OWENS ILLINOIS INC /DE/
Form 10-Q
October 26, 2016
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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 the quarterly period ended

September 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 (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, 2016 was 162,196,998.

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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net sales	$ 1,712	$ 1,566	$ 5,060	$ 4,530
Cost of goods sold	(1,376)	(1,290)	(4,063)	(3,712)
Gross profit	336	276	997	818
Selling and administrative expense	(121)	(109)	(375)	(351)
Research, development and engineering expense	(16)	(15)	(48)	(46)
Interest expense, net	(66)	(67)	(199)	(188)
Equity earnings	15	17	44	46
Other income (expense), net	5	(44)	(24)	(59)
Earnings from continuing operations before income taxes	153	58	395	220
Provision for income taxes	(36)	(33)	(93)	(73)
Earnings from continuing operations	117	25	302	147
Loss from discontinued operations	(3)	(1)	(6)	(3)
Net earnings	114	24	296	144
Net earnings attributable to noncontrolling interests	(6)	(7)	(16)	(16)
Net earnings attributable to the Company	$ 108	$ 17	$ 280	$ 128
Amounts attributable to the Company:				
Earnings from continuing operations	$ 111	$ 18	$ 286	$ 131
Loss from discontinued operations	(3)	(1)	(6)	(3)
Net earnings	$ 108	$ 17	$ 280	$ 128
Basic earnings per share:				
Earnings from continuing operations	$ 0.68	$ 0.11	$ 1.76	$ 0.81
Loss from discontinued operations	(0.02)	(0.01)	(0.04)	(0.02)
Net earnings	$ 0.66	$ 0.10	$ 1.72	$ 0.79
Weighted averages shares outstanding (thousands)	162,080	160,730	161,744	161,284
Diluted earnings per share:				
Earnings from continuing operations	$ 0.68	$ 0.11	$ 1.75	$ 0.81
Loss from discontinued operations	(0.02)	(0.01)	(0.04)	(0.02)
Net earnings	$ 0.66	$ 0.10	$ 1.71	$ 0.79
Weighted average diluted shares outstanding (thousands)	163,204	161,612	162,607	162,264

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net earnings	$ 114	$ 24	$ 296	$ 144
Other comprehensive income (loss):				
Foreign currency translation adjustments	(79)	(265)	(93)	(499)
Pension and other postretirement benefit adjustments, net of tax	21	25	5	70
Change in fair value of derivative instruments, net of tax	(1)	(3)	5	(5)
Other comprehensive income (loss)	(59)	(243)	(83)	(434)
Total comprehensive income (loss)	55	(219)	213	(290)
Comprehensive (income) loss attributable to noncontrolling interests	(4)	1	(6)	
Comprehensive income (loss) attributable to the Company	$ 51	$ (218)	$ 207	$ (290)

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2016	December 31, 2015	September 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	$ 294	$ 399	$ 270
Trade receivables, net of allowance of $32 million, $29 million, and $29 million at September 30, 2016, December 31, 2015 and September 30, 2015	857	562	753
Inventories	1,057	1,007	1,023
Prepaid expenses and other current assets	234	366	442
Total current assets	2,442	2,334	2,488
Property, plant and equipment, net	2,917	2,961	2,874
Goodwill	2,534	2,489	2,797
Intangibles, net	490	597	404
Other assets	1,114	1,040	991
Total assets	$ 9,497	$ 9,421	$ 9,554
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	$ 262	$ 228	$ 250
Current portion of asbestos-related liabilities	130	130	143
Accounts payable	1,059	1,212	1,004
Other liabilities	582	552	527
Total current liabilities	2,033	2,122	1,924
Long-term debt	5,333	5,345	5,609
Asbestos-related liabilities	643	687	738
Other long-term liabilities	973	988	909
Share owners' equity	515	279	374
Total liabilities and share owners' equity	$ 9,497	$ 9,421	$ 9,554

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net earnings	$ 296	$ 144
Loss from discontinued operations	6	3
Non-cash charges		
Depreciation and amortization	372	296
Pension expense	22	22
Restructuring, asset impairment and related charges	19	57
Cash payments		
Pension contributions	(15)	(13)
Asbestos-related payments	(45)	(58)
Cash paid for restructuring activities	(20)	(20)
Change in components of working capital	(320)	(326)
Other, net (a)	(89)	1
Cash provided by continuing operating activities	226	106
Cash utilized in discontinued operating activities	(6)	(3)
Total cash provided by operating activities	220	103
Cash flows from investing activities:		
Additions to property, plant and equipment	(310)	(299)
Acquisitions, net of cash acquired	(45)	(2,342)
Net cash proceeds related to sale of assets	57	1
Net foreign exchange derivative activity	16	2
Cash utilized in investing activities	(282)	(2,638)
Cash flows from financing activities:		
Changes in borrowings, net	(31)	2,522
Issuance of common stock	5	1
Treasury shares purchased		(100)
Distributions to noncontrolling interests	(10)	(13)
Payment of finance fees	(3)	(88)
Cash provided by (utilized in) financing activities	(39)	2,322
Effect of exchange rate fluctuations on cash	(4)	(29)
Decrease in cash	(105)	(242)
Cash at beginning of period	399	512
Cash at end of period	$ 294	$ 270

(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. 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.

