

OWENS ILLINOIS INC /DE/
Form 10-Q
April 30, 2014

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

March 31, 2014

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

(State or other jurisdiction of
incorporation or organization)

22-2781933

(IRS Employer
Identification No.)

One Michael Owens Way, Perrysburg, Ohio

(Address of principal executive offices)

43551

(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 March 31, 2014 was 165,074,114.

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, 2013.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended March 31,	
	2014	2013
Net sales	\$ 1,639	\$ 1,641
Cost of goods sold	(1,318)	(1,322)
Gross profit	321	319
Selling and administrative expense	(133)	(129)
Research, development and engineering expense	(15)	(15)
Interest expense, net	(54)	(68)
Equity earnings	16	17
Other expense, net	(1)	(7)
Earnings from continuing operations before income taxes	134	117
Provision for income taxes	(27)	(33)
Earnings from continuing operations	107	84
Loss from discontinued operations	(1)	(10)
Net earnings	106	74
Net earnings attributable to noncontrolling interests	(5)	(5)
Net earnings attributable to the Company	\$ 101	\$ 69
Amounts attributable to the Company:		
Earnings from continuing operations	\$ 102	\$ 79
Loss from discontinued operations	(1)	(10)
Net earnings	\$ 101	\$ 69
Basic earnings per share:		
Earnings from continuing operations	\$ 0.62	\$ 0.48
Loss from discontinued operations	(0.01)	(0.06)
Net earnings	\$ 0.61	\$ 0.42
Weighted average shares outstanding (thousands)	164,760	164,069
Diluted earnings per share:		
Earnings from continuing operations	\$ 0.62	\$ 0.48
Loss from discontinued operations	(0.01)	(0.06)
Net earnings	\$ 0.61	\$ 0.42
Weighted average diluted shares outstanding (thousands)	166,165	165,501

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended March 31,	
	2014	2013
Net earnings	\$ 106	\$ 74
Other comprehensive income:		
Foreign currency translation adjustments	32	(32)
Pension and other postretirement benefit adjustments, net of tax	23	45
Change in fair value of derivative instruments	1	4
Other comprehensive income	56	17
Total comprehensive income	162	91
Comprehensive income attributable to noncontrolling interests	(2)	(1)
Comprehensive income attributable to the Company	\$ 160	\$ 90

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	March 31, 2014	December 31, 2013	March 31, 2013
Assets			
Current assets:			
Cash and cash equivalents	\$ 201	\$ 383	\$ 359
Receivables	1,078	943	1,047
Inventories	1,204	1,117	1,178
Prepaid expenses	94	107	99
Total current assets	2,577	2,550	2,683
Property, plant and equipment, net	2,634	2,632	2,680
Goodwill	2,059	2,059	2,048
Other assets	1,218	1,178	1,106
Total assets	\$ 8,488	\$ 8,419	\$ 8,517
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 331	\$ 322	\$ 347
Current portion of asbestos-related liabilities	150	150	155
Accounts payable	1,074	1,144	904
Other liabilities	527	638	523
Total current liabilities	2,082	2,254	1,929
Long-term debt	3,371	3,245	3,550
Asbestos-related liabilities	283	298	289
Other long-term liabilities	992	1,019	1,594
Share owners' equity	1,760	1,603	1,155
Total liabilities and share owners' equity	\$ 8,488	\$ 8,419	\$ 8,517

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

	Three months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	\$ 106	\$ 74
Loss from discontinued operations	1	10
Non-cash charges		
Depreciation and amortization	111	107
Pension expense	15	26
Restructuring, asset impairment and related charges		10
Cash payments		
Pension contributions	(5)	(7)
Asbestos-related payments	(15)	(17)
Cash paid for restructuring activities	(21)	(34)
Change in components of working capital	(352)	(301)
Other, net (a)	(42)	(2)
Cash utilized in continuing operating activities	(202)	(134)
Cash utilized in discontinued operating activities	(1)	(2)
Total cash utilized in operating activities	(203)	(136)
Cash flows from investing activities:		
Additions to property, plant and equipment	(108)	(94)
Other, net	13	
Cash utilized in investing activities	(95)	(94)
Cash flows from financing activities:		
Changes in borrowings, net	136	160
Issuance of common stock	4	4
Distributions to noncontrolling interests	(19)	
Other, net	1	(5)
Cash provided by financing activities	122	159
Effect of exchange rate fluctuations on cash	(6)	(1)
Decrease in cash	(182)	(72)
Cash at beginning of period	383	431
Cash at end of period	\$ 201	\$ 359

