OWENS ILLINOIS INC /DE/
Form 10-Q
October 28, 2015

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 the quarterly period ended

September 30, 2015

or

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

For the transition period from to

Commission file number 1-9576

OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

Delaware	22-2781933
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares of common stock, par value $.01, of Owens-Illinois, Inc. outstanding as of September 30, 2015 was 160,837,783.

Part I — FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the "Company") presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net sales	$ 1,566	$ 1,745	$ 4,530	$ 5,181
Cost of goods sold	(1,290)	(1,408)	(3,712)	(4,165)
Gross profit	276	337	818	1,016
Selling and administrative expense	(109)	(118)	(351)	(382)
Research, development and engineering expense	(15)	(15)	(46)	(47)
Interest expense, net	(67)	(53)	(188)	(161)
Equity earnings	17	13	46	48
Other expense, net	(44)	(73)	(59)	(70)
Earnings from continuing operations before income taxes	58	91	220	404
Provision for income taxes	(33)	(23)	(73)	(89)
Earnings from continuing operations	25	68	147	315
Loss from discontinued operations	(1)	(1)	(3)	(22)
Net earnings	24	67	144	293
Net earnings attributable to noncontrolling interests	(7)	(7)	(16)	(18)
Net earnings attributable to the Company	$ 17	$ 60	$ 128	$ 275
Amounts attributable to the Company:				
Earnings from continuing operations	$ 18	$ 61	$ 131	$ 297
Loss from discontinued operations	(1)	(1)	(3)	(22)
Net earnings	$ 17	$ 60	$ 128	$ 275
Basic earnings per share:				
Earnings from continuing operations	$ 0.11	$ 0.37	$ 0.81	$ 1.80
Loss from discontinued operations	(0.01)	—	(0.02)	(0.13)
Net earnings	$ 0.10	$ 0.37	$ 0.79	$ 1.67
Weighted average shares outstanding (thousands)	160,730	164,798	161,284	164,821
Diluted earnings per share:				
Earnings from continuing operations	$ 0.11	$ 0.37	$ 0.81	$ 1.79
Loss from discontinued operations	(0.01)	—	(0.02)	(0.13)
Net earnings	$ 0.10	$ 0.37	$ 0.79	$ 1.66
Weighted average diluted shares outstanding (thousands)	161,612	166,138	162,264	166,187

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net earnings	$ 24	$ 67	$ 144	$ 293
Other comprehensive income (loss):				
Foreign currency translation adjustments	(265)	(219)	(499)	(138)
Pension and other postretirement benefit adjustments, net of tax	25	50	70	87
Change in fair value of derivative instruments	(3)	1	(5)	1
Other comprehensive loss	(243)	(168)	(434)	(50)
Total comprehensive income (loss)	(219)	(101)	(290)	243
Comprehensive income attributable to noncontrolling interests	1	(4)		(14)
Comprehensive income (loss) attributable to the Company	$ (218)	$ (105)	$ (290)	$ 229

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2015	December 31, 2014	September 30, 2014
Assets			
Current assets:			
Cash and cash equivalents	$ 270	$ 512	$ 264
Receivables	1,108	744	1,042
Inventories	1,023	1,035	1,112
Prepaid expenses	87	80	105
Total current assets	2,488	2,371	2,523
Property, plant and equipment, net	2,874	2,445	2,499
Goodwill	2,797	1,893	1,960
Other assets	1,395	1,134	1,159
Total assets	$ 9,554	$ 7,843	$ 8,141
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	$ 250	$ 488	$ 1,065
Current portion of asbestos-related liabilities	143	143	150
Accounts payable	1,004	1,137	1,027
Other liabilities	527	560	544
Total current liabilities	1,924	2,328	2,786
Long-term debt	5,609	2,957	2,419
Asbestos-related liabilities	235	292	226
Other long-term liabilities	908	991	887
Share owners' equity	878	1,275	1,823
Total liabilities and share owners' equity	$ 9,554	$ 7,843	$ 8,141