Financial information for the three and nine months ended September 30, 2016 and 2015 regarding the Company's reportable segments is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net sales:				
Europe	$ 586	$ 605	$ 1,795	$ 1,809
North America	578	520	1,709	1,520
Latin America	365	265	1,022	677
Asia Pacific	170	162	487	478
Reportable segment totals	1,699	1,552	5,013	4,484
Other	13	14	47	46
Net sales	$ 1,712	$ 1,566	$ 5,060	$ 4,530

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Segment operating profit:				
Europe	$ 64	$ 68	$ 192	$ 181
North America	79	61	247	214
Latin America	74	51	194	108
Asia Pacific	20	19	48	51
Reportable segment totals	237	199	681	554
Items excluded from segment operating profit:				
Retained corporate costs and other	(18)	(10)	(75)	(49)
Restructuring, asset impairment and other		(41)	(12)	(68)
Strategic transaction costs		(13)		(19)
Acquisition-related fair value inventory adjustments		(10)		(10)
Interest expense, net	(66)	(67)	(199)	(188)
Earnings from continuing operations before income taxes	$ 153	$ 58	$ 395	$ 220

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

	September 30, 2016	December 31, 2015	September 30, 2015
Total assets:			
Europe	$ 2,972	$ 2,902	$ 3,030
North America	2,536	2,500	2,028
Latin America	2,629	2,807	3,297
Asia Pacific	1,025	917	894
Reportable segment totals	9,162	9,126	9,249
Other	335	295	305
Consolidated totals	$ 9,497	$ 9,421	$ 9,554

2. Inventories

Major classes of inventory at September 30, 2016, December 31, 2015 and September 30, 2015 are as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Finished goods	$ 892	$ 858	$ 873
Raw materials	127	113	114
Operating supplies	38	36	36
	$ 1,057	$ 1,007	$ 1,023

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at September 30, 2016, December 31, 2015 and September 30, 2015 are as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Prepaid expenses	$ 61	$ 52	$ 50
Value added taxes	42	195	224
Other	131	119	168
	$ 234	$ 366	$ 442

In conjunction with the Vitro Acquisition in September of 2015, part of the total consideration paid by the Company included a value added tax receivable, which is included above as of December 31, 2015 and September 30, 2015. In the third quarter of 2016, approximately $127 million of this receivable was collected by the Company. The remaining $6 million of this receivable is expected to be refunded to the Company within the next twelve months.

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 value 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 several regions, 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. In North America, the majority of its customer contracts contain provisions that pass the price of natural gas to its customers. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. To limit the effects of fluctuations in cash flows resulting from these customer contracts, the Company enters into commodity forward contracts related to forecasted natural gas requirements. In Asia Pacific, the Company implemented a hedging program in the first quarter of 2016, which included the execution of commodity forward contracts for certain contracted natural gas requirements. At September 30, 2016 and 2015, the Company had entered into commodity forward contracts covering approximately 12,400,000 MM BTUs and 6,300,000 MM BTUs, respectively.

The Company accounts for the above forward contracts as cash flow hedges at September 30, 2016 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. An unrecognized gain of $2 million at September 30, 2016, an unrecognized loss of $4 million at December 31, 2015 and an unrecognized gain of $2 million at September 30 2015, respectively, related to the commodity forward contracts was included in Accumulated OCI, and will be reclassified into earnings in the period when the commodity forward contracts expire. 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, 2016 and 2015 was not material.

The effect of the commodity forward contracts on the results of operations for the three months ended September 30, 2016 and 2015 is as follows:

Amount of Gain (Loss) 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)	
2016	2015	2016	2015
$ (1)	$ 2	$ —	$ 4

The effect of the commodity forward contracts on the results of operations for the nine months ended September 30, 2016 and 2015 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)	
2016	2015	2016	2015
$ 2	$ 2	$ —	$ 6

Foreign Exchange Derivative Contracts and 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. The Company may also use foreign 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 foreign exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At September 30, 2016 and 2015, the Company had outstanding foreign exchange and option agreements denominated in various currencies covering the equivalent of approximately $580 million and $600 million, respectively, related primarily to intercompany transactions and loans.

The effect of the foreign exchange derivative contracts on the results of operations for the three months ended September 30, 2016 and 2015 is as follows:

Location of Gain (Loss) Recognized in Income on	Amount of Gain (Loss) Recognized in Income on

Foreign Exchange Contracts	Foreign Exchange Contracts	
	2016	2015
Other expense	$ 4	$ (4)

The effect of the foreign exchange derivative contracts on the results of operations for the nine months ended September 30, 2016 and 2015 is as follows:

Location of Gain Recognized in Income on Foreign Exchange Contracts	Amount of Gain Recognized in Income on Foreign Exchange Contracts	
	2016	2015
Other expense	$ 6	$ 2

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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) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, and (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year.