(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, South 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 sales, global engineering, and non-glass 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-month periods ended March 31, 2014 and 2013 regarding the Company's reportable segments is as follows:

	2014		2013
Net sales:			
Europe	\$ 706	\$	650
North America	485		469
South America	239		269
Asia Pacific	203		247
Reportable segment totals	1,633		1,635
Other	6		6
Net sales	\$ 1,639	\$	1,641

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	2014		2013	
Segment operating profit:				
Europe	\$	87	\$	59
North America		65		74
South America		41		53
Asia Pacific		25		40
Reportable segment totals		218		226
Items excluded from segment operating profit:				
Retained corporate costs and other		(30)		(31)
Restructuring, asset impairment and related charges				(10)
Interest expense, net		(54)		(68)
Earnings from continuing operations before income taxes	\$	134	\$	117

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

	March 31, 2014		December 31, 2013		March 31, 2013	
Total assets:						
Europe	\$	3,585	\$	3,509	\$	3,263
North America		2,055		1,995		2,030
South America		1,453		1,467		1,638
Asia Pacific		1,142		1,150		1,294
Reportable segment totals		8,235		8,121		8,225
Other		253		298		292
Consolidated totals	\$	8,488	\$	8,419	\$	8,517

2. Receivables

Receivables consist of the following:

	March 31, 2014		December 31, 2013		March 31, 2013	
Trade accounts receivable	\$	911	\$	757	\$	903
Less: allowances for doubtful accounts and discounts		39		39		41
Net trade receivables		872		718		862
Other receivables		206		225		185
	\$	1,078	\$	943	\$	1,047

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 \$129 million, \$192 million, and \$116 million at March 31, 2014, December 31, 2013, and March 31, 2013, respectively. The Company has no continuing involvement with the sold receivables.

3. Inventories

Major classes of inventory are as follows:

	March 31, 2014		December 31, 2013		March 31, 2013
Finished goods	\$ 1,037	\$	958	\$	1,014
Raw materials	121		113		124
Operating supplies	46		46		40
	\$ 1,204	\$	1,117	\$	1,178

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 Futures Contracts Designated as Cash Flow Hedges

The significant majority of the Company's 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. When the customer exercises that option the Company enters into commodity futures contracts for the related natural gas requirements, in order to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. At March 31, 2014 and 2013, the Company had entered into commodity futures contracts covering approximately 4,400,000 MM BTUs and 6,200,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for these futures contracts as cash flow hedges 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 both March 31, 2014 and 2013 related to the commodity futures 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 months ended March 31, 2014 and 2013 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended March 31, 2014 and 2013 is as follows:

Amount of Gain Recognized in OCI on Commodity Futures Contracts (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (reported in Cost of goods sold) (Effective Portion)	
2014	2013	2014	2013
\$ 2	\$ 3	\$ 1	\$ (1)

Forward Exchange Contracts not Designated as Hedging Instruments

The Company's subsidiaries 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 and payables, not denominated in, or indexed to, their functional currencies. The Company records these short-term forward exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At March 31, 2014 and 2013, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$670 million and \$900 million, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange contracts on the results of operations for the three months ended March 31, 2014 and 2013 is as follows:

Location of Gain (Loss) Recognized in Income on Forward Exchange Contracts	Amount of Loss Recognized in Income on Forward Exchange Contracts	
	2014	2013
Other expense, net	\$ (1)	\$ (3)

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:

	Balance Sheet Location	March 31, 2014	Fair Value December 31, 2013	March 31, 2013
Asset Derivatives:				
Derivatives designated as hedging instruments:				
Commodity futures contracts	a	\$ 2	\$ 1	\$ 2
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	a	4	3	3
Foreign exchange contracts	c	3		1
Total derivatives not designated as hedging instruments		7	3	4
Total asset derivatives		\$ 9	\$ 4	\$ 6
Liability Derivatives:				
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	c	\$ 10	\$ 7	\$ 8
Total liability derivatives		\$ 10	\$ 7	\$ 8

