

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

(Mark one) FORM 10-Q

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

For Quarter Ended September 30, 1996

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

Owens-Illinois, Inc.

(Exact name of registrant as specified in its charter)

Delaware	1-9576	22-2781933
-----	-----	-----
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification No.)

Owens-Illinois Group, Inc.

(Exact name of registrant as specified in its charter)

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

One SeaGate, Toledo, Ohio

43666

(Address of principal executive offices)

(Zip Code)

419-247-5000

(Registrants' telephone number, including area code)

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No

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

Owens-Illinois, Inc. \$.01 par value common stock - 120,374,599 shares at October 31, 1996.

Owens-Illinois Group, Inc. \$.01 par value common stock - 100 shares at October 31, 1996.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. Since the following condensed unaudited 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 Registrants' Annual Report on Form 10-K for the year ended December 31, 1995.

OWENS-ILLINOIS, INC.
 CONDENSED CONSOLIDATED RESULTS OF OPERATIONS
 Three months ended September 30, 1996 and 1995
 (Millions of dollars, except per-share amounts)

	1996	1995
Revenues:	-----	-----
Net sales	\$1,014.1	\$ 962.2
Royalties and net technical assistance	5.8	6.8
Equity earnings	4.8	4.4
Interest	4.2	7.3
Other	14.1	11.7
	-----	-----
	1,043.0	992.4
Costs and expenses:		
Manufacturing, shipping, and delivery	788.3	747.9
Research and development	7.7	7.4
Engineering	6.3	6.4
Selling and administrative	47.6	43.3
Interest	76.7	77.0
Other	16.0	15.6
	-----	-----
	942.6	897.6
Earnings before items below	-----	-----
	100.4	94.8
Provision for income taxes	32.7	29.9
Minority share owners' interests in earnings of subsidiaries	5.7	8.8
	-----	-----
Net earnings	\$ 62.0	\$ 56.1
	=====	=====
Net earnings per share of common stock	\$ 0.51	\$ 0.46
	=====	=====

Average shares outstanding (thousands)	120,360	119,394
	=====	=====

See accompanying notes.

4

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS
Nine months ended September 30, 1996 and 1995
(Millions of dollars, except per-share amounts)

	1996	1995
	-----	-----
Revenues:		
Net sales	\$2,883.6	\$2,870.8
Royalties and net technical assistance	18.0	20.2
Equity earnings	13.2	12.1
Interest	16.3	22.1
Other	44.4	33.6
	-----	-----
	2,975.5	2,958.8
Costs and expenses:		
Manufacturing, shipping, and delivery	2,234.7	2,232.8
Research and development	22.8	22.4
Engineering	19.5	19.9
Selling and administrative	139.6	133.0
Interest	225.0	226.5
Other	46.2	54.4
	-----	-----
	2,687.8	2,689.0
	-----	-----
Earnings before items below	287.7	269.8
Provision for income taxes	97.9	95.5
Minority share owners' interests in earnings of subsidiaries	21.6	25.9
	-----	-----
Net earnings	\$ 168.2	\$ 148.4
	=====	=====
Net earnings per share of common stock	\$ 1.39	\$ 1.23
	=====	=====
Average shares outstanding (thousands)	120,235	119,186
	=====	=====

See accompanying notes.

5

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 1996, December 31, 1995, and September 30, 1995
(Millions of dollars)

