

OWENS ILLINOIS INC /DE/
Form 10-Q
July 28, 2016

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

June 30, 2016

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	Smaller reporting company
		(Do not check if a 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 June 30, 2016 was 162,082,123.

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 Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2015.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Net sales	\$ 1,760	\$ 1,543	\$ 3,348	\$ 2,964
Cost of goods sold	(1,418)	(1,269)	(2,687)	(2,422)
Gross profit	342	274	661	542
Selling and administrative expense	(126)	(118)	(254)	(242)
Research, development and engineering expense	(16)	(16)	(32)	(31)
Interest expense, net	(67)	(74)	(133)	(121)
Equity earnings	15	14	29	29
Other income (expense), net	(7)	(18)	(29)	(15)
Earnings from continuing operations before income taxes	141	62	242	162
Provision for income taxes	(30)	(15)	(57)	(40)
Earnings from continuing operations	111	47	185	122
Loss from discontinued operations	(2)	(2)	(3)	(2)
Net earnings	109	45	182	120
Net (earnings) attributable to noncontrolling interests	(4)	(5)	(10)	(9)
Net earnings attributable to the Company	\$ 105	\$ 40	\$ 172	\$ 111
Amounts attributable to the Company:				
Earnings from continuing operations	\$ 107	\$ 42	\$ 175	\$ 113
Loss from discontinued operations	(2)	(2)	(3)	(2)
Net earnings	\$ 105	\$ 40	\$ 172	\$ 111
Basic earnings per share:				
Earnings from continuing operations	\$ 0.66	\$ 0.26	\$ 1.08	\$ 0.70
Loss from discontinued operations	(0.01)	(0.01)	(0.02)	(0.01)
Net earnings	\$ 0.65	\$ 0.25	\$ 1.06	\$ 0.69
Weighted averages shares outstanding (thousands)	161,945	160,992	161,574	161,566
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.65	\$ 0.26	\$ 1.07	\$ 0.69
Loss from discontinued operations	(0.01)	(0.01)	(0.02)	(0.01)
Net earnings	\$ 0.64	\$ 0.25	\$ 1.05	\$ 0.68
Weighted average diluted shares outstanding (thousands)	162,820	161,907	162,307	162,594

See accompanying notes.

2

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net earnings	\$ 109	\$ 45	\$ 182	\$ 120
Other comprehensive income (loss):				
Foreign currency translation adjustments	(108)	23	(14)	(234)
Pension and other postretirement benefit adjustments, net of tax	26	8	(16)	45
Change in fair value of derivative instruments, net of tax	8	(2)	6	(2)
Other comprehensive income (loss)	(74)	29	(24)	(191)
Total comprehensive income (loss)	35	74	158	(71)
Comprehensive (income) loss attributable to noncontrolling interests	8	(1)	(2)	(1)
Comprehensive income (loss) attributable to the Company	\$ 43	\$ 73	\$ 156	\$ (72)

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 334	\$ 399	\$ 378
Trade receivables, net of allowance of \$31 million, \$29 million, and \$30 million at June 30, 2016, December 31, 2015 and June 30, 2015	831	562	712
Inventories	1,051	1,007	985
Prepaid expenses and other current assets	358	366	310
Total current assets	2,574	2,334	2,385
Property, plant and equipment, net	2,932	2,961	2,386
Goodwill	2,536	2,489	1,789
Intangibles	517	597	
Other assets	1,108	1,040	1,058
Total assets	\$ 9,667	\$ 9,421	\$ 7,618
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 305	\$ 228	\$ 555
Current portion of asbestos-related liabilities	130	130	143
Accounts payable	1,042	1,212	983
Other liabilities	518	552	458
Total current liabilities	1,995	2,122	2,139
Long-term debt	5,549	5,345	3,217
Asbestos-related liabilities	663	687	762
Other long-term liabilities	1,002	988	909
Share owners' equity	458	279	591
Total liabilities and share owners' equity	\$ 9,667	\$ 9,421	\$ 7,618

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net earnings	\$ 182	\$ 120
Loss from discontinued operations	3	2
Non-cash charges		
Depreciation and amortization	250	197
Pension expense	15	15
Restructuring, asset impairment and related charges	19	22
Cash payments		
Pension contributions	(9)	(10)
Asbestos-related payments	(24)	(35)
Cash paid for restructuring activities	(17)	(15)
Change in components of working capital	(491)	(401)
Other, net (a)	(35)	(5)
Cash utilized in continuing operating activities	(107)	(110)
Cash utilized in discontinued operating activities	(3)	(2)
Total cash utilized in operating activities	(110)	(112)
Cash flows from investing activities:		
Additions to property, plant and equipment	(207)	(208)
Acquisitions, net of cash acquired	(31)	(52)
Net cash proceeds related to sale of assets	34	
Net foreign exchange derivative activity	14	6
Cash utilized in investing activities	(190)	(254)
Cash flows from financing activities:		
Changes in borrowings, net	246	400
Issuance of common stock	5	1
Treasury shares purchased		(100)
Distributions to noncontrolling interests	(10)	(12)
Payment of finance fees	(3)	(37)
Cash provided by financing activities	238	252
Effect of exchange rate fluctuations on cash	(3)	(20)
Decrease in cash	(65)	(134)
Cash at beginning of period	399	512
Cash at end of period	\$ 334	\$ 378

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

See accompanying notes.

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 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.