The following table shows the amount and classification (as noted above) of the Company's derivatives at September 30, 2016, December 31, 2015 and September 30, 2015:

	Balance Sheet Location	Fair Value September 30, 2016	December 31, 2015	September 30, 2015
Asset derivatives:				
Derivatives designated as hedging instruments:				
Commodity forwards contracts	a	$ 2	$ —	$ —
Derivatives not designated as hedging instruments:				
Foreign exchange derivative contracts	a	8	14	16
Total asset derivatives		$ 10	$ 14	$ 16
Liability derivatives:				
Derivatives designated as hedging instruments:				
Commodity forwards contracts	c	$ —	$ 3	$ 2
Derivatives not designated as hedging instruments:				
Foreign exchange derivative contracts	c	2	2	4
Total liability derivatives		$ 2	$ 5	$ 6

5. Restructuring Accruals

Selected information related to the restructuring accruals for the three months ended September 30, 2016 and 2015 is as follows:

	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at July 1, 2016	$ 6	$ 28	$ 34
Net cash paid, principally severance and related benefits	(1)	(2)	(3)
Other, including foreign exchange translation		(2)	(2)
Balance at September 30, 2016	$ 5	$ 24	$ 29

	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

Selected information related to the restructuring accruals for the nine months ended September 30, 2016 and 2015 is as follows:

	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2016	$ 7	$ 36	$ 43
Charges	1	18	19
Write-down of assets to net realizable value		(7)	(7)
Net cash paid, principally severance and related benefits	(2)	(18)	(20)
Other, including foreign exchange translation	(1)	(5)	(6)
Balance at September 30, 2016	$ 5	$ 24	$ 29

	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

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.

Asia Pacific Restructuring

During the nine months ended September 30, 2016, the Company recorded charges of $1 million. These charges primarily represented other exit costs as part of the Company's Asia Pacific Restructuring program.

During the three and 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.

The Company has recorded total cumulative charges of $221 million under this program.

Other Restructuring Actions

During the nine months ended September 30, 2016, the Company recorded charges of $18 million. These charges primarily represented employee costs, write-down of assets, and other exit costs of $14 million for a plant closure in the first quarter of 2016 in Latin America, $3 million related to a previous plant closure in North America and $1 million related to 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, 2016 and 2015 are as follows:

	U.S.		Non-U.S.	
	2016	2015	2016	2015
Service cost	$ 3	$ 6	$ 4	$ 5
Interest cost	23	24	12	15
Expected asset return	(37)	(42)	(19)	(23)
Amortization:				
Actuarial loss	16	17	5	5
Net periodic pension cost	$ 5	$ 5	$ 2	$ 2

The components of the net periodic pension cost for the nine months ended September 30, 2016 and 2015 are as follows:

	U.S.		Non-U.S.	
	2016	2015	2016	2015
Service cost	$ 11	$ 18	$ 13	$ 14
Interest cost	72	72	38	39
Expected asset return	(113)	(126)	(61)	(65)
Amortization:				
Actuarial loss	47	55	15	15
Net periodic pension cost	$ 17	$ 19	$ 5	$ 3

In March 2016, the Company remeasured the liability related to its hourly plan in the U.S. to reflect certain changes in future benefits. The remeasurement resulted in an increase to its pension liability of approximately $60 million and has been reflected in other comprehensive income.

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.

8. Debt

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

	September 30, 2016	December 31, 2015	September 30, 2015
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	$ —	$ —	$ 220
Term Loans:			
Term Loan A	1,516	1,546	1,546
Term Loan A (€279 million at September 30, 2016)	303	301	309
Term Loan B	558	563	563
Senior Notes:			
6.75%, due 2020 (€500 million)	557	542	557
4.875%, due 2021 (€330 million)	367	357	367
5.00%, due 2022	495	494	494
5.875%, due 2023	681	680	679
5.375%, due 2025	296	296	296
6.375%, due 2025	294	293	293
Senior Debentures:			
7.80%, due 2018	250	250	250
Capital Leases	62	62	60
Other	30	29	32
Total long-term debt	5,409	5,413	5,666
Less amounts due within one year	76	68	57
Long-term debt	$ 5,333	$ 5,345	$ 5,609

On April 22, 2015, certain of the Company’s subsidiaries entered into a 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.

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.

On February 3, 2016, the Company entered into Amendment No. 4 (“Amendment No. 4”) to the Agreement which provided for an increase in the maximum Total Leverage Ratio (which is calculated by dividing consolidated total debt, less cash and cash equivalents, by consolidated EBITDA, as defined in the Agreement) for purposes of the financial covenant in the Agreement to 5.0x for the fiscal quarters ending March 31, 2016, June 30, 2016 and September 30, 2016, 4.5x for the fiscal quarters ending December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, and stepping down to 4.0x for the fiscal quarter ending December 31, 2017 and each fiscal quarter thereafter.

At September 30, 2016, the Agreement, as amended through Amendment No. 4 (the “Amended Agreement”), includes a $300 million revolving credit facility, a $600 million multicurrency revolving credit facility, a $1,575 million term loan A facility ($1,516 million net of debt issuance costs), and a €279 million term loan A facility ($303 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 ($558 million net of debt issuance costs) with a final maturity date of September 1, 2022. At September 30, 2016, the Company had unused credit of $880 million available under the Amended Agreement. The weighted average interest rate on borrowings outstanding under the Amended Agreement at September 30, 2016 was 2.57%.