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net earnings	$ 144	$ 293
Loss from discontinued operations	3	22
Non-cash charges		
Depreciation and amortization	296	342
Pension expense	22	38
Restructuring, asset impairment and related charges	57	79
Cash Payments		
Pension contributions	(13)	(25)
Asbestos-related payments	(58)	(72)
Cash paid for restructuring activities	(20)	(45)
Change in components of working capital	(326)	(312)
Other, net (a)	1	(111)
Cash provided by continuing operating activities	106	209
Cash utilized in discontinued operating activities	(3)	(22)
Total cash provided by operating activities	103	187
Cash flows from investing activities:		
Additions to property, plant and equipment	(299)	(290)
Acquisitions, net of cash acquired	(2,342)	
Other, net	3	21
Cash utilized in investing activities	(2,638)	(269)
Cash flows from financing activities:		
Changes in borrowings, net	2,522	17
Issuance of common stock	1	5
Treasury shares purchased	(100)	(12)
Distributions paid to noncontrolling interests	(13)	(37)
Payment of finance fees	(88)	
Cash provided by (utilized in) financing activities	2,322	(27)
Effect of exchange rate fluctuations on cash	(29)	(10)
Decrease in cash	(242)	(119)
Cash at beginning of period	512	383
Cash at end of period	$ 270	$ 264

(a) Other, net includes other non-cash charges plus other changes in non-current assets and liabilities.

See accompanying notes.

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OWENS-ILLINOIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

1. Segment Information

The Company has four reportable segments based on its geographic locations: Europe, North America, Latin America and Asia Pacific. In connection with the Company's acquisition (the "Vitro Acquisition") of the food and beverage glass container business of Vitro S.A.B. de C.V. and its subsidiaries as conducted in the United States, Mexico and Bolivia (the "Vitro Business") on September 1, 2015 (see Note 15), the Company has renamed the former South America segment to the Latin America segment. This change in segment name was made to reflect the addition of the Mexican and Bolivian operations from the Vitro Acquisition into the former South America segment. The acquired Vitro food and beverage glass container distribution business located in the United States is included in the North American operating segment. These four segments are aligned with the Company's internal approach to managing, reporting, and evaluating performance of its global glass operations. Certain assets and activities not directly related to one of the regions or to glass manufacturing are reported with Retained corporate costs and other. These include licensing, equipment manufacturing, global engineering, and certain equity investments. Retained corporate costs and other also includes certain headquarters administrative and facilities costs and certain incentive compensation and other benefit plan costs that are global in nature and are not allocable to the reportable segments.

The Company's measure of profit for its reportable segments is segment operating profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Financial information for the three and nine months ended September 30, 2015 and 2014 regarding the Company's reportable segments is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net sales:				
Europe	$ 605	$ 709	$ 1,809	$ 2,205
North America	520	517	1,520	1,543

Latin America	265	313	677	826
Asia Pacific	162	197	478	584
Reportable segment totals	1,552	1,736	4,484	5,158
Other	14	9	46	23
Net sales	$ 1,566	$ 1,745	$ 4,530	$ 5,181

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Segment operating profit:				
Europe	$ 68	$ 104	$ 181	$ 300
North America	61	66	214	214
Latin America	51	61	108	155
Asia Pacific	19	17	51	59
Reportable segment totals	199	248	554	728
Items excluded from segment operating profit:				
Retained corporate costs and other	(10)	(20)	(49)	(79)
Restructuring, asset impairment and other charges	(41)	(84)	(68)	(84)
Strategic transaction costs	(13)		(19)	
Acquisition-related fair value inventory adjustments	(10)		(10)	
Interest expense, net	(67)	(53)	(188)	(161)
Earnings from continuing operations before income taxes	$ 58	$ 91	$ 220	$ 404

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

	September 30, 2015	December 31, 2014	September 30, 2014
Total assets:			
Europe	$ 3,030	$ 3,214	$ 3,405
North America	2,028	1,971	2,030
Latin America	3,297	1,300	1,358
Asia Pacific	894	1,018	1,042
Reportable segment totals	9,249	7,503	7,835
Other	305	340	306
Consolidated totals	$ 9,554	$ 7,843	$ 8,141

2. Receivables

Receivables consist of the following:

	September 30, 2015	December 31, 2014	September 30, 2014
Trade accounts receivable	$ 782	$ 583	$ 887
Less: allowances for doubtful accounts and discounts	29	34	37
Net trade receivables	753	549	850
Other receivables	355	195	192
	$ 1,108	$ 744	$ 1,042

In conjunction with the Vitro Acquisition, the Company remitted approximately $147 million related to value added taxes owed as a result of certain internal restructuring transactions undertaken by Vitro, S.A.B. de C.V. related to the closing of the Vitro Acquisition. This amount is included in “Other receivables” above and is expected to be refunded to the Company in approximately twelve months.

