to the advantage and best interest of the Company and its stockholders to issue the shares of Restricted Stock provided for herein to the Employee in partial consideration of services rendered, or to be rendered, to the Company and/or its subsidiaries.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

DEFINITIONS

Whenever the following terms are used in this Agreement, they shall have the meaning specified below, unless the context clearly indicates to the contrary. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan. The masculine pronoun shall include the feminine and neuter and the singular the plural, where the context so indicates.

Section 1.1. *Cause*

"Cause" shall mean dishonesty, disloyalty, misconduct, insubordination, failure to reasonably devote working time to assigned duties, failure or refusal to comply with any reasonable rule, regulation, standard or policy which from time to time may be established by the Company, including, without limitation, those policies set forth in the Owens-Illinois Policy Manual in effect from time to time, or failure to fully cooperate with any investigation of an alleged violation of any such rule, regulation, standard or policy.

Section 1.2. *Common Stock*

"Common Stock" shall mean the common stock of the Company, $.01 par value.

Section 1.3. *Competing Business*

"Competing Business" shall mean any person, corporation or other entity engaged in the United States of America or in any other country in which the Company, any Parent Corporation or any Subsidiary manufactures or sells its products, in the manufacture or sale of glass containers, plastic containers, plastic closures, plastic prescription containers, or any other products manufactured or sold by the Company, any Parent Corporation or any Subsidiary within the last two (2) years prior to the Employee's Termination of Employment.

Section 1.4. *Disability*

"Disability" shall mean the total disability of the Employee, as determined in the sole discretion of the Committee.

Section 1.5 — *Exchange Act*

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.6. *Fair Market Value*

"Fair Market Value" of a share of the Company's stock as of a given date shall be: (i) the closing price of a share of the Company's stock on the principal exchange on which shares of the Company's stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if such stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the stock on the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if such stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if the Company's stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 1.7. *Parent Corporation*

"Parent Corporation" shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.8. Plan

"Plan" shall mean the 2005 Incentive Award Plan of Owens-Illinois, Inc.

Section 1.9. Restrictions

"Restrictions" shall mean the reacquisition and transferability restrictions imposed upon Restricted Stock under this Agreement.

Section 1.10. Restricted Stock

"Restricted Stock" shall mean Common Stock issued under this Agreement and subject to the Restrictions imposed hereunder.

Section 1.11. Rule 16b-3

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

Section 1.12. Secretary

"Secretary" shall mean the Secretary of the Company.

Section 1.13. Securities Act

"Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.14. Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. "Subsidiary" shall also mean any partnership in which the Company and or any Subsidiary owns more than fifty (50%) percent of the capital or profits interests.

Section 1.15. Termination of Employment

"Termination of Employment" shall mean the time when the employee-employer relationship between the Employee and the Company, a Parent Corporation or a Subsidiary is terminated for any reason, with or without Cause, including, but not by way of limitation, a termination by resignation, discharge or retirement; but excluding (a) a termination where there is a simultaneous reemployment or continuing employment of the Employee by the Company, a Parent Corporation or a Subsidiary, (b) a termination where the Employee continues a relationship (e.g., as a director or as a consultant) with the Company, a Parent Corporation or a Subsidiary, or (c) a termination resulting from the death or Disability of the Employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of

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whether a Termination of Employment resulted from a discharge for Cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment. Notwithstanding any other provision of this Agreement, the Company, any Parent Corporation or any Subsidiary has the absolute and unrestricted right to terminate the Employee's employment at any time for any reason whatsoever, with or without Cause.

ARTICLE II.

ISSUANCE OF RESTRICTED STOCK

Section 2.1. Issuance of Restricted Stock

In consideration of the services rendered or to be rendered to the Company, a Parent Corporation or a Subsidiary and for other good and valuable consideration which the Committee has determined to be equal to the par value of its Common Stock, on the date hereof the Company issues to the Employee [   ] shares of its Common Stock, upon the terms and conditions set forth in this Agreement.

Section 2.2. No Right to Continued Employment

Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company, any Parent Corporation or any Subsidiary or shall interfere with or restrict in any way the rights of the Company, any Parent Corporation or any Subsidiary, which are hereby expressly reserved, to discharge the Employee at any time for any reasons whatsoever, with or without Cause.

ARTICLE III.

RESTRICTIONS

Section 3.1. ***Lapse of Restrictions*****.**

The Restricted Stock shall vest and all Restrictions thereon shall expire, either (i) as to 25% of the shares of Restricted Stock granted pursuant to this Agreement on each of the first four anniversaries of the date of grant of such Restricted Stock, or (ii) in their entirety upon the Employee's death or Disability prior to a Termination of Employment. Upon the lapsing of Restrictions applicable to shares of Restricted Stock and subject to Section 5.3, the Company shall cause new certificates to be issued with respect to such vested shares and delivered to the Employee or his legal representative, free from the legend provided for in Section 3.3 and any of the other Restrictions. Such vested shares shall cease to be considered Restricted Stock subject to the terms and conditions of this Agreement.

Section 3.2. ***Reacquisition of Restricted Stock Upon a Termination of Employment***

Upon a Termination of Employment all shares of Restricted Stock granted to the Employee pursuant to this Agreement with respect to which all applicable Restrictions have not yet expired in accordance with Section 3.1 shall be reacquired by the Company immediately

without payment of any consideration by the Company. No payment is due to the Employee upon such reacquisition.

Section 3.3. ***Legend*****.**

Certificates representing shares of Restricted Stock issued pursuant to this Agreement shall, until all restrictions lapse and new certificates are issued pursuant to Section 3.1, bear the following legend:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING REQUIREMENTS AND MAY BE SUBJECT TO REACQUISTION BY THE COMPANY UNDER THE TERMS OF THAT CERTAIN RESTRICTED STOCK AGREEMENT BY AND BETWEEN OWENS-ILLINOIS, INC. (THE "COMPANY") AND THE HOLDER OF THE SECURITIES. PRIOR TO VESTING OF OWNERSHIP IN THE SECURITIES, THEY MAY NOT BE DIRECTLY OR INDIRECTLY, OFFERED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF UNDER ANY CIRCUMSTANCES. COPIES OF THE ABOVE REFERENCED AGREEMENT ARE ON FILE AT THE OFFICES OF THE COMPANY AT ONE SEAGATE, TOLEDO, OHIO 43604.

Section 3.4. ***Merger, Consolidation, Acquisition, Liquidation or Dissolution***

Notwithstanding any other provision of this Agreement, upon the merger or consolidation of the Company into another corporation, the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of all or substantially all of the Company's assets or 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, the Committee shall then provide by resolution adopted prior to such event that, at some time prior to the effective date of such event, all shares of Restricted Stock not previously reacquired pursuant to Section 3.2 shall fully vest and all Restrictions with respect to such shares of Restricted Stock shall immediately expire.