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 Total Leverage Ratio, that requires the Company as of the last day of a fiscal quarter not to exceed the maximum levels set forth in Amendment No. 4 (as more particularly described above). The Total 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 Total 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, 2016, 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 Total 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 facility fee is payable on the revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Total 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.

The Company has a €185 million European accounts receivable securitization program, which extends through March 2019, subject to periodic renewal of backup credit lines.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Balance (included in short-term loans)	$ 158	$ 158	$ 173
Weighted average interest rate	0.67 %	1.21 %	1.11 %

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, 2016 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)	$ 561	$ 120.37	$ 675
4.875%, due 2021 (€330 million)	370	114.45	423
5.00%, due 2022	500	106.31	532
5.875%, due 2023	700	107.75	754
6.375%, due 2025	300	111.00	333
5.375%, due 2025	300	104.75	314
Senior Debentures:			
7.80%, due 2018	250	108.59	271

9. Contingencies

Asbestos

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos. 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 insulation material containing asbestos. The Company sold its insulation business unit at the end of 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, 2016, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 1,600 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2015, approximately 82% 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 11% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, $15 million or less, and 7% of plaintiffs specifically plead damages greater than $15 million but less than or equal to $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 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 type and severity of the plaintiff's asbestos disease, the plaintiff's medical history and exposure to other disease-causing agents, the product identification evidence against the Company and other co-defendants, the defenses available to the Company and other co-defendants, the specific jurisdiction in which the claim is made, and the plaintiff's firm representing the claimant.

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, 2016, has disposed of the asbestos claims of approximately 397,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $9,300. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. Asbestos-related cash payments for 2015, 2014 and 2013 were $138 million, $148 million, and $158 million, respectively. The Company's cash payments per claim disposed (inclusive of legal costs) were approximately $95,000, $81,000 and $93,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

As discussed above, 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 court orders and legislative acts 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.

Beginning with the initial liability of $975 million established in 1993, the Company has accrued a total of approximately $4.9 billion through 2015, before insurance recoveries, for its asbestos-related liability. The Company's estimates of its liability have 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 continues to monitor trends that may affect its ultimate liability and analyze the developments and variables likely to affect the resolution of pending and future asbestos claims against the Company. The material components of the Company's accrued liability are determined by the Company in connection with its annual comprehensive legal 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; and (iii) the legal defense costs estimated to be incurred in connection with the claims already asserted and those claims the Company believes will be asserted.

As noted above, the Company conducts a comprehensive legal 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. As part of its annual comprehensive legal review, the Company provides historical claims filing data to a third party with expertise in determining the impact of disease incidence and mortality on future filing trends to develop information to assist the Company in estimating the total number of future claims to be filed. The Company uses this estimate of total future claims, along with an estimation of disposition costs and related legal costs as inputs to develop its best estimate of probable liability. If the results of the annual comprehensive legal review indicate that the existing amount of the accrued liability is lower (higher) than its reasonably estimable asbestos-related costs, then the Company will record an appropriate charge (credit) to the Company's results of operations to increase (decrease) the accrued liability.

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

a) settlements will continue to be limited almost exclusively to claimants who were exposed to the Company's asbestos containing insulation prior to its exit from that business in 1958;
b) claims will continue to be resolved primarily under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
c) the incidence of serious asbestos related disease cases and claiming patterns against the Company for such cases do not change materially;
d) the Company is substantially able to defend itself successfully at trial and on appeal;

e) the number and timing of additional co defendant bankruptcies do not change significantly the assets available to participate in the resolution of cases in which the Company is a defendant; and
f) co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

The Company revised its method for estimating its asbestos-related liabilities in connection with finalizing and reporting its restated results of operations for the year ended December 31, 2015 and 2014 and concluded that an accrual in the amount of $817 million and $939 million as of December 31, 2015 and 2014, respectively was required. These amounts have not been discounted for the time value of money. The application of the revised method also resulted in charges of $16 million, $46 million and $12 million for the years ending December 31, 2015, 2014 and 2013, respectively.

The Company believes it is reasonably possible that it will incur a loss for its asbestos-related liabilities in excess of the amount currently recognized, which is $817 million as of December 31, 2015. The Company estimates that reasonably possible losses could be as high as $950 million. This estimate of additional reasonably possible loss reflects a legal judgment about the number and cost of potential future claims and legal costs. The Company believes this estimate is consistent with the level of variability it has experienced when comparing actual results to recent near-term projections. However, it is also possible that the ultimate asbestos-related liability could be above this estimate.

The Company expects a significant majority of the total number of claims to be received in the next ten years. This timeframe appropriately reflects the mortality of current and expected claimants in light of the Company’s sale of its insulation business unit in 1958.

As noted above, the Company’s asbestos-related liability is based on a projection of new claims that will eventually be filed against the Company and the estimated average disposition cost of these claims and related legal costs. Changes in the significant assumptions noted above have the potential to impact these key factors, which are critical to the estimation of the Company’s asbestos-related liability significantly.

Other Matters

The Company’s joint venture in China is involved in litigation with its partner regarding whether the joint venture should be dissolved. Following an ownership change with respect to the joint venture partner, the Company is now in discussions with the new partner to resolve the dispute. As a result, all legal actions are on-hold. As of September 30, 2016, the Company’s equity investment in this joint venture was approximately $72 million. The Company intends to vigorously defend its position in this litigation, but is unable to predict the final outcome of the matter.