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. The amount of receivables sold by the Company was $336 million, $276 million, and $209 million at September 30, 2015, December 31, 2014, and September 30, 2014, respectively. Any continuing involvement with the sold receivables is immaterial.

3. Inventories

Major classes of inventory are as follows:

	September 30, 2015	December 31, 2014	September 30, 2014
Finished goods	$ 873	$ 884	$ 954
Raw materials	114	110	116
Operating supplies	36	41	42
	$ 1,023	$ 1,035	$ 1,112

4. Derivative Instruments

The Company has certain derivative assets and liabilities which consist of natural gas forwards and foreign exchange option and forward contracts. The Company uses an income approach to valuing these contracts. Natural gas forward rates and foreign exchange rates are the significant inputs into the valuation models. These inputs are observable in active markets over the terms of the instruments the Company holds, and accordingly, the Company classifies its derivative assets and liabilities as Level 2 in the hierarchy. The Company also evaluates counterparty risk in determining fair values.

Commodity Forward Contracts Designated as Cash Flow Hedges

In North America, the Company enters into commodity forward contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity forward contracts in order to hedge a portion of its usage requirements. The majority of the sales volume in North America is tied to customer contracts that contain provisions that pass the price of natural gas to the customer. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. At September 30, 2015 and 2014, the Company had

entered into commodity forward contracts covering approximately 6,300,000 MM BTUs and 1,800,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above forward contracts as cash flow hedges at September 30, 2015 and recognizes them on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in the Accumulated Other Comprehensive Income component of share owners' equity ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. Unrecognized gains of $2 million and $1 million at September 30, 2015 and 2014, respectively, related to the commodity forward contracts was included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and nine months ended September 30, 2015 and 2014 was not material.

The effect of the commodity forward contracts on the results of operations for the three months ended September 30, 2015 and 2014 is as follows:

Amount of Gain Recognized in OCI on Commodity Forward Contracts (Effective Portion)		Amount of Gain Reclassified from Accumulated OCI into Income (reported in cost of goods sold) (Effective Portion)	
2015	2014	2015	2014
$ 2	$ 1	$ 4	$ —

The effect of the commodity forward contracts on the results of operations for the nine months ended September 30, 2015 and 2014 is as follows:

Amount of Gain Recognized in OCI on Commodity Forward Contracts (Effective Portion)		Amount of Gain Reclassified from Accumulated OCI into Income (reported in cost of goods sold) (Effective Portion)	
2015	2014	2015	2014
$ 2	$ 3	$ 6	$ 2

Forward Exchange Derivative Contracts not Designated as Hedging Instruments

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

At September 30, 2015 and 2014, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately $600 million and $520 million, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange derivative contracts on the results of operations for the three months ended September 30, 2015 and 2014 is as follows:

Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Forward Exchange Contracts	
	2015	2014
Other expense	$ (4)	$ 1

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The effect of the forward exchange derivative contracts on the results of operations for the nine months ended September 30, 2015 and 2014 is as follows:

Location of Gain Recognized in Income on Forward Exchange Contracts	Amount of Gain Recognized in Income on Forward Exchange Contracts	
	2015	2014
Other expense	$ 2	$ —

Balance Sheet Classification

The Company records the fair values of derivative financial instruments on the balance sheet as follows: (a) receivables if the instrument has a positive fair value and maturity within one year, (b) other assets if the instrument has a positive fair value and maturity after one year, (c) other liabilities (current) if the instrument has a negative fair value and maturity within one year, and (d) other long-term liabilities if the instrument has a negative fair value and maturity after one year. The following table shows the amount and classification (as noted above) of the Company's derivatives:

	Fair Value			
	Balance Sheet Location	September 30, 2015	December 31, 2014	September 30, 2014
Asset Derivatives:				
Derivatives not designated as hedging instruments:				
Forward exchange contracts	a	$ 16	$ 10	$ 10
Total asset derivatives		16	10	10
Liability Derivatives:				
Derivatives designated as hedging instruments:				
Commodity futures contracts	c	$ 2	$ —	$ —
Derivatives not designated as hedging instruments:				
Forward exchange contracts	c	4	4	6
Total liability derivatives		$ 6	$ 4	$ 6

5. Restructuring Accruals

Selected information related to the restructuring accruals for the three months ended September 30, 2015 and 2014 is as follows:

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at July 1, 2015	$ 11	$ 8	$ 33	$ 52
Charges			35	35
Write-down of assets to net realizable value			(19)	(19)
Net cash paid, principally severance and related benefits		(1)	(4)	(5)
Other, including foreign exchange translation			(1)	(1)
Balance at September 30, 2015	$ 11	$ 7	$ 44	$ 62

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at July 1, 2014	$ 20	$ 3	$ 42	$ 65
Charges	1	73	5	79
Write-down of assets to net realizable value		(46)		(46)
Net cash paid, principally severance and related benefits	(3)	(2)	(2)	(7)
Pension charges transferred to other accounts		(7)		(7)
Other, including foreign exchange translation	(2)	(6)	(1)	(9)
Balance at September 30, 2014	$ 16	$ 15	$ 44	$ 75

Selected information related to the restructuring accruals for the nine months ended September 30, 2015 and 2014 is as follows:

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2015	$ 12	$ 12	$ 36	$ 60
Charges		5	52	57
Write-down of assets to net realizable value		(4)	(26)	(30)
Net cash paid, principally severance and related benefits		(5)	(15)	(20)
Other, including foreign exchange translation	(1)	(1)	(3)	(5)
Balance at September 30, 2015	$ 11	$ 7	$ 44	$ 62

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2014	$ 30	$ 20	$ 64	$ 114
Charges	1	73	5	79
Write-down of assets to net realizable value		(46)		(46)
Net cash paid, principally severance and related benefits	(8)	(15)	(22)	(45)
Pension charges transferred to other accounts		(7)		(7)
Other, including foreign exchange translation	(7)	(10)	(3)	(20)
Balance at September 30, 2014	$ 16	$ 15	$ 44	$ 75

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

European Asset Optimization

During the three and nine months ended September 30, 2014, the Company recorded charges of $1 million of employee costs related to the European Asset Optimization program.

Asia Pacific Restructuring

During the nine months ended September 30, 2015, the Company recorded charges of $5 million. These charges primarily represented the write-down of assets as part of the Company's Asia Pacific Restructuring program.

During the three and nine months ended September 30, 2014, the Company recorded charges of $73 million. These charges primarily represented employee costs, write-down of assets, and pension charges that the Company was required to record for the furnace closure announced during the third quarter of 2014.

Other Restructuring Actions

During the three and nine months ended September 30, 2015, the Company recorded charges of $35 million and $52 million, respectively. For the nine months ended September 30, 2015, these charges primarily represented employee costs, write-down of assets, and other exit costs of $14 million for furnace closures in Latin America, $35 million of severance and other exit costs related to a plant closure in North America and $3 million related to other restructuring actions.

6. Pension Benefit Plans

The components of the net periodic pension cost for the three months ended September 30, 2015 and 2014 are as follows:

	U.S.		Non-U.S.	
	2015	2014	2015	2014
Service cost	$ 6	$ 5	$ 5	$ 6
Interest cost	24	27	15	16
Expected asset return	(42)	(45)	(23)	(23)
Amortization:				
Prior service cost				(1)
Actuarial loss	17	19	5	5
Net periodic pension cost	$ 5	$ 6	$ 2	$ 3

The components of the net periodic pension cost for the nine months ended September 30, 2015 and 2014 are as follows:

	U.S.		Non-U.S.	
	2015	2014	2015	2014
Service cost	$ 18	$ 17	$ 14	$ 20
Interest cost	72	80	39	53
Expected asset return	(126)	(132)	(65)	(69)
Amortization:				
Prior service cost				(2)
Actuarial loss	55	55	15	16
Net periodic pension cost	$ 19	$ 20	$ 3	$ 18

