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

FORM 10-Q

(Mark one)

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

For Quarter Ended June 30, 2003

or

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

Owens-Illinois Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**33-13061**	**34-1559348**
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

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

Owens-Illinois Group, Inc. $.01 par value common stock—100 shares at July 31, 2003.

Part I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. Since the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.

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

	Three months ended June 30,	
	2003	**2002**

Revenues:		
Net sales	$ 1,579.6	$ 1,497.3
Royalties and net technical assistance	5.8	6.3
Equity earnings	7.8	6.2
Interest	6.3	6.6
Other	4.6	6.6
	1,604.1	1,523.0
Costs and expenses:		
Manufacturing, shipping, and delivery	1,270.7	1,153.1
Research and development	12.4	9.2
Engineering	7.6	9.7
Selling and administrative	82.2	83.9
Interest	138.4	106.2
Other	43.3	10.9
	1,554.6	1,373.0
Earnings before items below	49.5	150.0
Provision for income taxes	26.7	47.3
Minority share owners' interests in earnings of subsidiaries	5.8	5.8
Net earnings	$ 17.0	$ 96.9

See accompanying notes.

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

	Six months ended June 30,	
	2003	**2002**
Revenues:		
Net sales	$ 2,966.0	$ 2,808.2
Royalties and net technical assistance	12.5	13.1
Equity earnings	13.6	12.2
Interest	14.1	11.9
Other	9.8	15.9
	3,016.0	2,861.3
Costs and expenses:		
Manufacturing, shipping, and delivery	2,410.8	2,172.9
Research and development	22.3	20.0
Engineering	17.8	17.5
Selling and administrative	165.8	164.7
Interest	249.4	218.0
Other	45.9	19.9
	2,912.0	2,613.0
Earnings before items below	104.0	248.3
Provision for income taxes	43.9	77.6
Minority share owners' interests in earnings of subsidiaries	8.7	10.3
Earnings before cumulative effect of accounting change	51.4	160.4

Cumulative effect of accounting change		(460.0)
Net earnings (loss)	$ 51.4	$ (299.6)

See accompanying notes.

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

	June 30, 2003	Dec. 31, 2002	June 30, 2002
Assets			
Current assets:			
Cash, including time deposits	$ 150.2	$ 126.4	$ 139.3
Short-term investments, at cost which approximates market	24.8	17.6	16.7
Receivables, less allowances for losses and discounts ($51.4 at June 30, 2003, $62.5 at December 31, 2002, and $56.9 at June 30, 2002)	876.7	701.9	851.8
Inventories	1,006.6	893.5	882.6
Prepaid expenses	91.0	79.5	172.3
Total current assets	2,149.3	1,818.9	2,062.7
Investments and other assets:			
Equity investments	192.8	192.0	170.6
Repair parts inventories	202.2	196.2	191.7
Prepaid pension	946.5	925.5	926.2
Deposits, receivables, and other assets	570.7	640.9	633.1
Goodwill	2,839.6	2,691.2	2,661.7
Total other assets	4,751.8	4,645.8	4,583.3
Property, plant, and equipment, at cost	6,360.5	5,978.2	5,947.6
Less accumulated depreciation	2,910.4	2,654.1	2,664.7
Net property, plant, and equipment	3,450.1	3,324.1	3,282.9
Total assets	$ 10,351.2	$ 9,788.8	$ 9,928.9

CONDENSED CONSOLIDATED BALANCE SHEETS—continued

	June 30, 2003	Dec. 31, 2002	June 30, 2002
Liabilities and Share Owner's Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	$ 108.1	$ 78.2	$ 92.4
Accounts payable and other liabilities	1,051.5	1,024.2	1,053.0
Total current liabilities	1,159.6	1,102.4	1,145.4
Long-term debt	5,649.3	5,268.0	5,369.6
Deferred taxes	401.0	399.3	504.4
Nonpension postretirement benefits	287.3	291.5	290.5
Other liabilities	539.6	563.6	485.5
Commitments and contingencies			
Minority share owners' interests	142.7	141.9	137.9

Share owner's equity:			
Common stock, par value $.01 per share 1,000 shares authorized, 100 shares issued and outstanding	—	—	—
Other contributed capital	1,523.9	1,593.9	1,667.4
Retained earnings	1,063.2	1,011.8	863.6
Accumulated other comprehensive income	(415.4)	(583.6)	(535.4)
Total share owner's equity	2,171.7	2,022.1	1,995.6
Total liabilities and share owner's equity	$ 10,351.2	$ 9,788.8	$ 9,928.9

See accompanying notes.

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

	Six months ended June 30,	
	2003	**2002**
Cash flows from operating activities:		
Net earnings before cumulative effect of accounting change	$ 51.4	$ 160.4
Non-cash charges (credits):		
Depreciation	231.5	217.2
Amortization of intangibles and other deferred items	14.5	13.5
Amortization of finance fees	11.3	11.5
Deferred tax provision	11.5	34.1
Loss on the sale of long-term notes receivable	37.4	
Other	(43.0)	(76.7)
Change in non-current operating assets	1.7	18.2
Change in non-current liabilities	(4.1)	(11.8)
Change in components of working capital	(245.4)	(29.0)
Cash provided by operating activities	66.8	337.4
Cash flows from investing activities:		
Additions to property, plant, and equipment	(220.7)	(237.8)
Net cash proceeds from divestitures and asset sales	11.9	19.2
Acquisitions, net of cash acquired		(3.5)
Cash utilized in investing activities	(208.8)	(222.1)
Cash flows from financing activities:		
Additions to long-term debt	2,055.0	1,166.0
Repayments of long-term debt	(1,415.6)	(1,150.4)
Increase in short-term loans	20.8	25.7
Net payments for debt-related hedging activity	(84.9)	(50.8)
Payment of finance fees	(46.1)	(18.0)
Distributions to parent	(367.5)	(102.5)
Cash provided by (utilized in) financing activities	161.7	(130.0)
Effect of exchange rate fluctuations on cash	4.1	(1.6)
Increase (decrease) in cash	23.8	(16.3)
Cash at beginning of period	126.4	155.6
Cash at end of period	$ 150.2	$ 139.3

See accompanying notes.

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

1. Basis of Presentation

The Company is a wholly-owned 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.

2. Inventories

Major classes of inventory are as follows:

	June 30, 2003	Dec. 31, 2002	June 30, 2002
Finished goods	$ 800.0	$ 684.9	$ 689.1
Work in process	8.4	7.4	6.3
Raw materials	128.0	133.2	120.2
Operating supplies	70.2	68.0	67.0
	$ 1,006.6	$ 893.5	$ 882.6

3. Long-Term Debt

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

	June 30, 2003	Dec. 31, 2002	June 30, 2002
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	$ 291.8	$ 1,825.0	$ 2,456.1
Term Loan			65.0
A Term Loan	460.0		
B Term Loan	840.0		
Senior Secured Notes:			
8.875%, due 2009	1,000.0	1,000.0	1,000.0
7.75%, due 2011	450.0		
8.75%, due 2012	625.0	625.0	
Senior Notes:			
8.25%, due 2013	450.0		
Payable to OI Inc.	1,436.5	1,700.0	1,700.0
Other	128.2	148.7	173.9
	5,681.5	5,298.7	5,395.0
Less amounts due within one year	32.2	30.7	25.4
Long-term debt	$ 5,649.3	$ 5,268.0	$ 5,369.6

During May 2003, a subsidiary of the Company issued Senior Secured Notes totaling $450 million and Senior Notes totaling $450 million. The notes bear interest at 7.75% and 8.25%, respectively, and are due May 15, 2011 and May 15, 2013, respectively. Both series of notes are guaranteed by the Company and substantially all of its domestic subsidiaries. In addition, the assets of substantially all of the Company's domestic subsidiaries are pledged as security for the Senior Secured Notes. The indentures for the 7.75% Senior Secured Notes and the 8.25% Senior Notes have substantially the same restrictions as the 8.875% and 8.75% Senior Secured Notes. The issuing subsidiary used the net proceeds from the notes of approximately $880 million to purchase in a tender offer $263.5 million of the $300 million 7.85% Senior Notes due 2004 and repay borrowings under the existing credit agreement. Concurrently, available credit under the existing credit agreement was reduced to approximately $1.9 billion. As part of the issuance of these notes and the related tender offer, the Company recorded in the second quarter of 2003 additional interest charges of $13.2 million for note repurchase premiums and the related write-off of unamortized finance fees and $3.6 million for the write-off of unamortized finance fees related to the reduction of available credit under the existing credit agreement.