Section 3.5. ***Restrictions on New Shares***

In the event that the outstanding shares of the Company's Common Stock are hereafter changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation pursuant to a merger of the Company into another corporation, or the exchange of all or substantially all of the assets of the Company for the securities of another corporation, or the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, or a stock split-up or stock dividend, such new, additional or different shares or securities which are held or received by the Employee in his capacity as a holder of Restricted Stock shall be considered to be Restricted Stock and shall be subject to all of the Restrictions, unless the Committee provides, pursuant to Section 3.4 for the accelerated vesting and expiration of the Restrictions on the

shares of Restricted Stock underlying the distribution of the new, additional or different shares or securities.

ARTICLE IV.

NON-COMPETITION/NON-SOLICITATION

Section 4.1. ***Covenant Not to Compete***

The Employee covenants and agrees that prior to the Employee's Termination of Employment and for a period of three (3) years following the Employee's Termination of Employment, including without limitation termination for Cause or without Cause, the Employee shall not, in the United States of America or in any other country in which the Company, any Parent Corporation or any Subsidiary manufactures or sells it products, engage, directly or indirectly, whether as principal or as agent, officer, director, employee, consultant, shareholder or otherwise, alone or in association with any other person, corporation or other entity, in any Competing Business.

Section 4.2. ***Non-Solicitation of Employees***

The Employee agrees that prior to his Termination of Employment and for three (3) years following the Employee's Termination of Employment, including without limitation termination for Cause or without Cause, the Employee shall not, directly or indirectly, solicit or induce, or attempt to solicit or induce, any employee of the Company, any Parent Corporation or any Subsidiary to leave the employment of the Company, any Parent Corporation or any

Subsidiary for any reason whatsoever, or hire any employee of the Company, any Parent Corporation or any Subsidiary except into the employment of the Company, a Parent Corporation or a Subsidiary.

Section 4.3 ***Equitable Relief***

The Employee agrees that it is impossible to measure in money the damages that will accrue to the Company in the event that the Employee breaches any of the restrictive covenants provided in Sections 4.1 or 4.2 hereof. Accordingly, in the event that the Employee breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Employee from further violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Employee hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert such claim or defense. The foregoing shall not prejudice the Company's right to require the Employee to account for and pay over to the Company, and the Employee hereby agrees to account for and pay over, any compensation, profits, monies, accruals or other benefits derived or received by the Employee as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 4.1 or 4.2 hereof.

ARTICLE V.

MISCELLANEOUS

Section 5.1. ***Administration***

The Committee shall have the power to interpret the Plan and this Agreement, and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith, to interpret, amend or revoke any such rules. All action taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan or this Agreement except with respect to matters which under Rule 16b-3, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. No member of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Restricted Stock, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

Section 5.2. ***Restricted Stock Not Transferable***

No Restricted Stock or any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Employee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means, whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), any attempted disposition thereof shall be null and void and of no effect; provided however, that this Section 5.2 shall not prevent transfers by will or by the applicable laws of descent and distribution.

Section 5.3. ***Conditions to Issuance of Stock Certificates***

The Company shall not be required to issue or deliver any certificate or certificates for shares of stock pursuant to this Agreement prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its sole discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable; and

(d) Subject to Section 5.10 the payment by the Employee of all amounts which, under

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federal, state or local tax law, the Company (or other employer corporation) is required to withhold upon issuance of Restricted Stock and/or the lapse or removal of any of the Restrictions; and

(e) The lapse of such reasonable period of time as the Committee may from time to time establish for reasons of administrative convenience.

Section 5.4. ***Escrow***

The Secretary or such other escrow holder as the Committee may appoint shall retain physical custody of the certificates representing Restricted Stock, including shares of Restricted Stock issued pursuant to Section 3.5, until all of the Restrictions expire or shall have been removed; provided, however, that in no event shall the Employee retain physical custody of any certificates representing Restricted Stock issued to him.

Section 5.5. ***Notices***

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary, and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section 5.5, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to the Employee shall, if the

Employee is then deceased, be given to the Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 5.5. Any notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

Section 5.6. ***Rights as Stockholder***

Upon delivery of the shares of Restricted Stock to the escrow holder pursuant to Section 5.4, the Employee shall have all the rights of a stockholder with respect to said shares, subject to the restrictions herein (including the provisions of Section 5.10), including the right to vote the shares and to receive all dividends or other distributions paid or made with respect to the shares.

Section 5.7. ***Titles***

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

Section 5.8. ***Conformity to Securities Laws***

The Employee acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including, without limitation, the applicable exemptive conditions of Rule 16b-3. Notwithstanding anything herein to the contrary, this Agreement shall be administered, and the Restricted Stock shall be issued only in such a manner as to conform to such laws, rules and

regulations. To the extent permitted by applicable law, this Agreement and the Restricted Stock issued hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 5.9. ***Amendments***

This Agreement and the Plan may be amended without the consent of the Employee provided that such amendment would not impair any rights of the Employee under this Agreement. No amendment of this Agreement shall, without the consent of the Employee, impair any rights of the Employee under this Agreement.

Section 5.10. ***Tax Withholding***

The Company's obligation : (i) to issue or deliver to the Employee any certificate or certificates for unrestricted shares of stock; or (ii) to pay to the Employee any dividends or make any distributions with respect to the Restricted Stock, is expressly conditioned upon receipt from the Employee, on or prior to the date reasonably specified by the Company of:

(a) Full payment (in cash or by check) of any amount that must be withheld by the Company (or other employer corporation) for federal, state and/or local tax purposes; or

(b) Subject to the Committee's consent and Section 5.10(c), full payment by delivery to the Company of unrestricted shares of the Company's Common Stock previously owned by the Employee duly endorsed for transfer to the company by the Employee with an aggregate Fair Market Value (determined, as applicable, as of the date of the lapse of the restrictions or vesting or as of the date of the distribution) equal to the amount that must be withheld by the Company for federal, state and/or local tax purposes; or

(c) With respect to the withholding obligation for shares of Restricted Stock that become unrestricted shares as of a certain date (the "Vesting Date"), subject to the Committee's consent, full payment by retention by the Company of a portion of such shares of Restricted Stock which become unrestricted or vested with an aggregated Fair Market Value (determined on the Vesting Date) equal to the amount that must be withheld by the Company (or other employer corporation) for federal, state and/or local tax purposes; or

(d) Subject to the Committee's consent, a combination of payments provided for in the foregoing subsections (a), (b) or (c).

Notwithstanding anything herein to the contrary, the number of shares which may be withheld with respect to the vesting of Restricted Stock in order to satisfy the Company's federal, state and/or local tax withholding obligations with respect to the vesting of Restricted Stock shall be limited to the number of shares which have a Fair Market Value on the Vesting Date equal to the aggregate amount of such withholding obligations based on the minimum applicable statutory withholding rates for federal, state and/or local income and payroll tax purposes.