7. Income Taxes

The Company performs a quarterly review of the annual effective tax rate and makes changes if necessary based on new information or events. The estimated annual effective tax rate is forecasted quarterly using actual historical information and forward-looking estimates. The estimated annual effective tax rate may fluctuate due to changes in forecasted annual operating income; changes in the forecasted mix of earnings by country; changes to the valuation allowance for deferred tax assets (such changes would be recorded discretely in the quarter in which they occur); changes to actual or forecasted permanent book to tax differences (non-deductible expenses); impacts from future tax settlements with state, federal or foreign tax authorities (such changes would be recorded discretely in the quarter in which they occur); or impacts from tax law changes. To the extent such changes impact deferred tax assets/liabilities, these changes would generally be recorded discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily because of valuation allowances in some jurisdictions and varying non-U.S. tax rates.

In the U.S., the Company had experienced cumulative losses in previous years and has recorded a valuation allowance against its deferred tax assets. The Company's U.S. operations are in a three-year cumulative income position, but this is not solely determinative of the need for a valuation allowance. The Company considered this factor and all other available positive and negative evidence and concluded that it is still more likely than not that the net deferred tax assets in the U.S. will not be realized, and accordingly continued to record a valuation allowance. The evidence considered included the magnitude of the current three-year cumulative income compared to historical losses, expected impact of tax planning strategies, interest rates, and the overall business environment. The Company continues to evaluate its cumulative income position and income trend as well as its future projections of sustained profitability and whether this profitability trend constitutes sufficient positive evidence to support a reversal of the valuation allowance (in full or in part). The amount of the valuation allowance recorded in the U.S. as of December 31, 2014 was $927 million.

8. Debt

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

	September 30, 2015	December 31, 2014	September 30, 2014
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	$ 220	$ —	$ —
Term Loans:			
Term Loan A	1,546		
Term Loan A (€279 million at September 30, 2015)	309		
Term Loan B	563		
Previous Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans			60
Term Loans:			
Term Loan B (USD tranche)		404	404
Term Loan C (CAD tranche)		70	73
Term Loan D (EURO tranche)		103	108
Senior Notes:			
3.00%, Exchangeable, due 2015		18	614
7.375%, due 2016		594	592
6.75%, due 2020 (€500 million)	557	603	629
4.875%, due 2021 (€330 million)	367	397	415
5.00%, due 2022	494	493	
5.875%, due 2023	679		
5.375%, due 2025	296	295	
6.375%, due 2025	293		
Senior Debentures:			
7.80%, due 2018	250	249	249
Capital Leases	60	63	61
Other	32	29	19
Total long-term debt	5,666	3,318	3,224
Less amounts due within one year	57	361	805
Long-term debt	$ 5,609	$ 2,957	$ 2,419

On April 22, 2015, certain of the Company’s subsidiaries entered into a new Senior Secured Credit Facility (the “Agreement”), which amended and restated the previous credit agreement (the “Previous Agreement”). The proceeds from the Agreement were used to repay all outstanding amounts under the Previous Agreement and the 7.375% senior notes due 2016. For the nine months ended September 2015, the Company recorded $42 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.

In connection with the closing of the Vitro Acquisition on September 1, 2015 (see Note 15), the Company entered into Amendment No. 2 (“Amendment No. 2”) to the Agreement, which provided for additional incremental availability under the incremental dollar cap in the Agreement of up to $1,250 million. In addition, in connection with the closing of the Vitro Acquisition, on September 1, 2015, the Company entered into the First Incremental Amendment to the Agreement (the “Incremental Amendment”) pursuant to which the Company incurred $1,250 million of senior secured incremental term loan facilities, comprised of (i) a $675 million term loan A facility (the “incremental term loan A facility”) on

substantially the same terms and conditions (including as to maturity) as the term loan A facility in the Agreement and (ii) a $575 million term loan B facility (the "incremental term loan B facility") maturing seven years after the closing of the Vitro Acquisition using its incremental capacity under the Agreement.