On June 13, 2003, the Company's subsidiary borrowers entered into an Amended and Restated Secured Credit Agreement (the "Agreement") which provides for up to $1.9 billion of credit. The Agreement consists of a $600 million revolving credit facility and a $460 million A term loan, each of which has a final

maturity date of April 1, 2007, and an $840 million B term loan, which has a final maturity date of April 1, 2008. Proceeds from borrowings under the Agreement were used to repay all amounts outstanding under the Company's $1.9 billion existing credit agreement which had been scheduled to mature on March 31, 2004.

At June 30, 2003, the Company's subsidiary borrowers had unused credit of $144.2 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2003 was 4.41%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian and Canadian subsidiaries, the weighted average interest rate was 6.39%.

4. Cash Flow Information

Interest paid in cash aggregated $231.6 million and $166.0 million for the six months ended June 30, 2003 and 2002, respectively. Interest paid for the six months ended June 30, 2003 included $12.6 million related to the purchase of approximately $263.5 million of OI Inc.'s $300 million 7.85% Senior Notes due 2004. Income taxes paid in cash totaled $35.2 million and $9.2 million for the six months ended June 30, 2003 and 2002, respectively.

5. Comprehensive Income

The components of comprehensive income (loss) are: (a) net earnings (loss); (b) change in fair value of certain derivative adjustments; (c) adjustment of minimum pension liabilities; and (d) foreign currency translation adjustments. Total comprehensive income for the three month periods ended June 30, 2003 and 2002 amounted to $142.1 million and $166.8 million, respectively. Total comprehensive income (loss) for the six month periods ended June 30, 2003 and 2002 amounted to $219.6 million and $(258.7) million, respectively.

6. Stock Options

The Company participates in three nonqualified stock option plans of OI Inc. The Company has adopted the disclosure-only provisions (intrinsic value method) of Statement of Financial Accounting Standards (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 recognizes no compensation expense related to the stock option plans.

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 income (loss) would have been as follows:

	Three months ended June 30,	
	2003	**2002**
Net income:		
As reported	$ 17.0	$ 96.9
Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(1.8)	(2.6)
Pro forma	$ 15.2	$ 94.3

	Six months ended June 30,	
	2003	**2002**
Net income (loss):		
As reported	$ 51.4	$ (299.6)
Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(4.0)	(5.1)
Pro forma	$ 47.4	$ (304.7)

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:

	2003	**2002**
Expected life of options	5 years	5 years
Expected stock price volatility	72.7%	71.5%
Average risk-free interest rate	3.1%	4.5%
Expected dividend yield	0.0%	0.0%

7. Contingencies

OI Inc. is one of a number of defendants in a substantial number of lawsuits filed in numerous state and federal courts by persons alleging bodily injury (including death) as a result of exposure to dust from asbestos fibers. From 1948 to 1958, one of OI Inc.'s former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. OI Inc. exited the pipe and block insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically

allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of June 30, 2003, OI Inc. has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 30,000 plaintiffs and claimants. Based upon an analysis of the claims and lawsuits pending as of December 31, 2002, approximately 55% of the claims and lawsuits pending as of that date involved multiple claimants, and virtually all such pending claims and lawsuits named a number of additional defendants (typically from 20 to 100 or more). Approximately 40% of the claimants and plaintiffs do not specify the monetary damages sought. Another 39% of the plaintiffs merely recite that the amount of damages sought exceeds the required jurisdictional minimum damages in the court of jurisdiction in which the suit is filed. Approximately 14% of the plaintiffs specify the maximum damages sought in amounts from $10 million to $40 million. Lastly, fewer than 7% of the plaintiffs are involved in lawsuits which specify precise damage amounts, with approximately 5.8% specifying amounts up to $20 million; approximately 0.2% specifying amounts from $20 million to $75 million; and, approximately 0.5% specifying amounts from $75 million to $125 million. In addition, one lawsuit, pending since 1991 and involving fewer than 0.2% of the plaintiffs and approximately 60 defendants, specifies damages of $11 billion.

As indicated by the foregoing summary, modern 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, OI Inc. has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by OI Inc.'s former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. OI Inc. believes that as of June 30, 2003 there are no more than 17,000 of such preexisting but presently unasserted claims against OI Inc. that are not included in the total of pending claims set forth above. OI Inc. further believes that the bankruptcies of additional co-defendants, as discussed below, have resulted in an acceleration of the presentation and disposition of a number of these previously withheld preexisting claims under such agreements, which claims would otherwise have been presented and disposed of over the next several years. This acceleration is reflected in an increased number of pending asbestos claims and, to the extent disposed, contributes to an increase in asbestos-related payments which is expected to continue in the near term.

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

Since receiving its first asbestos claim, OI Inc., as of June 30, 2003, has disposed of the asbestos claims of approximately 297,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $5,700. OI Inc.'s indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of OI Inc.'s objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to OI Inc. that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. OI Inc. expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution. In this regard, although the average of such payments has been somewhat higher following the implementation of the claims-handling agreements in the mid-1990s, the annual average amount has not varied materially from year to year in recent years.

OI Inc. believes that its ultimate asbestos-related contingent liability (i.e., its indemnity or other claim disposition costs plus related legal fees) cannot be estimated with certainty. In 1993, OI Inc. established a liability of $975 million to cover indemnity payments and legal fees associated with the resolution of outstanding and expected future asbestos lawsuits and claims. In 1998, an additional liability of $250 million was established. During the third quarter of 2000, OI Inc. established an additional liability of $550 million to cover OI Inc.'s estimated indemnity payments and legal fees arising from outstanding asbestos personal injury lawsuits and claims and asbestos personal injury lawsuits and claims expected to be filed in the ensuing several years. In early March 2002, OI Inc. initiated a comprehensive review to determine whether further adjustment of asbestos-related liabilities was appropriate. At the conclusion of this review in April, OI Inc. determined that an additional charge of $475 million would be appropriate to adjust the reserve for estimated future asbestos-related costs. OI Inc.'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. In 2002, North American Refractories Co., Kaiser Aluminum Corporation, Harbison Walker Refractories Group, A.P. Green Industries, Inc., Porter Hayden Company, Plibrico Company, Shook & Fletcher Insulation Co., Artra Group (Synkoloid Company), AC&S, A-Best Company and JT Thorpe Co. declared bankruptcy. These companies join others, such as G-I Holdings (GAF), USG Corporation, Federal-Mogul Corporation, Burns & Roe Enterprises, Inc., W.R. Grace & Co., Owens Corning, Fibreboard Corporation, Pittsburgh-Corning, Babcock & Wilcox, Armstrong World Industries and approximately 40 other asbestos defendants who have sought protection under Chapter 11 of the Bankruptcy Code.

OI Inc. has continued to monitor trends which may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against OI Inc. OI Inc. expects that the gross amount of total asbestos-related payments will be moderately lower in 2003 compared to 2002 and will continue to decline thereafter as the preexisting but presently unasserted claims withheld under the claims handling agreements are presented to OI Inc. and as the number of potential future claimants continues to decrease. The material components of OI Inc.'s accrual, including this additional accrued amount, are the following: (i) OI Inc.'s estimate at that date of the reasonably probable contingent liability for asbestos claims already asserted against OI Inc., (ii) OI Inc.'s estimate at that date of the contingent liability for

preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel, (iii) OI Inc.'s estimate at that time of the contingent liability for asbestos claims not yet asserted against OI Inc., but which OI Inc. believes it is reasonably probable will be asserted in the next several years, to the degree that such an estimation as to future claims is possible, and (iv) OI Inc.'s estimate of legal defense costs likely to be incurred in connection with the foregoing types of claims.

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

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

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

c) the extent of reduction in the inventory of pending serious disease cases;

d) the extent to which OI Inc. is able to successfully defend itself at trial;

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

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

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

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

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

OI Inc. has previously pursued recovery of its losses from third parties, particularly its insurance carriers, and has largely resolved all of its significant coverage claims. OI Inc. expects some further recovery from deferred payment provisions of existing settlement agreements and from pursuing certain additional reimbursement claims. However, OI Inc. does not expect to recover additional material amounts in excess of the recorded receivable of $7.4 million at June 30, 2003.