Section 5.11. ***Governing Law***

This Agreement shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

IN WITNESS HEREOF, this Agreement has been executed and delivered by the parties hereto.

OWENS-ILLINOIS, INC.

By: ______________________________

Its: Sr. VP Chief Human Resources Officer

____
Employee

____

____
Address

Employee’s Taxpayer
Identification Number:

____

Exhibit 10.31

INCENTIVE AWARD PLAN

OF

OWENS-ILLINOIS, INC.

PHANTOM STOCK AGREEMENT

THIS PHANTOM STOCK AGREEMENT (the "Agreement"), dated as of , 20 is made by and between Owens-Illinois, Inc., a Delaware corporation (the "Company") and , an employee of the Company or a Parent Corporation or a Subsidiary (the "Employee"):

WHEREAS, the Company has established the 2005 Incentive Award Plan (the "Plan"); and

WHEREAS, the Plan provides for the issuance of phantom stock units, subject to certain vesting conditions thereon and to other conditions stated herein; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company (the "Committee") has determined it would be to the advantage and best interest of the Company and its stockholders to issue the Units provided for herein to the Employee in partial consideration of services rendered, or to be rendered, to the Company and/or its subsidiaries.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

DEFINITIONS

Whenever the following terms are used in this Agreement, they shall have the meaning specified below, unless the context clearly indicates to the contrary. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan. The masculine pronoun shall include the feminine and neuter and the singular the plural, where the context so indicates.

Section 1.1. *Cause*

"Cause" shall mean dishonesty, disloyalty, misconduct, insubordination, failure to reasonably devote working time to assigned duties, failure or refusal to comply with any reasonable rule, regulation, standard or policy which from time to time may be established by the Company, including, without limitation, those policies set forth in the Owens-Illinois Policy Manual in effect from time to time, or failure to fully cooperate with any investigation of an alleged violation of any such rule, regulation, standard or policy.

Section 1.2. *Common Stock*

"Common Stock" shall mean the common stock of the Company, $.01 par value.

Section 1.3. *Competing Business*

"Competing Business" shall mean any person, corporation or other entity engaged in or in any other country in which the Company, any Parent Corporation or any Subsidiary manufactures or sells its products, in the manufacture or sale of glass containers, plastic containers, plastic closures, plastic prescription containers, or any other products manufactured or sold by the Company, any Parent Corporation or any Subsidiary within the last two (2) years prior to the Employee's Termination of Employment.

Section 1.4. *Disability*

"Disability" shall mean the total disability of the Employee, as determined in the sole discretion of the Committee.

Section 1.5 — *Exchange Act*

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.6. *Fair Market Value*

"Fair Market Value" of a share of the Company's stock as of a given date shall be: (i) the closing price of a share of the Company's stock on the principal exchange on which shares of the Company's stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if such stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the stock on the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if such stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if the Company's stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 1.7. *Parent Corporation*

“Parent Corporation” shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.8. Plan

“Plan” shall mean the 2005 Incentive Award Plan of Owens-Illinois, Inc.

Section 1.9. Rule 16b-3

“Rule 16b-3” shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

Section 1.10. Secretary

“Secretary” shall mean the Secretary of the Company.

Section 1.11. Securities Act

“Securities Act” shall mean the Securities Act of 1933, as amended.

Section 1.12. Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. “Subsidiary” shall also mean any partnership in which the Company and or any Subsidiary owns more than fifty (50%) percent of the capital or profits interests.

Section 1.13. Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company, a Parent Corporation or a Subsidiary is terminated for any reason, with or without Cause, including, but not by way of limitation, a termination by resignation, discharge or retirement; but excluding (a) a termination where there is a simultaneous reemployment or continuing employment of the Employee by the Company, a Parent Corporation or a Subsidiary, (b) a termination where the Employee continues a relationship (e.g., as a director or as a consultant) with the Company, a Parent Corporation or a Subsidiary, or (c) a termination resulting from the death or Disability of the Employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for Cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment. Notwithstanding any other provision of this Agreement, the Company, any Parent Corporation or any Subsidiary has the absolute and unrestricted right to terminate the Employee’s employment at any time for any reason whatsoever, with or without Cause.

ARTICLE II.

ISSUANCE OF UNITS

Section 2.1. Issuance of Units

In consideration of the services rendered or to be rendered to the Company, a Parent Corporation or a Subsidiary and for other good and valuable consideration which the Committee has determined to be equal to the par value of its Common Stock, on the date hereof the Company awards to the Employee units of Phantom Stock (“Units”), upon the terms and conditions set forth in this Agreement.

Section 2.2. No Right to Continued Employment

Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company, any Parent Corporation or any Subsidiary or shall interfere with or restrict in any way the rights of the Company, any Parent Corporation or any Subsidiary, which are hereby expressly reserved, to discharge the Employee at any time for any reasons whatsoever, with or without Cause.

ARTICLE III.

VESTING

Section 3.1. Vesting of Units.

The Units shall vest either (i) as to 25% of the Units granted pursuant to this Agreement on each of the first four anniversaries of the date of grant of such Units, or (ii) in their entirety upon the Employee’s death or Disability prior to a Termination of Employment. Upon the vesting of Units and subject to Section 5.3, the Company shall cause certificates to be issued for one share of Common Stock for each vested Unit and delivered to the Employee or his legal representative.

Section 3.2. Termination of Units Upon a Termination of Employment

Upon a Termination of Employment all Units awarded to the Employee pursuant to this Agreement which have not vested in accordance with Section 3.1 shall terminate immediately without payment of any consideration by the Company. No payment is due to the Employee upon such termination.

<u>Section 3.3.</u> ***<u>Merger, Consolidation, Acquisition, Liquidation or Dissolution</u>***

Notwithstanding any other provision of this Agreement, upon the merger or consolidation of the Company into another corporation, the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of all or substantially all of the Company's assets or 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, the Committee shall then provide by resolution

adopted prior to such event that, at some time prior to the effective date of such event, all Units not previously terminated pursuant to Section 3.2 shall fully vest.

<u>Section 3.4.</u> ***<u>Adjustment</u>***

In the event of any change in the number of outstanding shares of Common Stock as a result of a stock dividend or stock split, the Company shall make a corresponding and proportionate adjustment in the number of Units credited to the Employee. If the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of securities of the Company other than by reason of a stock dividend or stock split, the Committee shall determine a similar appropriate adjustment, and the same shall be made in the number of Units then credited to the Employee.

ARTICLE IV.

<u>NON-COMPETITION/NON-SOLICITATION</u>

<u>Section 4.1.</u> ***<u>Covenant Not to Compete</u>***

The Employee covenants and agrees that prior to the Employee's Termination of Employment and for a period of three (3) years following the Employee's Termination of Employment, including without limitation termination for Cause or without Cause, the Employee shall not, in
or in any other country in which the Company, any Parent Corporation or any Subsidiary manufactures or sells it products, engage, directly or indirectly, whether as principal or as agent, officer, director, employee, consultant, shareholder or otherwise, alone or in association with any other person, corporation or other entity, in any Competing Business.