On July 5, 2016, the Company learned that the Enforcement Division of the SEC is conducting an investigation into certain accounting and control matters pertaining to the Company’s determination of its asbestos-related liabilities. On May 13, 2016, the Company restated its consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 in order to correct an error related to the Company’s method for estimating its future asbestos-related liabilities. The Company is cooperating with the SEC’s investigation. At this time, the Company is unable to predict the outcome of this matter or provide meaningful quantification of how the final resolution of this matter may impact its future consolidated financial statements, results of operations, or cash flows.

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, 2016 and 2015 is as follows:

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Loss	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2016	$ 2	$ 3,078	$ (566)	$ (133)	$ (2,033)	$ 110	$ 458
Issuance of common stock (836 shares)							—
Reissuance of common stock (114,039 shares)			3				3
Stock compensation							—
Net earnings				108		6	114
Other comprehensive loss					(57)	(2)	(59)
Acquisitions of noncontrolling interests		(1)					(1)
Balance on September 30, 2016	$ 2	$ 3,077	$ (563)	$ (25)	$ (2,090)	$ 114	$ 515

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Loss	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2015	$ 2	$ 3,060	$ (577)	$ (329)	$ (1,677)	$ 112	$ 591
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					(235)	(8)	(243)
Distribution to noncontrolling interests						(1)	(1)
	$ 2	$ 3,061	$ (575)	$ (312)	$ (1,912)	$ 110	$ 374

Balance on September 30, 2015

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The activity in share owners' equity for the nine months ended September 30, 2016 and 2015 is as follows:

	Share Owners' Equity of the Company						
		Capital in			Accumulated Other	Non-	Total
	Common	Excess of	Treasury	Retained	Comprehensive	controlling	Share Owners'
	Stock	Par Value	Stock	Loss	Loss	Interests	Equity
Balance on January 1, 2016	$ 2	$ 3,064	$ (573)	$ (305)	$ (2,017)	$ 108	$ 279
Issuance of common stock (505,471 shares)		5					5
Reissuance of common stock (297,875 shares)			10				10
Stock compensation		9					9
Net earnings				280		16	296
Other comprehensive loss					(73)	(10)	(83)
Acquisitions of noncontrolling interests		(1)					(1)
Balance on September 30, 2016	$ 2	$ 3,077	$ (563)	$ (25)	$ (2,090)	$ 114	$ 515

	Share Owners' Equity of the Company						
		Capital in			Accumulated Other	Non-	Total
	Common	Excess of	Treasury	Retained	Comprehensive	controlling	Share Owners'
	Stock	Par Value	Stock	Loss	Loss	Interests	Equity
Balance on January 1, 2015	$ 2	$ 3,066	$ (480)	$ (440)	$ (1,494)	$ 117	$ 771
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)
		(18)				6	(12)

Acquisitions of noncontrolling interests							
Balance on September 30, 2015	$ 2	$ 3,061	$ (575)	$ (312)	$ (1,912)	$ 110	$ 374

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)		
	September 30, 2016	December 31, 2015	September 30, 2015
Shares of common stock issued (including treasury shares)	185,418	184,481	184,465
Treasury shares	23,221	23,519	23,627

11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended September 30, 2016 and 2015 is as follows:

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments		Employee Benefit Plans		Total Accumulated Other Comprehensive Loss
Balance on July 1, 2016	$ (574)	$ (11)		$ (1,448)		$ (2,033)
Change before reclassifications	(77)					(77)
Amounts reclassified from accumulated other comprehensive income		(1)	(a)	26	(b)	25
Translation effect				(5)		(5)
Tax effect		—		—		—
Other comprehensive income (loss) attributable to the Company	(77)	(1)		21		(57)
Balance on September 30, 2016	$ (651)	$ (12)		$ (1,427)		$ (2,090)

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments		Employee Benefit Plans		Total Accumulated Other Comprehensive Loss
Balance on July 1, 2015	$ (281)	$ (13)		$ (1,383)		$ (1,677)
Change before reclassifications	(257)					(257)
Amounts reclassified from accumulated other comprehensive income		(2)	(a)	20	(b)	18
Translation effect				4		4
Tax effect		(1)		1		—
Other comprehensive income (loss) attributable to the Company	(257)	(3)		25		(235)
Balance on September 30, 2015	$ (538)	$ (16)		$ (1,358)		$ (1,912)

(a) Amount is included in Cost of goods sold on the Condensed Consolidated Results of Operations (see Note 4 for additional information).
(b) Amount is included in the computation of net periodic pension cost (see Note 6 for additional information) and net postretirement benefit cost.