In April 1999, Crown Cork & Seal Technologies Corporation ("CCS") filed suit against Continental PET Technologies, Inc. ("CPT"), a wholly-owned subsidiary of the Company, in the United States District Court for the District of Delaware alleging that certain plastic containers manufactured by CPT, primarily multi-layer PET containers with barrier properties, infringe CCS's U.S. Patent 5,021,515 relating to an oxygen-scavenging material. CCS is a party to an agreement with Chevron Philips Chemical Company ("Chevron") under which Chevron has rights to sublicense certain CCS patents, including, Chevron believed, the patent involved in the suit against CPT. To avoid the cost of litigation, CPT took a sublicense from Chevron under the patent in suit and other patents. Chevron then entered the suit to defend and assert its right to sublicense the patent in suit to CPT. In November 2002, the Delaware District Court concluded that Chevron did not have the rights it purported to sublicense to CPT. In connection with the initial public offering of Constar International Inc. ("Constar") in November 2002, CCS contributed to Constar the patent that is alleged to have been infringed.

In an order entered on March 31, 2003, the Court did not certify Chevron's request for interlocutory appeal of this decision. The decision will allow Constar to pursue its lawsuit against CPT, which is in its initial stages and was stayed pending resolution of the Chevron claims. In the lawsuit, Constar seeks certain monetary damages and injunctive relief. CPT intends to pursue all defenses

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available to it. However, if the Court were to reach conclusions adverse to CPT on the claims for monetary damages asserted by Constar, the Company believes such determination would not have a material adverse effect on the Company's consolidated results of operations and financial position, and any such damages could be covered in part by third-party indemnification. Additionally, an adverse decision with respect to Constar's request for injunctive relief is not likely to have a material adverse effect on the Company because it believes that it can pursue alternative technologies for the manufacture of multi-layer PET containers with barrier properties.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. The ultimate legal and financial liability of the Company in respect to 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.

8. Segment Information

The Company operates in the rigid packaging industry. The Company has two reportable product segments within the rigid packaging industry: (1) Glass Containers and (2) Plastics Packaging. The Glass Containers segment includes operations in North America, Europe, the Asia Pacific region, and South America. The Plastics Packaging segment consists of two business units — consumer products (plastic containers and closures) and prescription products.

The Company evaluates performance and allocates resources based on earnings before interest income, interest expense, provision for income taxes, minority share owners' interests in earnings of subsidiaries, and cumulative effect of accounting change ("EBIT") excluding amounts related to certain items that management considers not representative of ongoing operations ("Segment EBIT"). EBIT for product segments includes an allocation of corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments.

Financial information for the three-month periods ended June 30, 2003 and 2002 regarding the Company's product segments is as follows:

	Glass Containers	Plastics Packaging	Total Product Segments	Eliminations and Other Retained Items	Consolidated Totals
Net sales:					
June 30, 2003	$ 1,074.6	$ 505.0	$ 1,579.6		$ 1,579.6
June 30, 2002	1,026.3	471.0	1,497.3		1,497.3
Segment EBIT:					
June 30, 2003	$ 184.3	$ 53.7	$ 238.0	$ (19.0)	$ 219.0
June 30, 2002	192.9	78.2	271.1	(21.5)	249.6
Item excluded from Segment EBIT:					
June 30, 2003					
Loss on the sale of notes receivable	$ (37.4)		$ (37.4)		$ (37.4)

The reconciliation of Segment EBIT to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the three-month periods ended June 30, 2003 and 2002 is as follows:

	June 30, 2003	June 30, 2002
Segment EBIT for reportable segments	$ 238.0	$ 271.1
Item excluded from Segment EBIT	(37.4)	
Eliminations and other retained items	(19.0)	(21.5)
Interest expense	(138.4)	(106.2)
Interest income	6.3	6.6
Total	$ 49.5	$ 150.0

Financial information for the six-month periods ended June 30, 2003 and 2002 regarding the Company's product segments is as follows:

	Glass Containers	Plastics Packaging	Total Product Segments	Eliminations and Other Retained Items	Consolidated Totals
Net sales:					
June 30, 2003	$ 2,005.2	$ 960.8	$ 2,966.0		$ 2,966.0
June 30, 2002	1,896.4	911.8	2,808.2		2,808.2
Segment EBIT:					
June 30, 2003	$ 310.9	$ 104.6	$ 415.5	$ (38.8)	$ 376.7
June 30, 2002	344.0	153.0	497.0	(42.6)	454.4
Item excluded from Segment EBIT:					
June 30, 2003					
Loss on the sale of notes receivable	$ (37.4)		$ (37.4)		$ (37.4)

The reconciliation of Segment EBIT to earnings before income taxes, minority share owners' interests in earnings of subsidiaries, and cumulative effect of accounting change for the six-month periods ended June 30, 2003 and 2002 is as follows:

	June 30, 2003	June 30, 2002
Segment EBIT for reportable segments	$ 415.5	$ 497.0
Item excluded from Segment EBIT	(37.4)	
Eliminations and other retained items	(38.8)	(42.6)
Interest expense	(249.4)	(218.0)
Interest income	14.1	11.9
Total	$ 104.0	$ 248.3

9. New Accounting Standards

FAS No. 145. In April 2002, the FASB issued FAS No. 145, "Rescission of FASB Statements No. 4, No. 44, and No. 64, Amendment of FASB Statement No. 13, and Technical Corrections". Among other things, FAS No. 145 requires gains and losses from early extinguishment of debt to be included in income from continuing operations instead of being classified as extraordinary items as previously required by generally accepted accounting principles. FAS No. 145 is effective for fiscal years beginning after May 15, 2002 and was adopted by the Company on January 1, 2003. Any gain or loss on early extinguishment of debt that was classified as an extraordinary item in periods prior to adoption must be reclassified into income from continuing operations. The Company has reclassified $6.7 million of extraordinary charges for the six months ended June 30, 2002 to increase interest expense by $10.9 million and decrease the provision for income taxes by $4.2 million.

FAS No. 146. In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". FAS No. 146 requires that a liability for costs associated with exit or disposal activities be recognized when the liability is incurred. The statement further requires that fair value be used for initial measurement of the liability. FAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002 and was adopted by the Company on January 1, 2003. The adoption of FAS No. 146 did not have a material impact on the reported results of operations or financial position of the Company.

FAS No. 149. In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 Derivative Instruments and Hedging Activities". FAS No. 149 requires that contracts with comparable characteristics be accounted for similarly. FAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 and will be adopted by the Company on July 1, 2003. The adoption of FAS No. 149 will not have a material impact on the reported results of operations or financial position of the Company.

FAS No. 150. In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". FAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and was adopted by the Company on June 1, 2003. The adoption of FAS No. 150 did not have a material impact on the reported results of operations or financial position of the Company.

10. Derivative Instruments

Under the terms of the Secured Credit Agreement, the Company's affiliate in Australia is required to borrow in U.S. dollars. In order to manage this international affiliate's exposure to fluctuating

foreign exchange rates, it has entered into currency swaps for the principal portion of its borrowings under the Agreement and for its interest payments due under the Agreement.

During the second quarter of 2003, the Company's affiliate in Australia entered into a number of agreements that swap a total of $666 million of borrowings into 1,050 million Australian dollars. These derivative instruments swap both the interest and principal from U.S. dollars to Australian dollars and also swap the interest rate from a U.S.-based rate to an Australian-based rate. These agreements have various maturity dates ranging from April 2004 through May 2005.

As of June 30, 2003, the Company's Canadian affiliate has swapped $60 million of borrowings into $94.7 million Canadian dollars. This swap matures on October 1, 2003. This derivative instrument swaps both the interest and principal from U.S. dollars to Canadian dollars and also swaps the interest rate from a U.S.-based rate to a Canadian-based rate.

The Company's affiliates in Australia, Canada, the United Kingdom and several other European countries have also entered in short term forward exchange contracts which effectively swap additional intercompany and external borrowings at each of these affiliates to its local currency. These hedges swap both the interest and principal of additional borrowings in excess of borrowings covered by the swap contracts described above.