<u>Section 4.2.</u> ***<u>Non-Solicitation of Employees</u>***

The Employee agrees that prior to his Termination of Employment and for three (3) years following the Employee's Termination of Employment, including without limitation termination for Cause or without Cause, the Employee shall not, directly or indirectly, solicit or induce, or attempt to solicit or induce, any employee of the Company, any Parent Corporation or any Subsidiary to leave the employment of the Company, any Parent Corporation or any Subsidiary for any reason whatsoever, or hire any employee of the Company, any Parent Corporation or any Subsidiary except into the employment of the Company, a Parent Corporation or a Subsidiary.

<u>Section 4.3</u> ***<u>Equitable Relief</u>***

The Employee agrees that it is impossible to measure in money the damages that will accrue to the Company in the event that the Employee breaches any of the restrictive covenants provided in Sections 4.1 or 4.2 hereof. Accordingly, in the event that the Employee breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Employee from further violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Employee hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert such

claim or defense. The foregoing shall not prejudice the Company's right to require the Employee to account for and pay over to the Company, and the Employee hereby agrees to account for and pay over, any compensation, profits, monies, accruals or other benefits derived or received by the Employee as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 4.1 or 4.2 hereof.

ARTICLE V.

<u>MISCELLANEOUS</u>

<u>Section 5.1.</u> ***<u>Administration</u>***

The Committee shall have the power to interpret the Plan and this Agreement, and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith, to interpret, amend or revoke any such rules. All action taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan or this Agreement except with respect to matters which under Rule 16b-3, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. No member of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Units, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

<u>Section 5.2.</u> ***<u>Units Not Transferable</u>***

No Unit or any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Employee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means, whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), any attempted disposition thereof shall be null and void and of no effect; provided however, that this Section 5.2 shall not prevent transfers by will or by the applicable laws of descent and distribution.

Section 5.3. Conditions to Issuance of Stock Certificates

The Company shall not be required to issue or deliver any certificate or certificates for shares of stock pursuant to this Agreement prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its sole discretion,

deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable; and

(d) Subject to Section 5.9 the payment by the Employee of all amounts which, under federal, state or local tax law, the Company (or other employer corporation) is required to withhold upon the vesting of Units; and

(e) The lapse of such reasonable period of time as the Committee may from time to time establish for reasons of administrative convenience.

Section 5.4. Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary, and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section 5.4, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to the Employee shall, if the Employee is then deceased, be given to the Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 5.4. Any notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States or Postal Service.

Section 5.5. Dividends

At such times as dividends are paid on the outstanding Common Stock, the Company shall calculate an equivalent dividend (the "Dividend Equivalent") to be paid on each Unit. The Company shall pay such Dividend Equivalents to the Employee in the currency in which the Employee's regular compensation is customarily paid as soon as administratively feasible after the dividend is paid on the Common Stock.

Section 5.6. Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

Section 5.7. Conformity to Securities Laws

The Employee acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including, without limitation, the applicable exemptive conditions of Rule 16b-3. Notwithstanding anything herein to the contrary, this Agreement shall be administered only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by

applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 5.8. Amendments

This Agreement and the Plan may be amended without the consent of the Employee provided that such amendment would not impair any rights of the Employee under this Agreement. No amendment of this Agreement shall, without the consent of the Employee, impair any rights of the Employee under this Agreement.

Section 5.9. Tax Withholding

The Company's obligation : (i) to issue or deliver to the Employee any certificate or certificates for shares of stock; or (ii) to pay to the Employee any dividends or make any distributions with respect to the Units, is expressly conditioned upon receipt from the Employee, on or prior to the date reasonably specified by the Company of:

(a) Full payment (in cash or by check) of any amount that must be withheld by the Company (or other employer corporation) for federal, state and/or local tax purposes; or

(b) Subject to the Committee’s consent, full payment by delivery to the Company of unrestricted shares of the Company’s Common Stock previously owned by the Employee duly endorsed for transfer to the company by the Employee with an aggregate Fair Market Value (determined, as applicable, as of the date of vesting or as of the date of the distribution) equal to the amount that must be withheld by the Company for federal, state and/or local tax purposes; or

(c) Subject to the Committee’s consent, a combination of payments provided for in the foregoing subsections (a) or (b).

Section 5.10. Governing Law

This Agreement shall be administered, interpreted and enforced under the internal laws of the State of Delaware, U.S.A. without regard to conflicts of laws thereof.

IN WITNESS HEREOF, this Agreement has been executed and delivered by the parties hereto.

OWENS-ILLINOIS, INC.

By: ______________________________

Its: Senior Vice President

____
Employee

____

____
Address

Employee’s Taxpayer
Identification Number:

____

Exhibit 10.32

2005 INCENTIVE AWARD PLAN

OF

OWENS-ILLINOIS, INC.

RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT ("RSU") AGREEMENT ("AGREEMENT"), dated , 20 is made by and between Owens-Illinois, Inc., a Delaware corporation (the "Company") and [NAME], an employee of the Company or a Parent Corporation or a Subsidiary (the "Employee"):

WHEREAS, the Company has established the 2005 Incentive Award Plan (the "Plan"); and

WHEREAS, the Plan provides for the issuance of RSUs, subject to certain vesting conditions thereon and to other conditions stated herein; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company (the "Committee") has determined it would be to the advantage and best interest of the Company and its stockholders to issue the RSUs provided for herein to the Employee in partial consideration of services rendered, or to be rendered, to the Company and/or its subsidiaries.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

DEFINITIONS

Whenever the following terms are used in this Agreement, they shall have the meaning specified below, unless the context clearly indicates to the contrary. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan. The masculine pronoun shall include the feminine and neuter and the singular the plural, where the context so indicates.

Section 1.1. Cause

"Cause" shall mean dishonesty, disloyalty, misconduct, insubordination, failure to reasonably devote working time to assigned duties, failure or refusal to comply with any reasonable rule, regulation, standard or policy which from time to time may be established by the Company, including, without limitation, those policies set forth in the Owens-Illinois Policy Manual in effect from time to time, or failure to fully cooperate with any investigation of an alleged violation of any such rule, regulation, standard or policy.

Section 1.2. Common Stock

"Common Stock" shall mean the common stock of the Company, $.01 par value.

Section 1.3. Disability

"Disability" means the total disability of the Employee, as determined in the sole discretion of the Committee.

Section 1.4. – Competing Business

"Competing Business" shall mean any person, corporation or other entity engaged in the United States of America or in any other country in which the Company, any Parent Corporation or any Subsidiary manufactures or sells its products, in the manufacture or sale of glass containers, plastic containers, plastic closures, plastic prescription containers, or any other products manufactured or sold by the Company, any Parent Corporation or any Subsidiary within the last two (2) years prior to the Employee's Termination of Employment or Retirement.