The activity in accumulated other comprehensive loss for the nine months ended September 30, 2016 and 2015 is as follows:

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments		Employee Benefit Plans		Total Accumulated Other Comprehensive Loss
Balance on January 1, 2016	$ (568)	$ (17)		$ (1,432)		$ (2,017)
Change before reclassifications	(83)					(83)
Amounts reclassified from accumulated other comprehensive income		4	(a)	(2)	(b)	2
Translation effect				6		6
Tax effect		1		1		2
Other comprehensive income (loss) attributable to the Company	(83)	5		5		(73)
Balance on September 30, 2016	$ (651)	$ (12)		$ (1,427)		$ (2,090)

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments		Employee Benefit Plans		Total Accumulated Other Comprehensive Loss
Balance on January 1, 2015	$ (55)	$ (11)		$ (1,428)		$ (1,494)
Change before reclassifications	(483)					(483)
Amounts reclassified from accumulated other comprehensive income		(4)	(a)	58	(b)	54
Translation effect				10		10
Tax effect		(1)		2		1
Other comprehensive income (loss) attributable to the Company	(483)	(5)		70		(418)
Balance on September 30, 2015	$ (538)	$ (16)		$ (1,358)		$ (1,912)

(a) Amount is included in Cost of goods sold on the Condensed Consolidated Results of Operations (see Note 4 for additional information).

(b) Amount is included in the computation of net periodic pension cost (see Note 6 for additional information) and net postretirement benefit cost.

12. Other Expense (Income), net

Other expense (income), net for the three and nine months ended September 30, 2016 and 2015 included the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Restructuring, asset impairment and related charges	$ —	$ 35	$ 19	$ 57
Gain on sale of land in China			(7)	
Strategic transaction costs		13		19
Foreign currency exchange loss (gain)	2	(2)	6	(10)
Other expense (income)	(7)	(2)	6	(7)
	$ (5)	$ 44	$ 24	$ 59

13. Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share:

	Three months ended September 30,	
	2016	2015
Numerator:		
Net earnings attributable to the Company	$ 108	$ 17
Denominator (in thousands):		
Denominator for basic earnings per share-weighted average shares outstanding	162,080	160,730
Effect of dilutive securities:		
Stock options and other	1,124	882
Denominator for diluted earnings per share-adjusted weighted average shares outstanding	163,204	161,612
Basic earnings per share:		
Earnings from continuing operations	$ 0.68	$ 0.11
Loss from discontinued operations	(0.02)	(0.01)
Net earnings	$ 0.66	$ 0.10
Diluted earnings per share:		
Earnings from continuing operations	$ 0.68	$ 0.11
Loss from discontinued operations	(0.02)	(0.01)
Net earnings	$ 0.66	$ 0.10

Options to purchase 2,858,371 and 2,069,000 weighted average shares of common stock which were outstanding during the three months ended September 30, 2016 and 2015, respectively, were not included in the computation of diluted earnings per share because the options exercise price was greater than the average market price of the common shares.

	Nine months ended September 30,	
	2016	2015
Numerator:		
Net earnings attributable to the Company	$ 280	$ 128
Denominator (in thousands):		
Denominator for basic earnings per share-weighted average shares outstanding	161,744	161,284
Effect of dilutive securities:		
Stock options and other	863	980
Denominator for diluted earnings per share-adjusted weighted average shares outstanding	162,607	162,264
Basic earnings per share:		
Earnings from continuing operations	$ 1.76	$ 0.81

Loss from discontinued operations	(0.04)	(0.02)
Net earnings	$ 1.72	$ 0.79
Diluted earnings per share:		
Earnings from continuing operations	$ 1.75	$ 0.81
Loss from discontinued operations	(0.04)	(0.02)
Net earnings	$ 1.71	$ 0.79

Options to purchase 2,922,833 and 1,872,891 weighted average shares of common stock which were outstanding during the nine months ended September 30, 2016 and 2015, respectively, were not included in the computation of diluted earnings per share because the options exercise price was greater than the average market price of the common shares.

14. Supplemental Cash Flow Information

Financial information regarding the Company's supplemental cash flow information is as follows:

	Nine months ended September 30,	
	2016	2015
Interest paid in cash	$ 214	$ 192
Income taxes paid in cash (all non-U.S.):	93	93

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 $240 million, $317 million and $336 million at September 30, 2016, December 31, 2015 and September 30, 2015, respectively. Any continuing involvement with the sold receivables is immaterial.

15. Business Combinations

On September 1, 2015, the Company completed the Vitro Acquisition in a cash transaction valued at approximately $2.297 billion in cash, subject to a working capital adjustment and certain other adjustments. The Vitro Business in Mexico is the largest supplier of glass containers in that country manufacturing glass containers across multiple end uses, including food, soft drinks, beer, wine and spirits. The Vitro Acquisition included five food and beverage glass container plants in Mexico, a plant in Bolivia and a North American distribution business, and provided the Company with a competitive position in the glass packaging market in Mexico. The results of the Vitro Business have been included in the Company's consolidated financial statements since September 1, 2015 and contributed approximately $606 million of incremental net sales and $123 million of incremental segment operating profit in the first nine months of 2016. Vitro's food and beverage glass container operations in Mexico and Bolivia are included in the Latin American operating segment while its distribution business is included in the North American operating segment.

The Company financed the Vitro Acquisition with the proceeds from a senior notes offering, cash on hand and the incremental term loan facilities (see Note 8).