At September 30, 2015, the Agreement, as amended by Amendment No. 2 and the Incremental Amendment (the "Amended Agreement"), includes a $300 million USD revolving credit facility, a $600 million multicurrency revolving credit facility, a $1,575 million term loan A facility ($1,546 million net of debt issuance costs), and a €279 million term loan A facility ($309 million net of debt issuance costs), each of which has a final maturity date of April 22, 2020. The Amended Agreement also includes a $575 million term loan B facility ($563 million net of debt issuance costs) with a final maturity date of September 1, 2022. At September 30, 2015, the Company had unused credit of $641 million available under the Amended Agreement. The weighted average interest rate on borrowings outstanding under the Amended Agreement at September 30, 2015 was 2.26%.

The Amended Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted payments, make certain asset sales within guidelines and limits, engage in certain affiliate transactions, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain subordinated debt obligations.

The Amended Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company not to exceed a ratio of 4.0x calculated by dividing consolidated total debt, less cash and cash equivalents, by consolidated EBITDA, as defined in the Amended Agreement. The maximum Leverage Ratio is subject to an increase of 0.5x for the four fiscal quarters following the consummation of certain qualifying acquisitions as defined in the Amended Agreement. In connection with the Vitro Acquisition on September 1, 2015, the Company elected to increase such maximum Leverage Ratio to 4.5x for the four fiscal quarters ending June 30, 2016. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and restrictions could result in an event of default under the Amended Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Amended Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Amended Agreement and the lenders cause all of the outstanding debt obligations under the Amended Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. As of September 30, 2015, the Company was in compliance with all covenants and restrictions in the Amended Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Amended Agreement will not be adversely affected by the covenants and restrictions.

The interest rates on borrowings under the Amended Agreement are, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Amended Agreement, plus an applicable margin. The applicable margin for the term loan A facility and the revolving credit facility is linked to the Company's Leverage Ratio and ranges from 1.25%

to 1.75% for Eurocurrency Rate loans and from 0.25% to 0.75% for Base Rate loans. In addition, a fee is payable on the revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Leverage Ratio. The applicable margin for the term loan B facility is 2.75% for Eurocurrency Rate loans and 1.75% for Base Rate loans. The incremental term loan B facility is subject to a LIBOR floor of 0.75%.

Borrowings under the Amended Agreement are secured by substantially all of the assets, excluding real estate and certain other excluded assets, of certain of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity investments in certain of the Company's domestic subsidiaries and, in the case of foreign borrowings, of stock of certain foreign subsidiaries. All borrowings under the Amended Agreement are guaranteed by certain domestic subsidiaries of the Company for the term of the Amended Agreement.

Also, in connection with the Vitro Acquisition, during August 2015, the Company issued senior notes with a face value of $700 million that bear interest at 5.875% and are due August 15, 2023 (the "Senior Notes due 2023") and senior notes with a face value of $300 million that bear interest at 6.375% and are due August 15, 2025 (together with the Senior Notes due 2023, the "2015 Senior Notes"). The 2015 Senior Notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds from the 2015 Senior Notes, after deducting the debt discount and debt issuance costs, totaled approximately $972 million and were used to finance, in part, the Vitro Acquisition.

During December 2014, the Company issued senior notes with a face value of $500 million that bear interest at 5.00% and are due January 15, 2022 (the "Senior Notes due 2022"). The Company also issued senior notes with a face value of $300 million that bear interest at 5.375% and are due January 15, 2025 (together with the Senior Notes due 2022, the "2014 Senior Notes"). The 2014 Senior Notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds from the 2014 Senior Notes, after deducting debt issuance costs, totaled approximately $790 million and were used to purchase $611 million aggregate principal amount of the Company's 3.00% 2015 Exchangeable Senior Notes. The remaining balance of the Exchangeable Senior Notes was repaid in the second quarter of 2015.

The Company has a €215 million European accounts receivable securitization program, which extends through September 2016, subject to periodic renewal of backup credit lines.

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

	September 30, 2015	December 31, 2014	September 30, 2014
Balance (included in short-term loans)	$ 173	$ 122	$ 242
Weighted average interest rate	1.11 %	1.41 %	0.57 %

The carrying amounts reported for the accounts receivable securitization program, and certain long-term debt obligations subject to frequently redetermined interest rates, approximate fair value. Fair values for the Company's significant fixed rate debt obligations are based on published market quotations, and are classified as Level 1 in the fair value hierarchy.