The Company recognizes the above derivatives on the balance sheet at fair value. The Company accounts for the above swaps as fair value hedges. 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 three and six months ended June 30, 2003, the amount not offset was immaterial.

The Company also uses commodity futures contracts related to forecasted natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid for natural gas and the potential volatility in earnings or cash flows from future market price movements. The Company continually evaluates the natural gas market with respect to its future usage requirements. The Company generally evaluates the natural gas market for the next twelve to eighteen months and continually enters into commodity futures contracts in order to have a portion of its usage requirements hedged through the next twelve to eighteen months. At June 30, 2003, the Company has entered into commodity futures contracts for approximately 50% of its expected North American natural gas usage through the end of 2003 (approximately 6,000 MM BTUs) and approximately 55% of its expected North American natural gas usage for the full year of 2004 (approximately 13,000 MM BTUs).

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

The above futures contracts are accounted for as cash flow hedges at June 30, 2003. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting anticipated cash flows of the hedged transactions. For hedged forecasted transactions, hedge accounting will be discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses will be recorded to earnings immediately.

At June 30, 2003, an unrealized net loss of $1.8 million, after tax of $1.0 million, related to these commodity futures contracts was included in OCI. There was no ineffectiveness recognized during the three or six month periods ended June 30, 2003 and 2002.

The Company's international affiliates 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 a currency other than the affiliate's functional currency. Affiliates may also use forward exchange agreements to offset the foreign currency risk for receivables and payables not denominated in their functional currency. 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.

11. Other Costs and Expenses

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. The resulting loss of US$37.4 million (US$37.4 million after tax) was included in other costs and expenses in the results of operations for the second quarter of 2003.

12. Financial Information for Subsidiary Guarantors and Non-Guarantors

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

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

	June 30, 2003					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet						
Current assets:						
Accounts receivable	$ —	$ 120.6	$ 177.4	$ 578.7		$ 876.7
Inventories		201.6	216.0	590.4	(1.4)	1,006.6
Other current assets		(4.2)	108.1	161.6	0.5	266.0
Total current assets	—	318.0	501.5	1,330.7	(0.9)	2,149.3
Investments in and advances to subsidiaries	3,608.2	2,579.7	44.9		(6,232.8)	—
Goodwill		544.1	1,040.3	1,255.2		2,839.6
Other non-current assets		278.6	1,133.6	502.3	(2.3)	1,912.2
Total other assets	3,608.2	3,402.4	2,218.8	1,757.5	(6,235.1)	4,751.8
Property, plant and equipment, net		613.8	1,118.5	1,717.8		3,450.1
Total assets	$ 3,608.2	$ 4,334.2	$ 3,838.8	$ 4,806.0	$ (6,236.0)	$ 10,351.2
Current liabilities:						
Accounts payable and accrued liabilities	$ —	$ 235.2	$ 264.9	$ 553.3	$ (1.9)	$ 1,051.5
Short-term loans and long-term debt due within one year			0.1	108.0		108.1
Total current liabilities	—	235.2	265.0	661.3	(1.9)	1,159.6
Long-term debt	1,436.5	3,365.0	0.9	846.9		5,649.3
Other non-current liabilities and minority interests		72.1	626.6	666.8	5.1	1,370.6
Investments by and advances from parent		661.9	2,946.3	2,631.0	(6,239.2)	—
Share owner's equity	2,171.7					2,171.7
Total liabilities and share owner's equity	$ 3,608.2	$ 4,334.2	$ 3,838.8	$ 4,806.0	$ (6,236.0)	$ 10,351.2

December 31, 2002

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet						
Current assets:						
Accounts receivable	$ —	$ 149.7	$ 110.4	$ 515.3	$ (73.5)	$ 701.9
Inventories		172.7	223.7	498.4	(1.3)	893.5
Other current assets		(2.7)	85.8	136.5	3.9	223.5
Total current assets	—	319.7	419.9	1,150.2	(70.9)	1,818.9
Investments in and advances to subsidiaries	3,722.1	2,154.9	28.5		(5,905.5)	—
Goodwill		548.0	1,039.7	1,103.5		2,691.2
Other non-current assets		328.9	1,114.5	508.1	3.1	1,954.6
Total other assets	3,722.1	3,031.8	2,182.7	1,611.6	(5,902.4)	4,645.8
Property, plant and equipment, net		621.7	1,107.3	1,595.1		3,324.1
Total assets	$ 3,722.1	$ 3,973.2	$ 3,709.9	$ 4,356.9	$ (5,973.3)	$ 9,788.8
Current liabilities:						
Accounts payable and accrued liabilities	$ —	$ 242.4	$ 280.3	$ 557.3	$ (55.8)	$ 1,024.2
Short-term loans and long-term debt due within one year			0.1	78.1		78.2
Total current liabilities	—	242.4	280.4	635.4	(55.8)	1,102.4
Long-term debt	1,700.0	2,033.0	667.3	867.7		5,268.0
Other non-current liabilities and minority interests		84.8	653.1	649.9	8.5	1,396.3
Investments by and advances from parent		1,613.0	2,109.1	2,203.9	(5,926.0)	—
Share owner's equity	2,022.1					2,022.1
Total liabilities and share owner's equity	$ 3,722.1	$ 3,973.2	$ 3,709.9	$ 4,356.9	$ (5,973.3)	$ 9,788.8

	June 30, 2002					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet						
Current assets:						
Accounts receivable	$ —	$ 232.5	$ 141.1	$ 545.1	$ (66.9)	$ 851.8
Inventories		150.8	198.9	533.5	(0.6)	882.6
Other current assets		(2.9)	161.5	169.5	0.2	328.3
Total current assets	—	380.4	501.5	1,248.1	(67.3)	2,062.7
Investments in and advances to subsidiaries	3,695.6	1,948.1	148.4		(5,792.1)	—
Goodwill		547.8	1,038.8	1,075.1		2,661.7
Other non-current assets		251.3	1,075.1	602.6	(7.4)	1,921.6
Total other assets	3,695.6	2,747.2	2,262.3	1,677.7	(5,799.5)	4,583.3
Property, plant and equipment, net		606.9	1,096.6	1,579.4		3,282.9
Total assets	$ 3,695.6	$ 3,734.5	$ 3,860.4	$ 4,505.2	$ (5,866.8)	$ 9,928.9
Current liabilities:						
Accounts payable and accrued liabilities	$ —	$ 232.5	$ 327.2	$ 550.5	$ (57.2)	$ 1,053.0
Short-term loans and long-term debt due within one year			0.2	92.2		92.4
Total current liabilities	—	232.5	327.4	642.7	(57.2)	1,145.4
Long-term debt	1,700.0	1,679.9	851.2	1,138.5		5,369.6
Other non-current liabilities and minority interests		78.6	736.2	594.0	9.5	1,418.3

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Investments by and advances from parent		1,743.5	1,945.6	2,130.0	(5,819.1)	—
Share owner's equity	1,995.6					1,995.6
Total liabilities and share owners' equity	$ 3,695.6	$ 3,734.5	$ 3,860.4	$ 4,505.2	$ (5,866.8)	$ 9,928.9

	Three months ended June 30, 2003					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations						
Net sales	$ —	$ 433.4	$ 421.7	$ 756.7	$ (32.2)	$ 1,579.6
Interest		0.2	0.4	5.7		6.3
Equity earnings from subsidiaries	17.0	6.0	3.2		(26.2)	—
Other equity earnings		3.6	1.9	2.3		7.8
Other revenue		11.0	2.7	4.2	(7.5)	10.4
Total revenue	17.0	454.2	429.9	768.9	(65.9)	1,604.1
Manufacturing, shipping, and delivery		344.7	347.9	617.7	(39.6)	1,270.7
Research, engineering, selling, administrative, and other		20.5	45.7	79.2	0.1	145.5
Net intercompany interest	(31.6)	8.4	20.7	2.5		—
Other interest expense	31.6	66.1	6.8	33.9		138.4
Total costs and expense	—	439.7	421.1	733.3	(39.5)	1,554.6
Earnings before items below	17.0	14.5	8.8	35.6	(26.4)	49.5
Provision for income taxes		4.2	3.2	20.7	(1.4)	26.7
Minority share owners' interests in earnings of subsidiaries				5.7	0.1	5.8
Net income	$ 17.0	$ 10.3	$ 5.6	$ 9.2	$ (25.1)	$ 17.0