The total purchase price was allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The purchase agreement contained customary provisions for working capital adjustments, which the Company resolved with the seller in the first quarter of 2016. The Company completed the purchase price allocation process in the third quarter of 2016. The following table summarizes the fair value of the assets and liabilities assumed on September 1, 2015 and subsequent adjustments identified through the purchase price allocation process and recorded through the measurement period:

	September 1, 2015	Measurement Period Adjustments	September 30, 2016

Cash	$ 17	$ —	$ 17
Other current assets	344	(10)	334
Goodwill	1,073	(236)	837
Customer list intangibles and other	406	202	608
Net property, plant and equipment	597	48	645
Total assets	2,437	4	2,441
Current liabilities	93	(7)	86
Long-term debt	11		11
Long-term liabilities	36	11	47
Net assets acquired	$ 2,297	$ —	$ 2,297

The fair value of the tangible assets was estimated utilizing income and market approaches, considering remaining useful life. The customer list intangible asset includes the Company's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. The value assigned to customer list

intangibles is based on the present value of future earnings attributable to the asset group after recognition of required returns to other contributory assets.

Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition. The Vitro Acquisition goodwill is not deductible for tax purposes.

The balance sheet adjustments identified above did not result in any significant adjustments to the periods' income statement.

16. Pro Forma Information – Vitro Acquisition

Had the Vitro Acquisition, described in Note 15 and the related financing described in Note 8, occurred at the beginning of the period, unaudited pro forma consolidated net sales, earnings from continuing operations and earnings from continuing operations per share of common stock (diluted) would have been as follows:

	Three Months Ended September 30, 2015			
	As Reported	Acquisition Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	$ 1,566	$ 143	$	$ 1,709
Earnings from continuing operations attributable to the Company	$ 18	$ 18	$ (11)	$ 25
Diluted earnings per share from continuing operations	0.11			$ 0.15

Nine months ended September 30, 2015			
As Reported	Acquisition Adjustments	Financing Adjustments	Pro Forma As Adjusted

Net sales	$ 4,530	$ 574	$	$ 5,104
Earnings from continuing operations attributable to the Company	$ 131	$ 79	$ (46)	$ 164
Diluted earnings per share from continuing operations	$ 0.81			$ 1.01

17. Discontinued Operations

On April 4, 2016, the annulment committee formed by the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") ruled that a subsidiary of the Company is free to pursue the enforcement of a prior arbitration award against Venezuela. That award amounts to more than $485 million after including interest from the date of the expropriation by Venezuela (October 26, 2010). Venezuela's application to annul the award is still pending, although the annulment proceedings were recently suspended because Venezuela has not paid its fees owed to ICSID. If the proceeding is stayed for non payment for a consecutive period in excess of six months, ICSID's Secretary General could move that the committee discontinue the annulment proceeding altogether. The Company intends to take appropriate steps to vigorously enforce and collect the award, which is enforceable in approximately 150 member states that are party to the ICSID Convention. However, even with the lifting of the stay of enforcement, the Company recognizes that the collection of the award may present significant practical challenges. Because the award has yet to be satisfied and the annulment proceeding is pending, the Company is unable at this stage to reasonably predict the efforts that will be necessary to successfully enforce collection of the award, the amount of the award or the timing of any such collection efforts. Therefore, the Company has not recognized this award in its financial statements.

A separate arbitration is pending with ICSID to obtain compensation primarily for third-party minority shareholders' lost interests in the two expropriated plants.

The loss from discontinued operations of $6 million and $3 million for the nine months ended September 30, 2016 and September 30 2015, respectively, relates to ongoing costs for the Venezuelan expropriation.

18. New Accounting Pronouncement

Revenue from Contracts with Customers - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers”, which delayed by one year the effective date of the new revenue recognition standard, which will be effective for the Company on January 1, 2018. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method and is in the process of determining the effect of the standard on its ongoing financial reporting.

Leases - In February 2016, the FASB issued ASU No. 2016-02, "Leases", which will require an entity to recognize lease-related assets and liabilities on their balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

Stock Compensation - In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement. In addition, excess tax benefits should be classified along with other income tax cash flows as an operating activity in the statement of cash flows. Application of the standard is required for the annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

19. Financial Information for Subsidiary Guarantors and Non-Guarantors

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of senior debentures (the “Parent”); (2) the two subsidiaries which have guaranteed the senior debentures on a subordinated basis (the “Guarantor Subsidiaries”); and (3) all other subsidiaries (the “Non-Guarantor Subsidiaries”). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

Certain reclassifications have been made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminations relate to investments in subsidiaries and intercompany balances and transactions.

	September 30, 2016				
		Guarantor	Non-Guarantor		
Balance Sheet	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ —	$ —	$ 294	$ —	$ 294
Trade receivables, net			857		857
Inventories			1,057		1,057
Prepaid expenses and other current assets			234		234
Total current assets	—	—	2,442	—	2,442
Investments in and advances to subsidiaries	1,431	1,174		(2,605)	—
Property, plant and equipment, net			2,917		2,917
Goodwill			2,534		2,534
Intangibles, net			490		490
Other assets			1,114		1,114
Total assets	$ 1,431	$ 1,174	$ 9,497	$ (2,605)	$ 9,497
Current liabilities :					
Short-term loans and long-term debt due within one year	$ —	$ —	$ 262	$ —	$ 262
Current portion of asbestos liability	130				130
Accounts payable			1,059		1,059
Other liabilities	7		582	(7)	582
Total current liabilities	137	—	1,903	(7)	2,033
Long-term debt	250		5,333	(250)	5,333
Asbestos-related liabilities	643				643
Other long-term liabilities			973		973
Share owners' equity	401	1,174	1,174	(2,348)	401
Noncontrolling interests			114		114
Total liabilities and share owners' equity	$ 1,431	$ 1,174	$ 9,497	$ (2,605)	$ 9,497