Fair values at September 30, 2015 of the Company's significant fixed rate debt obligations are as follows:

	Principal Amount	Indicated Market Price	Fair Value
Senior Notes:			
6.75%, due 2020 (€500 million)	$ 563	$ 114.56	$ 645
4.875%, due 2021 (€330 million)	371	105.38	391
5.00%, due 2022	500	95.00	475
5.875%, due 2023	700	100.75	705
5.375%, due 2025	300	96.75	290
6.375%, due 2025	300	100.75	302
Senior Debentures:			
7.80%, due 2018	250	109.78	274

9. Contingencies

Asbestos

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos dust. From 1948 to 1958, one of the Company's former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The typical asbestos personal injury lawsuit alleges various theories of liability, including negligence, gross negligence and strict liability and seeks compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of September 30, 2015, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 2,100 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2014, approximately 81% of plaintiffs either do not specify the monetary damages sought, or in the case of court filings, claim an amount sufficient to invoke the jurisdictional minimum of the trial court. Approximately 13% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, $15 million or less, and 5% of plaintiffs specifically plead damages greater than $15 million but less than $100 million. Fewer than 1% of plaintiffs specifically plead damages equal to or greater than $100 million.

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

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs’ counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958.

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

Since receiving its first asbestos claim, the Company as of September 30, 2015, has disposed of the asbestos claims of approximately 396,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $9,000. Certain of these dispositions have included deferred amounts payable. Deferred amounts payable totaled approximately $15 million at September 30, 2015 ($13 million at December 31, 2014) and are included in the foregoing average indemnity payment per claim. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Failure of claimants to meet certain medical and product exposure criteria in the Company's administrative claims handling agreements has generally reduced the number of claims that would otherwise have been received by the Company in the tort system. In addition, certain courts and legislatures have reduced or eliminated the number of claims that the Company otherwise would have received by the Company in the tort system. These developments generally have had the effect of increasing the Company's per-claim average indemnity payment over time.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot reasonably be estimated. Beginning with the initial liability of $975 million established in 1993, the Company has accrued a total of approximately $4.4 billion through 2014, before insurance

recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by, among other factors, the volatility of asbestos-related litigation in the United States, the significant number of co-defendants that have filed for bankruptcy, the inherent uncertainty of future disease incidence and claiming patterns against the Company, the significant expansion of the defendants that are now sued in this litigation, and the continuing changes in the extent to which these defendants participate in the resolution of cases in which the Company is also a defendant.

The Company has continued to monitor trends that may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. The material components of the Company's accrued liability are based on amounts determined by the Company in connection with its annual comprehensive review and consist of the following estimates, to the extent it is probable that such liabilities have been incurred and can be reasonably estimated: (i) the liability for asbestos claims already asserted against the Company; (ii) the liability for asbestos claims not yet asserted against the Company, but which the Company believes will be asserted in the next several years; and (iii) the legal defense costs likely to be incurred in connection with the claims the Company believes will be asserted in the next several years.

The significant assumptions underlying the material components of the Company's accrual relate to:

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

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

c) the extent of decrease or increase in the incidence of serious asbestos-related disease cases and claiming patterns against the Company for such cases;

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

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

f) the extent to which co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

As noted above, the Company conducts a comprehensive review of its asbestos-related liabilities and costs annually in connection with finalizing and reporting its annual results of operations, unless significant changes in trends or new developments warrant an earlier review. If the results of an annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability. The Company believes that a reasonable estimation

of the probable amount of the liability for claims not yet asserted against the Company is not possible beyond a period of several years. Therefore, while the results of future annual comprehensive reviews cannot be determined, the Company expects that the addition of one year to the estimation period will usually result in an annual charge.

The Company's reported results of operations for 2014 were materially affected by the $135 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Given the inherent volatility involved in the asbestos litigation, the Company is unable to provide an estimate of possible loss or range of loss beyond the $435 million recorded as of December 31, 2014. Any future additional charge would likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and may continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

Other Matters

The Company conducted an internal investigation into conduct in certain of its overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (the “FCPA”), the FCPA’s books and records and internal controls provisions, the Company’s own internal policies, and various local laws. In October 2012, the Company voluntarily disclosed these matters to the U.S. Department of Justice (the “DOJ”) and the Securities and Exchange Commission (the “SEC”).