	Three months ended June 30, 2002					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations						
Net sales	$ —	$ 434.8	$ 398.0	$ 688.8	$ (24.3)	$ 1,497.3
Interest			0.5	6.1		6.6
Equity earnings from subsidiaries	96.9	43.3	6.4		(146.6)	—
Other equity earnings		3.6	0.8	1.8		6.2
Other revenue		10.6	2.4	6.4	(6.5)	12.9
Total revenue	96.9	492.3	408.1	703.1	(177.4)	1,523.0
Manufacturing, shipping, and delivery		329.6	300.2	552.5	(29.2)	1,153.1
Research, engineering, selling, administrative, and other		20.6	49.1	44.2	(0.2)	113.7
Net intercompany interest	(33.2)	19.8	11.7	1.7		—
Other interest expense	33.2	32.2	11.3	29.5		106.2
Total costs and expense	—	402.2	372.3	627.9	(29.4)	1,373.0
Earnings before items below	96.9	90.1	35.8	75.2	(148.0)	150.0
Provision for income taxes		17.8	9.7	20.0	(0.2)	47.3
Minority share owners' interests in earnings of subsidiaries				5.5	0.3	5.8
Net income	$ 96.9	$ 72.3	$ 26.1	$ 49.7	$ (148.1)	$ 96.9

Six months ended June 30, 2003

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations						
Net sales	$ —	$ 808.1	$ 802.9	$ 1,411.6	$ (56.6)	$ 2,966.0
Interest		0.5	0.7	12.9		14.1
Equity earnings from subsidiaries	51.4	36.9	7.7		(96.0)	—
Other equity earnings		6.4	2.9	4.3		13.6
Other revenue		21.1	6.1	7.6	(12.5)	22.3
Total revenue	51.4	873.0	820.3	1,436.4	(165.1)	3,016.0
Manufacturing, shipping, and delivery		658.3	656.6	1,164.3	(68.4)	2,410.8
Research, engineering, selling, administrative, and other		41.2	94.2	116.4	—	251.8
Net intercompany interest	(64.7)	21.6	39.2	3.9		—
Other interest expense	64.7	108.2	14.7	61.8		249.4
Total costs and expense	—	829.3	804.7	1,346.4	(68.4)	2,912.0
Earnings before items below	51.4	43.7	15.6	90.0	(96.7)	104.0
Provision for income taxes		3.6	3.6	37.0	(0.3)	43.9
Minority share owners' interests in earnings of subsidiaries				8.4	0.3	8.7
Net income	$ 51.4	$ 40.1	$ 12.0	$ 44.6	$ (96.7)	$ 51.4

	Six months ended June 30, 2002					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations						
Net sales	$ —	$ 825.0	$ 770.6	$ 1,254.6	$ (42.0)	$ 2,808.2
Interest			1.1	10.8		11.9
Equity earnings from subsidiaries	160.4	76.2	11.2		(247.8)	—
Other equity earnings		7.1	1.7	3.4		12.2
Other revenue		22.6	6.1	12.3	(12.0)	29.0
Total revenue	160.4	930.9	790.7	1,281.1	(301.8)	2,861.3
Manufacturing, shipping, and delivery		637.6	582.1	1,005.1	(51.9)	2,172.9
Research, engineering, selling, administrative, and other		40.9	97.6	83.6		222.1
Net intercompany interest	(77.2)	50.4	23.3	3.5		—
Other interest expense	77.2	60.8	23.3	56.7		218.0
Total costs and expense	—	789.7	726.3	1,148.9	(51.9)	2,613.0
Earnings before items below	160.4	141.2	64.4	132.2	(249.9)	248.3
Provision for income taxes		25.1	18.2	34.8	(0.5)	77.6
Minority share owners' interests in earnings of subsidiaries				10.0	0.3	10.3
Earnings before cumulative effect of accounting change	160.4	116.1	46.2	87.4	(249.7)	160.4
Cumulative effect of accounting change	(460.0)	(47.0)	(413.0)	(57.1)	517.1	(460.0)
Net income (loss)	$ (299.6)	$ 69.1	$ (366.8)	$ 30.3	$ 267.4	$ (299.6)

	Six months ended June 30, 2003					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows						
Cash provided by (used in) operating activities	$ —	$ (5.3)	$ (38.2)	$ 82.2	$ 28.1	$ 66.8

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Investing Activities:						
Additions to property, plant, and equipment		(30.9)	(75.2)	(114.6)		(220.7)
Proceeds from sales		0.2	1.3	10.4		11.9
Cash used in investing activities	—	(30.7)	(73.9)	(104.2)	—	(208.8)
Financing Activities:						
Net distribution to OI Inc.	(367.5)					(367.5)
Change in intercompany transactions	367.5	(1,344.0)	790.0	214.6	(28.1)	—
Change in short term debt				20.8		20.8
Payments of long term debt		(641.9)	(666.4)	(107.3)		(1,415.6)
Borrowings of long term debt		1,973.9		81.1		2,055.0
Net payments for debt-related hedging activity		74.2		(159.1)		(84.9)
Payment of finance fees		(26.2)	(4.2)	(15.7)		(46.1)
Cash provided by financing activities	—	36.0	119.4	34.4	(28.1)	161.7
Effect of exchange rate change on cash				4.1		4.1
Net change in cash	—	—	7.3	16.5	—	23.8
Cash at beginning of period		0.1	24.2	102.1		126.4
Cash at end of period	$ —	$ 0.1	$ 31.5	$ 118.6	$ —	$ 150.2

	Six months ended June 30, 2002					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows						
Cash provided by operating activities	$ —	$ 2.6	$ 149.4	$ 185.4	$ —	$ 337.4
Investing Activities:						
Additions to property, plant, and equipment		(48.9)	(58.3)	(130.6)		(237.8)
Acquisitions, net of cash acquired				(3.5)		(3.5)
Proceeds from sales		3.2	12.8	3.2		19.2
Cash used in investing activities	—	(45.7)	(45.5)	(130.9)	—	(222.1)
Financing Activities:						
Net distribution to OI Inc.	(102.5)					(102.5)
Change in intercompany transactions	102.5	42.6	(107.9)	(37.2)		—
Change in short term debt				25.7		25.7
Payments of long term debt		(1,041.4)	(4.8)	(104.2)		(1,150.4)
Borrowings of long term debt		1,059.9		106.1		1,166.0
Collateral deposits for certain derivatives				(50.8)		(50.8)
Payment of finance fees		(18.0)				(18.0)
Cash provided by (used in) financing activities	—	43.1	(112.7)	(60.4)	—	(130.0)
Effect of exchange rate change on cash				(1.6)		(1.6)
Net change in cash	—	—	(8.8)	(7.5)	—	(16.3)
Cash at beginning of period		—	22.3	133.3		155.6
Cash at end of period	$ —	$ —	$ 13.5	$ 125.8	$ —	$ 139.3

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

Results of Operations—Second Quarter 2003 compared with Second Quarter 2002

Net Sales

The Company's net sales by segment (dollars in millions) for the second quarters of 2003 and 2002 are presented in the following table. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2003	2002
Glass Containers	$ 1,074.6	$ 1,026.3
Plastics Packaging	505.0	471.0
Segment and consolidated net sales	$ 1,579.6	$ 1,497.3

Consolidated net sales for the second quarter of 2003 increased $82.3 million, or 5.5%, to $1,579.6 million from $1,497.3 million in the second quarter of 2002.

Net sales of the Glass Containers segment increased $48.3 million, or 4.7%, over the second quarter of 2002. In North America, sales in the second quarter of 2003 were approximately equal to sales in the second quarter of 2002. Increased pricing was offset by decreased shipments, led by an approximate 4% decrease in shipments of beer containers as a result of overall cool, damp spring weather conditions in the United States and Canada. The combined U.S. dollar sales of the segment's affiliates outside of North America increased $48.3 million, or 9.4% over the first quarter of 2002. The increase was attributed to a 7% increase in unit shipments and higher prices in the European businesses and higher prices in South America. These increases were mainly offset by overall decreased sales in South America, resulting from lower unit shipments throughout the region and lower unit shipments in the Asia Pacific region, principally in Australia and China. In Australia, lower shipments of containers for wine contributed to the decline, while in China, the SARS epidemic reduced unit shipments at Shanghai and Guangdong. In addition, the effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's affiliates in Europe and the Asia Pacific region by approximately $62 million and decreased reported U.S. dollar sales of the segment's affiliates in South America by approximately $17 million.