Section 1.5. Exchange Act

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.6. Fair Market Value

"Fair Market Value" of a share of the Company's stock as of a given date shall be: (i) the closing price of a share of the Company's stock on the principal exchange on which shares of the Company's stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if such stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the stock on the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if such stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if the Company's stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 1.7. Parent Corporation

"Parent Corporation" shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.8. Performance Period

"Performance Period" shall mean January 1, 20 through December 31, 20 , or such shorter period ending on any Vesting Date occurring prior to December 31, 20 .

Section 1.9 Plan

"Plan" shall mean the 2005 Incentive Award Plan of Owens-Illinois, Inc.

Section 1.10. Retirement

"Retirement" shall mean the retirement and "separation from service" (within the meaning of Section 409A of the Code) of an Employee from the Company, a Parent Corporation or a Subsidiary after reaching the Company's normal retirement age or the early retirement of an Employee from the Company, a Parent Corporation or a Subsidiary after reaching the age of 60.

Section 1.11. Rule 16b-3

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

Section 1.12. Secretary

"Secretary" shall mean the Secretary of the Company.

Section 1.13. Securities Act

"Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.14. Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. "Subsidiary" shall also mean any partnership in which the Company and or any Subsidiary owns more than fifty (50%) percent of the capital or profits interests.

Section 1.15. Termination of Employment

"Termination of Employment" shall mean the time when the employee-employer relationship between the Employee and the Company, a Parent Corporation or a Subsidiary is terminated for any reason, with or without Cause, including, but not by way of limitation, a termination by resignation or discharge, but excluding (a) a termination where there is a simultaneous reemployment or continuing employment of the Employee by the Company, a Parent Corporation or any Subsidiary, (b) a termination where the Employee continues a relationship (e.g., as a director or as a consultant) with the Company, a Parent Corporation or a Subsidiary, or (c) a termination resulting from the Retirement, death or Disability of the

Employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for Cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment. Notwithstanding any other provision of this Agreement, the Company, any Parent Corporation or any Subsidiary has the absolute and unrestricted right to terminate the Employee's employment at any time for any reason whatsoever, with or without Cause.

Section 1.16. Vesting Date

"Vesting Date" shall mean January 1, 20 , or such earlier date on which (i) the Employee dies or experiences a Retirement or Disability, or (ii) the Company experiences an event described in Section 3.4 of this Agreement.

ARTICLE II.

ISSUANCE OF RSUs

Section 2.1. Issuance of RSUs

In consideration of the services rendered or to be rendered to the Company, a Parent Corporation or a Subsidiary and for other good and valuable consideration which the Committee has determined to be equal to the par value of its Common Stock, on the date hereof the Company awards to the Employee [ ] RSUs, upon the terms and conditions set forth in this Agreement.

Section 2.2. No Right to Continued Employment

Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employee of the Company, any Parent Corporation or any Subsidiary or shall interfere with or restrict in any way the rights of the Company, any Parent Corporation or any Subsidiary, which are hereby expressly reserved, to discharge the Employee at any time for any reasons whatsoever, with or without Cause.

ARTICLE III.

VESTING; PAYMENT

Section 3.1. ***Vesting of RSUs***

Except as otherwise provided in this Section 3.1, the RSUs shall vest in their entirety on the Vesting Date, provided that the Employee does not experience a Termination of Employment prior to such date. If the Employee experiences a Termination of Employment resulting from the Company's discharge of the Employee not for Cause, such Employee shall immediately vest in that number of RSU's, equal to the number of RSU's in which such Employee would have vested on January 1, 20 , but for such Termination of Employment, times a fraction, the numerator of which is the number of days from the date hereof to the Termination of Employment and the denominator of which is the number of days from the date hereof to the Vesting Date.

Section 3.2. ***Termination of RSUs***

Until vested pursuant to Section 3.1, all RSUs issued to the Employee pursuant to this Agreement shall terminate immediately upon a Termination of Employment. For the avoidance of doubt, if the Employee experiences a Termination of Employment prior to a Vesting Date for any reason not described in Section 3.1, all RSUs issued to the Employee pursuant to this Agreement shall immediately terminate.

Section 3.3. ***Payment of RSUs***

Vested RSUs shall become payable, to the extent any amount becomes payable in respect of a vested RSU, as soon as practicable after the Vesting Date, but in any event within the period ending on the later to occur of the date that is 2 ½ months after the end of (i) the Employee's tax year that includes the Vesting Date, or (ii) the Company's tax year that includes the Vesting Date, *provided*, that if the Vesting Date occurs prior to January 1, 20 , vested RSUs shall become payable as soon as practicable after the Company determines the extent, if any, to which the performance criteria below have been satisfied, but in any event during calendar year 20 . Each vested RSU shall entitle the Employee to receive a number of shares of Common Stock, if any, determined based on the following vesting schedule:

[Insert vesting schedule]

Section 3.4. ***Merger, Consolidation, Acquisition, Liquidation or Dissolution***

Notwithstanding any other provision of this Agreement, upon the merger or consolidation of the Company into another corporation, the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of all or substantially all of the Company 's assets or 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, the Committee shall then provide by resolution adopted prior to such event that, at some time prior to the effective date of such event, all outstanding RSUs not previously terminated pursuant to Section 3.2 shall fully vest.

Section 3.5. ***Adjustments***

In the event of any change in the number or type of outstanding shares of Common Stock as a result of a stock dividend, stock split or otherwise, the Committee may make such adjustments to the number of RSUs credited to the Employee, the shares subject to such RSUs, and/or the applicable performance criteria, as the Committee deems appropriate in its sole discretion.

ARTICLE IV.

NON-COMPETITION/NON-SOLICITATION

Section 4.1. ***Covenant Not to Compete***

Employee covenants and agrees that prior to Employee's Termination of Employment or Retirement and for a period of three (3) years following the Employee's Termination of Employment or Retirement, including without limitation termination for Cause or without Cause, Employee shall not, in any country in which the Company, any Parent Corporation or any Subsidiary manufactures or sells it products, engage, directly or indirectly, whether as principal or as agent, officer, director, employee, consultant, shareholder or otherwise, alone or in association with any other person, corporation or other entity, in any Competing Business.

Section 4.2. ***Non-Solicitation of Employees***

Employee agrees that prior to his Termination of Employment or Retirement and for three (3) years following Employee's Termination of Employment or Retirement, including without limitation termination for Cause or without Cause, Employee shall not, directly or indirectly, solicit or induce, or attempt to solicit or induce, any employee of the Company, any Parent Corporation or any Subsidiary to leave the employment of the Company, any Parent Corporation or any Subsidiary for any reason whatsoever, or hire any employee of the Company, any Parent Corporation or any Subsidiary except into the employment of the Company, a Parent Corporation or a Subsidiary.