5. Restructuring Accruals

Selected information related to the restructuring accruals for the first three months of 2014 and 2013 is as follows:

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2014	\$ 30	\$ 20	\$ 64	\$ 114
Net cash paid, principally severance and related benefits	(2)	(4)	(15)	(21)
Other, including foreign exchange translation	(1)	(4)	(3)	(8)
Balance at March 31, 2014	\$ 27	\$ 12	\$ 46	\$ 85
Balance at January 1, 2013	\$ 53	\$ 6	\$ 64	\$ 123
First quarter 2013 charges	7	2	1	10
Write-down of assets to net realizable value	(2)			(2)
Net cash paid, principally severance and related benefits	(20)	(4)	(10)	(34)
Other, including foreign exchange translation	(1)		(1)	(2)
Balance at March 31, 2013	\$ 37	\$ 4	\$ 54	\$ 95

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.

6. Pension Benefit Plans

The components of the net periodic pension cost for the three months ended March 31, 2014 and 2013 are as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Service cost	\$ 6	\$ 7	\$ 7	\$ 8
Interest cost	27	27	18	17
Expected asset return	(43)	(46)	(22)	(23)
Amortization:				
Actuarial loss	18	28	4	8
Net periodic pension cost	\$ 8	\$ 16	\$ 7	\$ 10

The U.S. pension expense excludes \$8 million of special termination benefits that were recorded in discontinued operations in 2013.

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 has 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, 2013 was \$837 million.

8. Debt

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

	March 31, 2014	December 31, 2013	March 31, 2013
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$ 150	\$	\$ 126
Term Loans:			
Term Loan A			53
Term Loan B	405	405	525
Term Loan C (81 million CAD at March 31, 2014)	74	76	100
Term Loan D (85 million at March 31, 2014)	116	117	158
Senior Notes:			
3.00%, Exchangeable, due 2015	621	617	647
7.375%, due 2016	594	593	591
6.75%, due 2020 (500 million)	688	690	641
4.875%, due 2021 (330 million)	454	455	423
Senior Debentures:			
7.80%, due 2018	250	250	250
Other	60	58	92
Total long-term debt	3,412	3,261	3,606
Less amounts due within one year	41	16	56
Long-term debt	\$ 3,371	\$ 3,245	\$ 3,550

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). At March 31, 2014, the Agreement included a \$900 million revolving credit facility, a \$405 million term loan, a 81 million Canadian dollar term loan, and a 85 million term loan, each of which has a final maturity date of May 19, 2016. At March 31, 2014, the Company's subsidiary borrowers had unused credit of \$660 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at March 31, 2014 was 2.02%.

During March 2013, the Company issued senior notes with a face value of 330 million due March 31, 2021. The notes bear interest at 4.875% and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$418 million.

During March 2013, the Company discharged, in accordance with the indenture, all 300 million of the 6.875% senior notes due 2017. The Company recorded \$11 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.

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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:

	March 31, 2014	December 31, 2013	March 31, 2013
Balance (included in short-term loans)	\$ 253	\$ 276	\$ 241
Weighted average interest rate	1.53%	1.41%	1.38%

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 March 31, 2014 of the Company's significant fixed rate debt obligations are as follows:

	Principal Amount	Indicated Market Price	Fair Value
Senior Notes:			
3.00%, Exchangeable, due 2015	\$ 644	103.51	\$ 667
7.375%, due 2016	600	111.00	666
6.75%, due 2020 (500 million)	688	118.33	814
4.875%, due 2021 (330 million)	454	107.39	488
Senior Debentures:			
7.80%, due 2018	250	117.00	293

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 March 31, 2014, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 2,500 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2013, approximately 80% 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 16% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, \$15 million or less, and 3% 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 March 31, 2014, has disposed of the asbestos claims of approximately 393,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$8,700. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$24 million at March 31, 2014 (\$12 million at December 31, 2013) 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 marginal or suspect claims that would otherwise have been received. In addition, certain courts and legislatures have reduced or eliminated the number of marginal or suspect claims that the Company otherwise would have received. 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 \$4.3 billion through 2013, 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 magnitude and timing of co-defendant bankruptcy trust payments, the inherent uncertainty of future disease incidence and claiming patterns against the Company, and the success of efforts by co-defendants to restrict or eliminate their liability in the litigation.