Net sales of the Plastics Packaging segment increased $34.0 million, or 7.2%, over the second quarter of 2002. Unit shipments increased by approximately 8% overall, led by increased shipments of plastic containers for food, health care, and juices and closures for beverages and health care. These increases were more than offset by lower selling prices for certain of the segment's plastic products. The effects of higher resin cost pass-throughs increased sales in the second quarter of 2003 by approximately $38 million compared to the second quarter of 2002.

EBIT

The Company evaluates performance and allocates resources based on EBIT excluding amounts related to certain items that management considers not representative of ongoing operations ("Segment EBIT").

The Company's Segment EBIT results (dollars in millions) for the second quarter of 2003 and 2002 are presented in the following table. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2003	2002
Glass Containers	$ 184.3	$ 192.9
Plastics Packaging	53.7	78.2
Product Segment EBIT	238.0	271.1
Eliminations and other retained items	(19.0)	(21.5)
Consolidated Segment EBIT	$ 219.0	$ 249.6

Total product segment EBIT for the second quarter of 2003 decreased $33.1 million, or 12.2%, to $238.0 million from the second quarter of 2002 product segment EBIT of $271.1 million.

EBIT of the Glass Containers segment for the second quarter of 2003 decreased $8.6 million to $184.3 million, compared to EBIT of $192.9 million in the second quarter of 2002. In North America, EBIT for the second quarter of 2003 decreased $17.9 million from the second quarter of 2002. The decrease resulted from higher energy costs of $12.7 million, lower pension income of approximately $10 million and lower unit shipments, particularly beer containers, resulting primarily from overall cool, damp spring weather conditions in the United States and Canada. These decreases were partially offset by an overall improvement in unit pricing and productivity compared to the second quarter of 2002. The combined U.S. dollar EBIT of the segment's affiliates outside North America increased $9.3 million over the second quarter of 2002. The increase was partially attributed to increased unit shipments, improved productivity, and higher prices in the European businesses. These increases were partially offset by increased energy costs of approximately $12 million in Europe and the Asia Pacific region and overall decreased unit shipments in the Asia Pacific region and South America. In addition, the effects of changing foreign currency exchange rates increased reported U.S. dollar EBIT of the segment's affiliates in Europe and the Asia Pacific region by approximately $9.9 million and decreased reported U.S. dollar EBIT of the segment's affiliates in South America by approximately $3.1 million.

EBIT of the Plastics Packaging segment for the second quarter of 2003 decreased $24.5 million, or 31.3%, to $53.7 million compared to EBIT of $78.2 million in the second quarter of 2002. Unit shipments increased by approximately 8% overall, led by increased shipments of plastic containers for food, health care, and juices and closures for beverages and health care. However, the change in product mix and lower selling prices for certain of the segment's plastic products more than offset the effects of increased shipments, reducing EBIT by $14.5 million compared to the second quarter of 2002. Other factors that unfavorably affected EBIT in the second quarter of 2003 compared to the second quarter of 2002 were: (1) reduced EBIT of $6.3 million for the segment's advanced technology systems business, as a major customer discontinued production in the U.S. and relocated that production to Singapore and (2) lower pension

income of approximately $2.2 million. The Plastics Packaging segment operates in a number of highly competitive markets and has incurred significant pricing pressure in some product lines which the Company expects to partially offset with increased unit volume, improved productivity and reduced costs.

Eliminations and other retained items for the second quarter of 2003 increased $2.5 million over the second quarter of 2002. A $1.1 million reduction in pension income was more than offset by reduced administrative costs.

Consolidated EBIT for the second quarter of 2003 included a loss of $37.4 million from the sale of long-term notes receivable, discussed further below, which was excluded from Segment EBIT because management considered it not representative of ongoing operations.

Interest Expense

Interest expense increased to $138.4 million in the second quarter of 2003 from $106.2 million in the second quarter of 2002. Interest expense for the second quarter of 2003 included charges of $13.2 million for note repurchase premiums and related write-off of finance fees and a charge of $3.6 million for the write-off of finance fees related to bank debt that was repaid prior to its maturity. The remaining $15.4 million increase in 2003 is mainly due to the issuance of fixed rate notes totaling $625 million during the fourth quarter of 2002 and $900 million in May 2003. The proceeds from the notes were used to repay lower cost, variable rate debt borrowed under the Company's Secured Credit Agreement. Lower interest rates in 2003 on the Company's remaining variable rate debt partially offset the increase.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for the second quarter of 2003 was $5.8 million compared to $5.8 million for the second quarter of 2002.

Net Earnings

For the second quarter of 2003, the Company recorded net earnings of $17.0 million compared to net earnings of $96.9 million for the second quarter of 2002. The results for the second quarter of 2003 included a loss of $37.4 million ($37.4 million after tax) from the sale of long-term notes receivable and additional interest charges of $16.8 million ($10.7 million after tax) for early retirement of debt, principally note repurchase premiums.

Results of Operations—First Six Months 2003 compared with First Six Months 2002

Net Sales

The Company's net sales by segment (dollars in millions) for the first six months of 2003 and 2002 are presented in the following table. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2003	2002
Glass Containers	$ 2,005.2	$ 1,896.4
Plastics Packaging	960.8	911.8
Segment and consolidated net sales	$ 2,966.0	$ 2,808.2

Consolidated net sales for the first six months of 2003 increased $157.8 million, or 5.6%, to $2,966.0 million from $2,808.2 million in the first six months of 2002.

Net sales of the Glass Containers segment increased $108.8 million, or 5.7%, over the first six months of 2002. In North America, a $13.7 million decrease in sales was primarily attributed to lower unit shipments. Overall cool and damp weather conditions in the United States and Canada during the first six months of the year caused lower demand, principally for beer containers. The combined U.S. dollar sales of the segment's affiliates outside of North America increased $122.5 million, or 13.1% over the first six months of 2002. The increase was partially attributed to an 8% increase in unit shipments and higher prices in the European businesses. These increases were partially offset by overall decreased sales in South America resulting from lower unit shipments throughout most of the region and from the effects of a national strike in Venezuela that began in early December 2002. The strike caused energy supply curtailments that forced the Company to idle its two plants in the country, adversely affecting net sales in the first six months of 2003 by approximately $20 million. The effects of the strike primarily impacted the first quarter of 2003. In addition, the effects of changing foreign

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currency exchange rates increased reported U.S. dollar sales of the segment's affiliates in Europe and the Asia Pacific region by approximately $122 million and decreased reported U.S. dollar sales of the segment's affiliates in South America by approximately $32 million.

Net sales of the Plastics Packaging segment increased $49.0 million, or 5.4%, over the first six months of 2002. Unit shipments increased by approximately 8.2% overall, led by increased shipments of plastic containers for food, health and personal care, juices, and prescription packaging, and closures for beverages, food, juices and healthcare. These increases were offset by lower selling prices for certain of the segment's plastic products. The effects of higher resin cost pass-throughs increased sales in the first six months of 2003 by approximately $54 million compared to the first six months of 2002.

EBIT

The Company's Segment EBIT results (dollars in millions) for the first six months of 2003 and 2002 are presented in the following table. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2003	2002
Glass Containers	$ 310.9	$ 344.0
Plastics Packaging	104.6	153.0
Product Segment EBIT	415.5	497.0
Eliminations and other retained items	(38.8)	(42.6)
Consolidated Segment EBIT	$ 376.7	$ 454.4

Total product segment EBIT for the first six months of 2003 decreased $81.5 million, or 16.4%, to $415.5 million from the first six months of 2002 product EBIT of $497.0 million.