Section 4.3 ***Equitable Relief***

Employee agrees that it is impossible to measure in money the damages that will accrue to the Company in the event that Employee breaches any of the restrictive covenants provided in Sections 4.1 or 4.2 hereof. Accordingly, in the event that Employee breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining Employee from further violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, Employee hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert such claim or defense. The foregoing shall not prejudice the Company's right to require Employee to account for and pay over to the Company, and Employee hereby agrees to account for and pay over, any compensation, profits, monies, accruals or other benefits derived or received by Employee as a

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result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 4.1 or 4.2 hereof.

ARTICLE V.

MISCELLANEOUS

Section 5.1. ***Administration***

The Committee shall have the power to interpret the Plan and this Agreement, and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith, to interpret, amend or revoke any such rules. All action taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan or this Agreement except with respect to matters which under Rule 16b-3, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. No member of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the RSUs, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

Section 5.2. ***RSUs Not Transferable***

No RSU or any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Employee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means, whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), any attempted disposition thereof shall be null and void and of no effect; provided however, that this Section 5.2 shall not prevent transfers by will or by the applicable laws of descent and distribution.

Section 5.3. ***Conditions to Issuance of Stock Certificates***

The Company shall not be required to issue or deliver any certificate or certificates for shares of stock pursuant to this Agreement prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its sole discretion, deem necessary or advisable; and

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(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable; and

(d) Subject to Section 5.10 the payment by the Employee of all amounts which, under federal, state or local tax law, the Company (or other employer corporation) is required to withhold upon vesting or payment of a RSU; and

(e) The lapse of such reasonable period of time as the Committee may from time to time establish for reasons of administrative convenience.

Section 5.4. ***Notices***

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary, and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section 5.4, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to the Employee shall, if the Employee is then deceased, be given to the Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 5.4. Any notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

Section 5.5. ***Rights as Stockholder; Dividends***

No Employee shall, by virtue of any RSU, be entitled to vote in any Company election, receive any dividend in respect of a RSU or exercise any other rights of a stockholder of the Company. RSUs shall not confer upon any Employee any rights of a stockholder of the Company unless and until any such RSUs have vested and shares of Common Stock have been distributed in respect of such RSUs.

Section 5.6. Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

Section 5.7. Conformity to Laws

The Employee acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of applicable law, including without limitation the provisions of the Securities Act and the Exchange Act, the regulations and rules promulgated by the Securities and Exchange Commission thereunder, the applicable exemptive conditions of Rule 16b-3 and any other applicable laws. Notwithstanding anything herein to the contrary, this Agreement shall be administered only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 5.8. Section 409A

Section 409A of the Internal Revenue Code provides that “nonqualified deferred compensation” that does not meet the requirements specified in Section 409A may become subject to penalty taxes. Currently, the Company does not believe that RSUs constitute nonqualified deferred compensation within the meaning of Section 409A; however, if, in the future, the RSUs are or may become subject to Section 409A, the Committee may make such modifications to the Plan and this Agreement as may become necessary or advisable, in the Committee’s sole discretion, to either comply with Section 409A or to avoid its application to the RSUs.

Section 5.9. Amendments

This Agreement and the Plan may be amended without the consent of the Employee provided that such amendment would not impair any rights of the Employee under this Agreement. No amendment of this Agreement shall, without the consent of the Employee, impair any rights of the Employee under this Agreement.

Section 5.10. Tax Withholding

The Company’s obligation to issue or deliver to the Employee any certificate or certificates for shares of Common Stock is expressly conditioned upon receipt from the Employee, on or prior to the date reasonably specified by the Company of:

(a) Full payment (in cash or by check) of any amount that must be withheld by the Company (or other employer corporation) for federal, state and/or local tax purposes; or

(b) Subject to the Committee’s consent, full payment by delivery to the Company of unrestricted shares of the Company’s Common Stock previously owned by the Employee, duly endorsed for transfer to the Company by the Employee with an aggregate Fair Market Value (determined, as applicable, as of the date of vesting or as of the date of the distribution) equal to the amount that must be withheld by the Company (or other employer corporation) for federal, state and/or local tax purposes; or

(c) With respect to the withholding obligation for RSUs that become vested, subject to the Committee’s consent, full payment by retention by the Company of a portion of the shares deliverable in respect of such vested RSUs with an aggregated Fair Market Value (determined on the payment date) equal to the amount that must be withheld by the Company (or other employer corporation) for federal, state and/or local tax purposes; or

(d) Subject to the Committee’s consent, a combination of payments provided for in the foregoing subsections (a), (b) and (c).

Notwithstanding anything herein to the contrary, the number of shares which may be withheld with respect to the payment of any RSUs in order to satisfy the Company’s federal,

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state and/or local tax withholding obligations with respect to the payment of the RSUs shall be limited to the number of shares which have a Fair Market Value on the date of withholding equal to the aggregate amount of such withholding obligations based on the minimum applicable statutory withholding rates for federal, state and/or local income and payroll tax purposes.

Section 5.11. Governing Law

This Agreement shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

IN WITNESS HEREOF, this Agreement has been executed and delivered by the parties hereto.

OWENS-ILLINOIS, INC.

By: ______________________________

Its: Executive Vice President

____

Employee

Address

Employee’s Taxpayer
Identification Number:

EXHIBIT 12

OWENS-ILLINOIS, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(Millions of dollars, except ratios)

	Years ended December 31,		
	2005	2004	2003
Earnings (loss) from continuing operations before income taxes and minority share owners' interests	$ (218.6)	$ 210.3	$ (438.0)
Less: Equity earnings	(22.6)	(27.8)	(27.1)
Add: Total fixed charges deducted from earnings	479.7	489.1	440.6
Proportional share of pre-tax earnings of 50% owned associates	8.9	11.0	8.1
Dividends received from equity investees	11.0	12.8	31.1
Earnings available for payment of fixed charges	$ 258.4	$ 695.4	$ 14.7
Fixed charges (including the Company's proportional share of 50% owned associates):			
Interest expense	$ 450.7	$ 460.0	$ 415.4
Portion of operating lease rental deemed to be interest	13.0	14.2	10.8
Amortization of deferred financing costs and debt discount expense	16.0	14.9	14.4
Total fixed charges deducted from earnings	$ 479.7	$ 489.1	$ 440.6
Preferred stock dividends (increased to assumed pre-tax amount)	30.7	29.4	30.3
Combined fixed charges and preferred stock dividends	$ 510.4	$ 518.5	$ 470.9
Ratio of earnings to fixed charges		1.4	
Deficiency of earnings available to cover fixed charges	$ 221.3		$ 425.9
Ratio of earnings to combined fixed charges and preferred stock dividends		1.3	
Deficiency of earnings available to cover combined fixed charges and preferred stock dividends	252.0		456.2