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 foregoing types of claims.

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

- a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;
- b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the extent of decrease or increase in the incidence of serious disease cases and claiming patterns 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 the addition of one year to the estimation period will result in an annual charge.

The Company's reported results of operations for 2013 were materially affected by the \$145 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect the Company's

results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and 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.

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.

The Company received a non-income tax assessment from a foreign tax authority for approximately \$90 million (including penalties and interest). The Company challenged this assessment, but the tax authority's position was upheld in court. The Company strongly disagrees with this ruling and believes it to be contradictory to other court rulings in the Company's favor. Although the Company cannot predict the ultimate outcome of this case, it believes that it is probable that the tax authority's assessment will be overturned by a higher court, and therefore, the Company has not established an accrual. In order to contest the lower court rulings, legal rules require the Company to deposit the amount of the tax assessment, which will be remitted in monthly installments over the next fifteen months. A favorable ruling by the higher court will result in a return to the Company of amounts paid. An unfavorable ruling will result in the forfeiture of the deposit, a charge of approximately \$60 million and a non-income tax refund of \$30 million. As of March 31, 2014, the Company has made installment payments totaling \$60 million, which is included in Other assets on the balance sheet.

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 March 31, 2014 and 2013 is as follows:

	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 (155,727 shares)		4					4
Reissuance of common stock (48,041 shares)			2				2
Stock compensation		8					8
Net earnings				101		5	106
Other comprehensive income (loss)					59	(3)	56
Distributions to noncontrolling interests						(19)	(19)
Balance on March 31, 2014	\$ 2	\$ 3,052	\$ (452)	\$ 90	\$ (1,062)	\$ 130	\$ 1,760

	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 January 1, 2013	\$ 2	\$ 3,005	\$ (425)	\$ (195)	\$ (1,506)	\$ 174	\$ 1,055
Issuance of common stock (315,704 shares)		4					4
Reissuance of common stock (40,771 shares)			1				1
Stock compensation		4					4
Net earnings				69		5	74
Other comprehensive income (loss)					21	(4)	17
Balance on March 31, 2013	\$ 2	\$ 3,013	\$ (424)	\$ (126)	\$ (1,485)	\$ 175	\$ 1,155

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

(share amounts in thousands)	March 31, 2014	Shares Outstanding December 31, 2013	March 31, 2013
Shares of common stock issued (including treasury shares)	183,811	183,500	182,356
Treasury shares, at cost	18,738	18,786	17,861

11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended March 31, 2014 and 2013 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, 2014	\$ 229	\$ (12)	\$ (1,338)	\$ (1,121)
Change before reclassifications	35	2		37
Amounts reclassified from accumulated other comprehensive income		(1)(a)	23(b)	22
Translation effect			1	1
Tax effect			(1)	(1)
Other comprehensive income attributable to the Company	35	1	23	59
Balance on March 31, 2014	\$ 264	\$ (11)	\$ (1,315)	\$ (1,062)

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on January 1, 2013	\$ 455	\$ (14)	\$ (1,947)	\$ (1,506)
Change before reclassifications	(28)	3		(25)
Amounts reclassified from accumulated other comprehensive income		1(a)	37(b)	38
Translation effect			10	10
Tax effect			(2)	(2)
Other comprehensive income attributable to the Company	(28)	4	45	21
Balance on March 31, 2013	\$ 427	\$ (10)	\$ (1,902)	\$ (1,485)

(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

During the three months ended March 31, 2013, the Company recorded charges of \$10 million for restructuring, asset impairment and related charges primarily related to the Company's European Asset Optimization program. See Note 5 for additional information.

13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended March 31,	
	2014	2013
Numerator:		
Net earnings attributable to the Company	\$ 101	\$ 69
Denominator (in thousands):		
Denominator for basic earnings per share - weighted average shares outstanding	164,760	164,069
Effect of dilutive securities:		
Stock options and other	1,405	1,432
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	166,165	165,501
Basic earnings per share:		
Earnings from continuing operations	\$ 0.62	\$ 0.48
Loss from discontinued operations	(0.01)	(0.06)
Net earnings	\$ 0.61	\$ 0.42
Diluted earnings per share:		
Earnings from continuing operations		