On July 18, 2013, the Company received a letter from the DOJ indicating that it presently did not intend to take any enforcement action and is closing its inquiry into the matter.

As disclosed in previous periods, the Company is presently unable to predict the duration, scope or result of an investigation by the SEC, if any, or whether the SEC will commence any legal action. The SEC has a broad range of civil sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, penalties, and modifications to business practices. The Company could also be subject to investigation and sanctions outside the United States. While the Company is currently unable to quantify the impact of any potential sanctions or remedial measures, it does not expect such actions will have a material adverse effect on the Company’s liquidity, results of operations or financial condition.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are non-routine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based, including additional information, negotiations, settlements and other events.

10. Share Owners’ Equity

The activity in share owners’ equity for the three months ended September 30, 2015 and 2014 is as follows:

	Share Owners’ Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2015	$ 2	$ 3,060	$ (577)	$ 175	$ (1,677)	$ 112	$ 1,095

Issuance of common stock (2,294 shares)							
Reissuance of common stock (67,313 shares)			2				2
Stock compensation		1					1
Net earnings				17		7	24
Other comprehensive income (loss)					(235)	(8)	(243)
Distributions to noncontrolling interests						(1)	(1)
Balance on September 30, 2015	$ 2	$ 3,061	$ (575)	$ 192	$ (1,912)	$ 110	$ 878

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	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2014	$ 2	$ 3,059	$ (463)	$ 204	$ (1,002)	$ 122	$ 1,922
Issuance of common stock (13,253 shares)							
Reissuance of common stock (52,167 shares)			1				1
Stock compensation		3					3
Net earnings				60		7	67
Other comprehensive loss					(165)	(3)	(168)
Distributions to noncontrolling interests						(2)	(2)
Balance on September 30, 2014	$ 2	$ 3,062	$ (462)	$ 264	$ (1,167)	$ 124	$ 1,823

The activity in share owners' equity for the nine months ended September 30, 2015 and 2014 is as follows:

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on January 1, 2015	2	3,066	(480)	64	(1,494)	117	$ 1,275
Issuance of common stock (41,401 shares)		1					1
Reissuance of common stock (200,155 shares)			5				5
Treasury shares purchased (4,109,256 shares)			(100)				(100)
Stock compensation		12					12
Net earnings				128		16	144
Other comprehensive loss					(418)	(16)	(434)
Distributions to noncontrolling interests						(13)	(13)
Acquisitions of noncontrolling interests		(18)				6	(12)
Balance on September 30, 2015	$ 2	$ 3,061	$ (575)	$ 192	$ (1,912)	$ 110	$ 878

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on January 1, 2014	$ 2	$ 3,040	$ (454)	$ (11)	$ (1,121)	$ 147	$ 1,603
Issuance of common stock (226,795 shares)		5					5
Reissuance of common stock (149,234 shares)			4				4
Treasury shares purchased (364,436 shares)			(12)				(12)
Stock compensation		17					17
Net earnings				275		18	293
Other comprehensive loss					(46)	(4)	(50)
Distributions to noncontrolling interests						(37)	(37)
Balance on September 30, 2014	$ 2	$ 3,062	$ (462)	$ 264	$ (1,167)	$ 124	$ 1,823

On February 4, 2015, the Company entered into an accelerated share repurchase agreement ("ASR") with J.P. Morgan Securities LLC (the "ASR Counterparty") to repurchase $100 million of its common stock. The Company advanced $100 million to the ASR Counterparty on February 5, 2015, and received 3,509,496 shares, which represented eighty five percent of the total shares as calculated using the closing price on February 4, 2015. The remaining share settlement was received from the ASR Counterparty in the amount of 599,760 shares and was completed on May 26, 2015 based on the daily volume-weighted average price of the Company's common stock during the term of the ASR. Under the terms of the ASR program, the ASR Counterparty was permitted, in accordance with the applicable requirements of the federal securities laws, to separately trade in the Company's shares.

The Company has 250,000,000 shares of common stock authorized with a par value of $.01 per share. Shares outstanding are as follows:

Shares Outstanding (in thousands)