	Years ended December 31,	
	2002	2001
Earnings from continuing operations before income taxes, minority share owners' interests and cumulative effect of accounting change	$ (62.5)	$ 650.9
Less: Equity earnings	(27.0)	(18.8)
Add: Total fixed charges deducted from earnings	384.9	374.6
Proportional share of pre-tax earnings of 50% owned associates	13.3	10.4
Dividends received from less than 50% owned associates	29.2	18.2
Earnings available for payment of fixed charges	$ 337.9	$ 1,035.3
Fixed charges (including the Company's proportional share of 50% owned associates):		
Interest expense	$ 356.1	$ 345.3
Portion of operating lease rental deemed to be interest	12.7	14.3
Amortization of deferred financing costs and debt discount expense	16.1	15.0
Total fixed charges deducted from earnings	$ 384.9	$ 374.6
Preferred stock dividends (increased to assumed pre-tax amount)	30.7	36.7
Combined fixed charges and preferred stock dividends	$ 415.6	$ 411.3
Ratio of earnings to fixed charges		2.8
Deficiency of earnings available to cover fixed charges	$ 47.0	
Ratio of earnings to combined fixed charges and preferred stock dividends		2.5
Deficiency of earnings available to cover combined fixed charges and preferred stock dividends	77.7	

EXHIBIT 21

SUBSIDIARIES OF OWENS-ILLINOIS, INC.

Owens-Illinois, Inc. had the following subsidiaries at December 31, 2005 (subsidiaries are indented following their respective parent companies):

Name	State/Country of Incorporation or Organization
Owens-Illinois Group, Inc.	Delaware
OI Health Care Holding Corp	Delaware
OI General Finance Inc.	Delaware
OI Plastic Products FTS Inc.	Delaware
OI Australia Inc.	Delaware
Continental PET Holdings Pty, Ltd.	Australia
ACI America Holdings Inc.	Delaware
ACI Ventures Inc.	Delaware
Owens-Illinois Healthcare Packaging Inc.	Delaware
Specialty Packaging Licensing Company	Delaware
Owens-Illinois Specialty Products Puerto Rico Inc.	Delaware
Owens-illinois Closures de Mexico, S. de R.L. de C.V.	Mexico
Owens-Illinois Closure Inc.	Delaware
Product Design & Engineering, Inc.	Minnesota
OI Brazil Closure Inc.	Delaware
Owens-Illinois Participacoes Ltda.	Brazil
Owens-Illinois Plasicos do Brasil Ltda.	Brazil
Specialty Packaging Products de Mexico, S.A. de C.V.	Mexico
Owens-Illinois Prescription Products Inc.	Delaware
OI Medical Inc.	Delaware
OI General FTS Inc.	Delaware
Sovereign Air, LLC	Delaware
OI Castalia STS Inc.	Delaware
OI Levis Park STS Inc.	Delaware
OI AID STS Inc.	Delaware
Owens-Illinois General Inc.	Delaware
Owens Insurance, Ltd.	Bermuda
OI Holding Company, Inc.	Ohio
Universal Materials, Inc.	Ohio
OI Advisors, Inc.	Delaware
OI Securities Inc.	Delaware
OI Transfer Inc.	Delaware
Maumee Air Associates Inc.	Delaware
Owens-Brockway Packaging, Inc.	Delaware
Owens-Brockway Glass Container Inc.	Delaware
Brockway Realty Corp.	Pennsylvania
Owens-Brockway Glass Container Trading Co.	Delaware
Brockway Research, Inc.	Delaware
NHW Auburn, LLC	Delaware
OI Auburn Inc.	Delaware
OI Domestic Holdings Inc.	Delaware
Overseas Finance Co.	Delaware
SeaGate, Inc.	Ohio
SeaGate II Inc.	Delaware
SeaGate III Inc.	Delaware
OI Consol STS Inc.	Delaware
OIB Produvisa Inc.	Delaware
OI California Containers Inc.	Delaware
OB Cal South Inc.	Delaware
OI Puerto Rico STS Inc.	Delaware
OI Europe & Asia Inc.	Delaware
Bolivian Investments, Inc.	Delaware
Fabrica Boliviana de Vidrios S.A.	Bolivia
OI Thailand Inc.	Delaware
OI Pacific (Machinery and Distribution) Limited	Thailand
OI International Holdings Inc.	Delaware
OI Global C.V.	Netherlands
OI Hungary LLC	Delaware
United Hungarian Glass Containers Kft.	Hungary
Owens-Illinois Plastics Kft	Hungary

OI Ecuador STS LLC	Delaware
Cristaleria del Ecuador, S. A.	Ecuador
Owens-Illinois (Australia) Pty. Ltd.	Australia
ACI Packaging Services Pty . Ltd.	Australia
ACI Technical Services Pty. Ltd.	Australia
ACI Operations Pty. Ltd.	Australia
ACI Plastics Packaging (Thailand) Ltd.	Thailand
Australian Consolidated Industries Pty. Ltd.	Australia
ACI International Pty. Ltd.	Australia
OI Andover Group Inc.	Delaware
The Andover Group Inc.	Delaware
ACI Glass Packaging Penrith Pty. Ltd.	Australia
PT Kangar Consolidated Industries	Indonesia
ACI India LLC	Delaware
Owens-Illinois (NZ) Ltd.	New Zealand
ACI Operations NZ Ltd.	New Zealand
OI China LLC	Delaware

Name	State/Country of Incorporation or Organization
Wuhan Owens Glass	
Container Company Ltd.	China
Owens-Illinois (HK) Ltd.	Hong Kong
ACI Guangdong Ltd.	Hong Kong
ACI Guangdong Glass Company Ltd.	China
ACI Shanghai Ltd.	Hong Kong
ACI Shanghai Glass Company Ltd.	China
ACI Tianjin Ltd.	Hong Kong
ACI Tianjin Mould Company Ltd.	China
Owens-Illinois Services H.K. Ltd.	Hong Kong
ACI Beijing Ltd.	Hong Kong
OI Tinajin Glass Co. Ltd.	China
ACI Finance Pty. Ltd.	Australia
OI European Group B.V.	Netherlands
OI Birmingham Machine Assembly Limited	United Kingdom
OI Asia Pacific Holdings	Mauritius
OI Europe Sarl	Switzerland
OI Eastern Europe Holdings BV	Netherlands
Closure & Packaging Services, Ltd.	Guernsey
Closure & Packaging Services (U.K.) Ltd.	United Kingdom
Closure & Packaging Services (Antilles) N.V.	Netherlands Antilles
Closure & Packaging	
Services (Netherlands) B.V.	Netherlands
UGG Holdings Ltd.	United Kingdom
OI Overseas Management Company LLC	Delaware
United Glass Group Ltd.	United Kingdom
British Glass Recycling Company Limited	United Kingdom
United Glass, Limited	United Kingdom
United Glass Properties Limited	United Kingdom
Key Glassworks Limited	United Kingdom
OI Glass Holdings B. V.	Netherlands
Owens-Illinois Kft	Hungary
OI Italia S.r.l.	Italy
Sonator Investments B.V.	Netherlands
Vidrieria Rovira, S. L.	Spain
OI Spanish Holdings B.V.	Netherlands
Owens-Illinois Peru S. A.	Peru
Owens-Illinois Polska S. A.	Poland
Zanotti Vetro S.p.a.	Italy
AVIR S.p.A.	Italy
Avirunion, a.s.	Czech Republic