	December 31, 2015				
Balance Sheet	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ —	$ —	$ 399	$ —	$ 399
Trade receivables, net			562		562
Inventories			1,007		1,007
Prepaid expenses and other current assets			366		366
Total current assets	—	—	2,334	—	2,334
Investments in and advances to subsidiaries	1,240	988		(2,228)	—
Property, plant and equipment, net			2,961		2,961
Goodwill			2,489		2,489
Intangibles, net			597		597
Other assets			1,040		1,040
Total assets	$ 1,240	$ 988	$ 9,421	$ (2,228)	$ 9,421
Current liabilities :					
Short-term loans and long-term debt due within one year	$ —	$ —	$ 228	$ —	$ 228
Current portion of asbestos liability	130				130
Accounts payable			1,212		1,212
Other liabilities	2		552	(2)	552
Total current liabilities	132	—	1,992	(2)	2,122
Long-term debt	250		5,345	(250)	5,345
Asbestos-related liabilities	687				687
Other long-term liabilities			988		988
Share owners’ equity	171	988	988	(1,976)	171
Noncontrolling interests			108		108
Total liabilities and share owners’ equity	$ 1,240	$ 988	$ 9,421	$ (2,228)	$ 9,421

Balance Sheet	September 30, 2015 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ —	$ —	$ 270	$ —	$ 270
Trade receivables, net			753		753
Inventories			1,023		1,023
Prepaid expenses and other current assets			442		442
Total current assets	—	—	2,488	—	2,488
Investments in and advances to subsidiaries	1,402	1,152		(2,554)	—
Property, plant and equipment, net			2,874		2,874
Goodwill			2,797		2,797
Intangibles, net			404		404
Other assets			991		991
Total assets	$ 1,402	$ 1,152	$ 9,554	$ (2,554)	$ 9,554
Current liabilities :					
Short-term loans and long-term debt due within one year	$ —	$ —	$ 250	$ —	$ 250
Current portion of asbestos liability	143				143
Accounts payable			1,004		1,004
Other liabilities	7		520		527
Total current liabilities	150	—	1,774	—	1,924
Long-term debt	250		5,609	(250)	5,609
Asbestos-related liabilities	738				738
Other long-term liabilities			909		909
Share owners’ equity	264	1,152	1,152	(2,304)	264
Noncontrolling interests			110		110
Total liabilities and share owners’ equity	$ 1,402	$ 1,152	$ 9,554	$ (2,554)	$ 9,554

	Three months ended September 30, 2016				
Results of Operations	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ —	$ 1,712	$ —	$ 1,712
Cost of goods sold			(1,376)		(1,376)
Gross profit	—	—	336	—	336
Selling and administrative expense			(121)		(121)
Research, development and engineering expense			(16)		(16)
Net intercompany interest	5		(5)		—
Interest expense, net	(5)		(61)		(66)
Equity earnings from subsidiaries	108	108		(216)	—
Other equity earnings			15		15
Other expense, net			5		5
Earnings before income taxes	108	108	153	(216)	153
Provision for income taxes			(36)		(36)
Earnings from continuing operations	108	108	117	(216)	117
Loss from discontinued operations			(3)		(3)
Net earnings	108	108	114	(216)	114
Net (earnings) attributable to noncontrolling interests			(6)		(6)
Net earnings attributable to the Company	$ 108	$ 108	$ 108	$ (216)	$ 108

	Three months ended September 30, 2016				
Comprehensive Income	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings	$ 108	$ 108	$ 114	$ (216)	$ 114
Other comprehensive income (loss), net	(63)	(63)	(59)	126	(59)
Total comprehensive loss	45	45	55	(90)	55
Comprehensive income attributable to noncontrolling interests			(4)		(4)
Comprehensive income attributable to the Company	$ 45	$ 45	$ 51	$ (90)	$ 51

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	Three months ended September 30, 2015				
Results of Operations	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ —	$ 1,566	$ —	$ 1,566
Cost of goods sold			(1,290)		(1,290)
Gross profit	—	—	276	—	276
Selling and administrative expense			(109)		(109)
Research, development and engineering expense			(15)		(15)
Net intercompany interest	5		(5)		—
Interest expense, net	(5)		(62)		(67)
Equity earnings from subsidiaries	17	17		(34)	—
Other equity earnings			17		17
Other expense, net			(44)		(44)
Earnings before income taxes	17	17	58	(34)	58
Provision for income taxes			(33)		(33)
Earnings from continuing operations	17	17	25	(34)	25
Loss from discontinued operations			(1)		(1)
Net earnings	17	17	24	(34)	24
Net (earnings) attributable to noncontrolling interests			(7)		(7)
Net earnings attributable to the Company	$ 17	$ 17	$ 17	$ (34)	