EBIT of the Glass Containers segment for the first six months of 2003 decreased $33.1 million to $310.9 million, compared to EBIT of $344.0 million in the first six months of 2002. In North America, EBIT for the first six months of 2003 decreased $55.1 million from the first six months of 2002. The decrease resulted from higher energy costs of $23.9 million, lower pension income of approximately $20 million and lower unit shipments, particularly beer containers, resulting primarily from overall cool and damp weather conditions in the United States and Canada during the first six months of the year, partially offset by an overall improvement in unit pricing and productivity compared to the first six months of 2002. The combined U.S. dollar EBIT of the segment's affiliates outside North America increased $22.0 million over the first quarter of 2002. The increase was attributed to increased unit shipments, improved productivity, and higher prices in the European businesses. These increases were partially offset by increased energy costs of approximately $23 million in Europe and the Asia Pacific region and overall decreased sales in South America principally resulting from lower unit shipments throughout most of the region and the effects of a national strike in Venezuela that began in early December 2002. The strike caused energy supply curtailments that forced the Company to idle its two plants in the country, adversely affecting EBIT in the first six months of 2003 by approximately $10 million. The effects of the strike were mostly incurred during the first quarter of 2003. In addition, the effects of changing foreign currency exchange rates increased reported U.S. dollar EBIT of the segment's affiliates in Europe and the Asia Pacific region by approximately $19 million and decreased reported U.S. dollar EBIT of the segment's affiliates in South America by approximately $5 million.

EBIT of the Plastics Packaging segment for the first six months of 2003 decreased $48.4 million, or 31.6%, to $104.6 million compared to EBIT of $153.0 million in the first six months of 2002. Unit shipments increased by approximately 8.2% overall, led by increased shipments of plastic containers for food, health and personal care, juices, and prescription packaging, and closures for beverages, food, juices and healthcare. However, the change in product mix and lower selling prices for certain of the segment's plastic products more than offset the effects of increased shipments. Other factors that unfavorably affected EBIT in the first six months of 2003 compared to the first six months of 2002 were: (1) reduced EBIT of $13.8 million for the segment's advanced technology systems business, as a major customer discontinued production in the U.S. and relocated that production to Singapore and (2) lower pension income of approximately $4 million.

Eliminations and other retained items for the first six months of 2003 increased $3.8 million over the first six months of 2002. A $2.2 million reduction in pension income was more than offset by reduced administrative costs.

Consolidated EBIT for the first six months of 2003 included a loss of $37.4 million from the sale of long-term notes, as discussed further below, which was excluded from Segment EBIT because management considered it not representative of ongoing operations.

Interest Expense

Interest expense increased to $249.4 million in the first six months of 2003 from $218.0 million in the first six months of 2002. Interest expense for the first six months of 2003 included charges of $13.2 million for note repurchase premiums and related write-off of finance fees and a charge of $3.6 million for the write-off of finance fees related to bank debt that was repaid prior to its maturity. Interest expense for the first six months of 2002 included a charge of $10.9 million for early extinguishment of debt which was reclassified from extraordinary items as required by FAS No. 145. For more information, see Note 9 to the Condensed Consolidated Financial Statements. Exclusive of these items, interest expense in the first six months of 2003 was $25.5 million higher than in the first six months of 2002. The higher interest expense in 2003 was mainly due to the issuance of fixed rate notes totaling $1,625 billion in 2002 and $900 million in May 2003. The proceeds from the notes were used to repay lower cost, variable rate debt borrowed under the Company's Secured Credit Agreement. Lower interest rates in 2003 on the Company's remaining variable rate debt partially offset the increase.

Provision for Income Taxes

Excluding the effects of the loss on the sale of long-term notes receivable and the additional interest charges for early retirement of debt, the Company's effective tax rate in the first six months of 2003 was 31.6%. Excluding the effects of the first quarter 2002 additional charges for the early retirement of debt, the Company's effective tax rate was 31.6% in the first six months of 2002 and 30.1% for the full year 2002. The increase from the actual rate for the full year 2002 to the estimated rate for 2003 is due to a shift in estimated international earnings toward countries with higher effective tax rates.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for the first six months of 2003 was $8.7 million compared to $10.3 million for the first six months of 2002. The decrease is attributable to lower net income in the first quarter of 2003 for certain of the Company's subsidiaries, particularly in Venezuela where the effects of a national strike caused the Company to close its facilities during the first part of the first quarter.

Net Earnings

For the first six months of 2003, the Company recorded net earnings of $51.4 million compared to a net loss of $299.6 million for the first six months of 2002. The results for the first six months of 2003 included a loss of $37.4 million ($37.4 million after tax) from the sale of long-term notes receivable and additional interest charges of $16.8 million ($10.7 million after tax) for early retirement of debt, principally note repurchase premiums. The following items were included in the net loss for the first six months of 2002: (1) a $460.0 million charge from the cumulative effect of the change in method of accounting for goodwill; and (2) additional charges to interest expense of $10.9 million ($6.7 million after tax) for the write-off of deferred finance fees related to the early extinguishment of debt which had been reported as an extraordinary item in 2002, but was reclassified to interest expense as required by FAS No. 145.

Capital Resources and Liquidity

The Company's total debt at March 31, 2003 was $5.56 billion, compared to $5.35 billion at December 31, 2002 and $5.43 billion at March 31, 2002.

On June 13, 2003, the Company's subsidiary borrowers entered into an Amended and Restated Secured Credit Agreement (the "Agreement") which provides for up to $1.9 billion of credit. The Agreement consists of a $600 million revolving credit facility and a $460 million A term loan, each of which has a final maturity date of April 1, 2007, and an $840 million B term loan, which has a final maturity date of April 1, 2008. Proceeds from borrowings under the Agreement were used to repay all amounts outstanding under the Company's $1.9 billion existing credit agreement which had been scheduled to mature on March 31, 2004.

At June 30, 2003, the Company had available credit totaling $1.9 billion under the Agreement, of which $144.2 million had not been utilized. Cash provided by operating activities was $66.8 million for the first six months of 2003 compared to $337.2 million for the first six months of 2002. The decrease in cash provided by operations is due in part to an increase in accounts receivable as a result of increased sales in Europe and increased plastic product and machine sales domestically. It is also due to an increase in inventories in the domestic glass operations as a result of lower shipments. The first six months of 2003 also lacks the benefit of a significant collection of past due accounts receivable from the Canadian acquisition which were collected in the first six months of 2002. Additional borrowings under the Agreement were necessary to fund these working capital requirements.

During May 2003, a subsidiary of the Company issued Senior Secured Notes totaling $450 million and Senior Notes totaling $450 million. The notes bear interest at 7.75% and 8.25%, respectively, and are due May 15, 2011 and May 15, 2013, respectively. Both series of notes are guaranteed by the Company and substantially all of its domestic subsidiaries. In addition, the assets of substantially all of the Company's domestic subsidiaries are pledged as security for the Senior Secured Notes. The indentures for the 7.75% Senior Secured Notes and the 8.25% Senior Notes have substantially the same restrictions as the 8.875% and 8.75% Senior Secured Notes. The issuing subsidiary used the net proceeds from the notes of approximately $880 million to purchase in a tender offer $263.5 million of OI Inc.'s $300 million 7.85% Senior Notes due 2004 and repay borrowings under the existing credit agreement. Concurrently, available credit under the existing credit agreement was reduced to approximately $1.9 billion. As part of the issuance of these notes and the related tender offer, the Company recorded in the second quarter of 2003 additional interest charges of $13.2 million for note repurchase premiums and the related write-off of unamortized finance fees and $3.6 million for the write-off of unamortized finance fees related to the reduction of available credit under the existing credit agreement.

The Senior Secured Notes totaling $2.075 billion and Senior Notes totaling $450 million that were issued during 2002 and 2003 were part of the Company's plan to improve financial flexibility by issuing long-term fixed rate debt. While this strategy extends 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 expects that the effects of additional higher cost fixed rate debt will add approximately $22 million to interest expense for the second half of 2003 compared to the second half of 2002. The Company presently does not expect to issue additional notes, other than those discussed above, during 2003.

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. The resulting loss of US$37.4 million (US$37.4 million after tax) was included in the results of operations of the second quarter of 2003.