Name	State/Country of Incorporation or Organization
San Domenico Vetraria S.r.l.	Italy
Trasve S.r.l.	Italy
Avir France	France

OI Europe SAS	France
BSN Glasspack	France
BSN Glasspack Espana	Spain
VG Holdings B.V.	Netherlands
BSN Financing Co. S.A.	Netherlands
BSN Glasspack N.V.	Netherlands
Veglarec B.V.	Netherlands
BSN Glasspack Treasury S.A.	Luxembourg
BSN Glasspack RE	Luxembourg
BSN Glasspack Services	France
BSN Glasspack Finance	France
VMC	France
OI Sales and Distribution SAS	France
Verdome Exploitation	France
Sefipal	France
BSN Distr. CO	France
BSN Distr. SE	France
Atlantique Emballage	France
SCI Le Mourtis	France
Fiaver	France
Prover	France
Renfort	France
BSN Glasspack Beteiligungs &	
Verwaltungs GmbH	Germany
BSN Glasspack Verwalthung GmbH	Germany
BSN Glasspack GmbH & Co. KG	Germany
Gebruder Stoevesandt	
Vertriebsgellschaft GmbH	Germany
BSN Glasspack Obligation	France
Owens-Illinois International B. V.	Netherlands
OI Canada Holdings B.V.	Netherlands
O-I Canada Corp.	Canada
Owens-Illinois Plastics PTE, Ltd.	Singapore
Manufacturera de Vidrios Planos, C.A.	Venezuela
Owens-Illinois de Venezuela, C. A.	Venezuela
Fabrica de Vidrio Los Andes, C. A.	Venezuela
CMC S.A.	Colombia
Cristaleria Peldar, S.A.	Colombia

Name	**State/Country of Incorporation or Organization**
Cristar S.A.	Colombia
Vidrieria Fenicia	Colombia
Industria de Materias Primas S.A.	Colombia
Sao Raimundo Administracao, Participacoes	
e Representacoes, Limitada	Brazil
Companhia Industrial Sao Paulo e Rio	Brazil
Owens-Illinois do Brasil S.A.	Brazil
Cisper da Amazonia S.A.	Brazil
Mineracao Silminas Ltda.	Brazil
Mineracao Descalvado Ltda.	Brazil
LLC Novgorod Steklo	Russia
OI Finnish Holdings Oy	Finland
Karhulan Lasi Oy	Finland
UAB Karhulan Lasi Oy	Lithuania
A/S Jarvakandi Klaas	Estonia

EXHIBIT 23

OWENS-ILLINOIS, INC.
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-47519), in the Registration Statement (Form S-3 No. 333-109602) and in the related Prospectus of Owens-Illinois, Inc., in the Registration Statement (Form S-8 No. 333-69624) pertaining to the Amended and Restated Owens-Illinois, Inc. Stock Purchase and Savings Program, the Amended and Restated Owens-Illinois, Inc. Long-Term Savings Plan, and the Owens-Illinois de Puerto Rico Long-Term Savings Plan, in the Registration Statement (Form S-8 No. 33-44252) pertaining to the Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc., in the Registration Statement (Form S-8 No. 33-57141) pertaining to the Stock Option Plan for Directors of Owens-Illinois, Inc., in the Registration Statement (Form S-8 No. 333-47691) pertaining to the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc., and in Registration Statement (Form S-3 No. 333-99741) pertaining to the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. of our reports dated March 15, 2006, with respect to the consolidated financial statements and schedule of Owens-Illinois, Inc., Owens-Illinois, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Owens-Illinois, Inc., and our reports dated March 15, 2006 with respect to the consolidated financial statements of Owens-Brockway Packaging, Inc., Owens-Brockway Glass Container, Inc., and OI Plastic Products FTS Inc., all of which are included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Ernst & Young LLP

Toledo, Ohio
March 15, 2006

EXHIBIT 24

OWENS-ILLINOIS, INC.
POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS: That each individual whose signature appears below hereby consents to and appoints James W. Baehren as his true and lawful attorney-in-fact and agent with all power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 2005 Annual Report on Form 10-K of Owens-Illinois, Inc., a corporation organized and existing under the laws of the State of Delaware, and any and all amendments thereto, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission pursuant to the requirements of the Securities Exchange Act of 1934, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the same as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his hand on the date set opposite his name.

Signature	Title	Date
/s/ Gary F. Colter Gary F. Colter	Director	March 16, 2006
/s/ Robert J. Dineen Robert J. Dineen	Director	March 16, 2006
/s/Anastasia D. Kelly Anastasia D. Kelly	Director	March 16, 2006
/s/ Steven R. McCracken Steven R. McCracken	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer); Director	March 16, 2006
/s/ John J. McMackin, Jr. John J. McMackin, Jr.	Director	March 16, 2006
/s/ Corbin A. McNeill, Jr. Corbin A. McNeill, Jr.	Director	March 16, 2006
/s/ Albert P.L. Stroucken Albert P.L. Stroucken	Director	March 16, 2006
/s/ Helge H. Wehmeier Helge H. Wehmeier	Director	March 16, 2006
Dennis K. Williams	Director	March 16, 2006
/s/ Thomas L. Young Thomas L. Young	Director	March 16, 2006

EXHIBIT 31.1

CERTIFICATIONS

I, Steven R. McCracken, certify that:

1. I have reviewed this annual report on Form 10-K of Owens-Illinois, 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 March 16, 2006

/s/ Steven R. McCracken

Steven R. McCracken
Chairman of the Board of Directors and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Edward C. White, certify that:

1. I have reviewed this annual report on Form 10-K of Owens-Illinois, 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 March 16, 2006

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

EXHIBIT 32.1

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, Inc. (the "Company") hereby certifies that to such officer's knowledge:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 (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: March 16, 2006

/s/ Steven R. McCracken

Steven R. McCracken
Chairman of the Board of Directors and Chief Executive Officer
Owens-Illinois, 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.

EXHIBIT 32.2

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, Inc. (the "Company") hereby certifies that to such officer's knowledge:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 (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: March 16, 2006

/s/ Edward C. White

Edward C. White
Senior Vice President
and Chief Financial Officer
Owens-Illinois, 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.