OI Inc. has substantial obligations related to semiannual interest payments on $1.4 billion of outstanding public debt securities. In addition, OI Inc. pays aggregate annual dividends of $21.5 million on 9,050,000 shares of its $2.375 convertible preferred stock. OI Inc. also makes, and expects in the future to make, substantial indemnity payments and payments for legal fees and expenses in connection with asbestos-related lawsuits and claims. OI Inc.'s asbestos-related payments for the six months ended June 30, 2003 were $99.9, million down from $111.7 million for the first six months of 2002. OI Inc. expects that its total asbestos-related payments in 2003 will be moderately lower than 2002. OI Inc. relies primarily on distributions from the Company to meet these obligations. Based on OI Inc.'s expectations regarding future payments for lawsuits and claims, and also based on the Company's expected operating cash flow, the Company believes that the payments to OI Inc. for any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

Critical Accounting Estimates

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

sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact and any associated risks related to estimates and assumptions are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to Condensed Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

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

Pension Benefit Plans Funded Status

Because of their historically well-funded status, the Company's principal defined benefit pension plans contributed pretax credits to earnings of approximately $15.7 million for the first six months of 2003 and approximately $41.6 million for the first six months of 2002. The 2003 decrease in pretax pension credits is attributed to several factors discussed below.

The determination of pension obligations and the related pension credits 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 credits for the year. The Company uses a discount rate based on yields of highly rated fixed income debt securities at the end of the year. At December 31, 2002, the weighted average discount rate for all plans was 6.52%. The Company uses an expected long-term rate of return that is based on the past performance of the various plans' assets and an estimate of the future performance of the assets. Declines in the stock market over the last few years have reduced the fair value of the Company's pension plan assets, which, in turn, has caused reduced credits to earnings. In 2003, the Company has reduced its assumed rate of return on pension assets to a weighted average expected long-term rate of approximately 8.75%, compared to 9.64% for the year ended December 31, 2002. The lower assumed rate, combined with a lower asset base, will cause the pretax credits to earnings to be substantially lower for the full year of 2003 as compared to 2002. The Company expects that these credits will be approximately $50 million, or 60%, lower for the full year of 2003 than for 2002.

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 $15 million in pretax pension credits for the full year. In addition, changes in external factors, including the fair values of plan assets and the discount rate used to calculate plan liabilities, could result in possible future balance sheet recognition of additional minimum pension liabilities.

If the Accumulated Benefit Obligation ("ABO") of the Company's principal pension plans in the U.S. and Australia exceeds the fair value of their assets at the next measurement date of December 31, 2003, the Company will be required to write off most of its prepaid pension asset ($946.5 million at June 30, 2003) and record a liability equal to the excess of the ABO over the fair value of the assets.

The noncash charge would result in a decrease in the Accumulated Other Comprehensive Income component of share owners' equity that would significantly reduce net worth. Even if the fair values of the U.S. plans' assets are less than ABO at December 31, 2003, the Company believes it will not be required to make cash contributions to the U.S. plans for at least several years.

Goodwill

The Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment 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 future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. This BEV is then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment exists. The annual impairment testing performed as of October 1, 2002 indicated that there was no impairment of any of the reporting units of the Company.

If the Company's projected debt-free, after tax cash flows were substantially lower, or if the assumed weighted average cost of capital were substantially higher, the testing may have indicated an impairment of one or more reporting units and, as a result, the related goodwill would have been written down. However, based on the Company's testing as of October 1, 2002, modest changes in the projected cash flows or cost of capital would not create impairment in reporting units. For example, if projected debt-free, after tax cash flows were decreased by 5%, or alternatively if the weighted average cost of capital were increased by 5%, the resulting lower BEV's would still exceed the book value of each reporting unit and no impairment would exist. 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.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

All borrowings under the Secured Credit Agreement, including borrowings by foreign subsidiaries, are denominated in U.S. dollars. As described in Note 10 to the financial statements, certain amounts borrowed under the Agreement by foreign subsidiaries have been swapped into the subsidiaries' functional currencies.

On June 13, 2003, the Company's subsidiary borrowers entered into an Amended and Restated Secured Credit Agreement (the "Agreement") which provides for up to $1.9 billion of credit. The Agreement consists of a $600 million revolving credit facility and a $460 million A term loan, each of which has a final maturity date of April 1, 2007, and an $840 million B term loan, which has a final maturity date of April 1, 2008. Proceeds from borrowings under the Agreement were used to repay all amounts outstanding under the Company's $1.9 billion existing credit agreement which had been scheduled to mature on March 31, 2004. Interest on all borrowings under the Agreement is determined by reference to short-term market rates.

The Senior Secured Notes totaling $2.075 billion and Senior Notes totaling $450 million that were issued during 2002 and 2003 were part of the Company's plan to improve financial flexibility by issuing long-term fixed rate debt. While this strategy extends 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 expects that the effects of additional higher cost fixed rate debt, will add approximately $22 million to interest expense for the last half of 2003 compared to the last half of 2002. The Company presently does not expect to issue additional notes, other than those discussed above, during 2003.

Forward Looking Statements

This document may contain "forward looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Forward looking statements reflect the Company's current expectations and projections about future events at the time, and thus involve uncertainty and risk. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) foreign currency fluctuations relative to the U.S. dollar, (2) changes in capital availability or cost, including interest rate fluctuations, (3) the general political, economic and competitive conditions in markets and countries where the Company has operations, including 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, (11) unanticipated expenditures with respect to environmental, safety and health laws, (12) the performance by customers of their obligations under purchase agreements, and (13) the timing and occurrence of events which are beyond the control of the Company, including events related to asbestos-related claims. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not intend to update any particular forward looking statements contained in this document.

Item 4. Controls and Procedures.

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 for 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, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter 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.

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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

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

(b) Reports on Form 8-K:

On April 23, 2003, the Registrant filed a Form 8-K which included a press release dated April 21, 2003 announcing the intent of its indirect wholly-owned subsidiary Owens-Brockway Glass Container Inc. to offer senior secured notes and senior notes in a private offering.

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

SIGNATURES

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

OWENS-ILLINOIS GROUP, INC.

Date August 14, 2003

By: /s/ EDWARD C. WHITE

Edward C. White
Controller and Chief Accounting Officer
(Principal Accounting Officer)

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12	Computation of Ratio of Earnings to Fixed Charges
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32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

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

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Exhibit 12

OWENS-ILLINOIS GROUP, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions, except ratios)

	Six months ended June 30,	
	2003	**2002**
Earnings before income taxes, minority share owners' interests and cumulative effect of accounting change	$ 104.0	$ 248.3
Less: Equity earnings	(13.6)	(12.2)
Add: Total fixed charges deducted from earnings	254.8	224.1
Proportional share of pre-tax earnings of 50% owned associates	6.4	7.1
Dividends received from less than 50% owned associates	8.0	4.8
Earnings available for payment of fixed charges	$ 359.6	$ 472.1
Fixed charges (including the Company's proportional share of 50% owned associates):		
Interest expense	$ 238.1	$ 206.5
Portion of operating lease rental deemed to be interest	5.4	6.1
Amortization of deferred financing costs and debt discount expense	11.3	11.5
Total fixed charges deducted from earnings and fixed charges	$ 254.8	$ 224.1
Ratio of earnings to fixed charges	1.4	2.1

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OWENS-ILLINOIS GROUP, INC. COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (Dollars in millions, except ratios)

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EXHIBIT 31.1

CERTIFICATIONS

I, Joseph H. Lemieux, certify that:

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

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

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

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

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

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

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

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

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

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

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

OWENS-ILLINOIS GROUP, INC.

Date August 14, 2003

/s/ JOSEPH H. LEMIEUX

Joseph H. Lemieux
Chairman and Chief Executive Officer

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CERTIFICATIONS

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EXHIBIT 31.2

CERTIFICATIONS

I, Thomas L. Young, certify that:

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

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

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

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

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

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

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

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

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

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

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

OWENS-ILLINOIS GROUP, INC.

Date August 14, 2003

/s/ THOMAS L. YOUNG

Thomas L. Young
Executive Vice President and Chief Financial Officer

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CERTIFICATIONS

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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 Group, Inc. (the "Company") hereby certifies that to such officer's knowledge:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2003 (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: August 14, 2003

/s/ JOSEPH H. LEMIEUX

Joseph H. Lemieux
Chairman and Chief Executive Officer
Owens-Illinois Group, Inc.

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

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Certification of Principal Executive Officer

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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 Group, Inc. (the "Company") hereby certifies that to such officer's knowledge:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2003 (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: August 14, 2003

/s/ THOMAS L. YOUNG

Thomas L. Young
Executive Vice President and
Chief Financial Officer
Owens-Illinois Group, Inc.

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

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Certification of Principal Financial Officer