	Sept. 30, 1996	Dec. 31, 1995	Sept. 30, 1995
	-----	-----	-----
Assets			
Current assets:			
Cash, including time deposits	\$ 112.6	\$ 109.4	\$ 88.4
Short-term investments, at cost which approximates market	12.5	52.5	80.9
Receivables, less allowances for losses and discounts (\$36.9 at September 30, 1996, \$39.7 at December 31, 1995, and \$36.2 at September 30, 1995)	478.7	423.9	489.3
Inventories	494.4	502.2	485.6
Prepaid expenses	112.5	128.8	69.5
	-----	-----	-----
Total current assets	1,210.7	1,216.8	1,213.7
Investments and other assets:			
Domestic investments and advances	25.0	22.7	21.6
Foreign investments and advances	63.7	61.4	62.7
Repair parts inventories	195.0	156.3	159.9
Prepaid pension	649.7	615.7	634.9
Insurance for asbestos-related costs	274.1	323.5	435.7
Deposits, receivables, and other assets	255.5	234.1	236.2
Excess of purchase cost over net assets acquired, net of accumulated amortization (\$285.8 at September 30, 1996, \$262.0 at December 31, 1995, and \$254.4 at September 30, 1995)	998.4	1,023.9	1,030.2
	-----	-----	-----
Total investments and other assets	2,461.4	2,437.6	2,581.2
Property, plant, and equipment, at cost	3,345.4	3,087.2	2,985.2
Less accumulated depreciation	1,450.7	1,302.4	1,299.4
	-----	-----	-----
Net property, plant, and equipment	1,894.7	1,784.8	1,685.8
	-----	-----	-----
Total assets	\$5,566.8	\$5,439.2	\$5,480.7
	=====	=====	=====

6

CONDENSED CONSOLIDATED BALANCE SHEETS -- continued

	Sept. 30, 1996	Dec. 31, 1995	Sept. 30, 1995
	-----	-----	-----
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 127.8	\$ 75.5	\$ 93.4
Current portion of asbestos-related liabilities	145.0	145.0	145.0
Accounts payable and other liabilities	682.2	668.4	681.2
	-----	-----	-----
Total current liabilities	955.0	888.9	919.6
Long-term debt	2,755.6	2,757.7	2,746.4
Deferred taxes	146.3	133.4	76.6
Nonpension postretirement benefits	372.3	389.1	391.6

Asbestos-related liabilities	143.2	235.4	289.6
Other liabilities	309.1	335.3	370.5
Commitments and contingencies			
Minority share owners' interests	189.0	167.5	170.4
Share owners' equity:			
Preferred stock	21.6	21.9	26.3
Common stock, par value \$.01 per share (120,365,799 shares outstanding at September 30, 1996; 119,966,191 at December 31, 1995; and 119,549,946 at September 30, 1995)	1.2	1.2	1.2
Capital in excess of par value	1,046.4	1,042.8	1,038.4
Deficit	(281.1)	(449.3)	(470.0)
Cumulative foreign currency translation adjustment	(91.8)	(84.7)	(79.9)
	-----	-----	-----
Total share owners' equity	696.3	531.9	516.0
	-----	-----	-----
Total liabilities and share owners' equity	\$5,566.8	\$5,439.2	\$5,480.7
	=====	=====	=====

See accompanying notes.

7

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED CASH FLOWS
Nine months ended September 30, 1996 and 1995
(Millions of dollars)

	1996	1995
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 168.2	\$ 148.4
Non-cash charges (credits):		
Depreciation	163.4	148.4
Amortization of deferred costs	39.0	36.6
Other	(32.0)	(11.5)
Change in non-current operating assets	(72.4)	(40.4)
Asbestos-related payments	(92.2)	(114.8)
Asbestos-related insurance proceeds	49.4	34.4
Reduction of non-current liabilities	(8.0)	(5.7)
Change in components of working capital	23.4	(153.1)
	-----	-----
Cash provided by operating activities	238.8	42.3
Cash flows from investing activities:		
Additions to property, plant, and equipment	(290.6)	(177.4)
Acquisitions and other		(18.0)
Net cash proceeds from divestitures	5.3	7.0
	-----	-----
Cash utilized in investing activities	(285.3)	(188.4)
Cash flows from financing activities:		
Additions to long-term debt	103.6	160.2
Repayments of long-term debt	(114.1)	(54.0)
Increase in short-term loans	60.9	15.0
Issuance of subsidiaries' stock	4.0	
Issuance of common stock	3.4	3.8
	-----	-----
Cash provided by financing activities	57.8	125.0
Effect of exchange rate fluctuations on cash	(8.1)	.1
	-----	-----
Increase (decrease) in cash	3.2	(21.0)

Cash at beginning of period	109.4	109.4
	-----	-----
Cash at end of period	\$ 112.6	\$ 88.4
	=====	=====

See accompanying notes.

8

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

1. Inventories

Major classes of inventory are as follows:

	Sept. 30, 1996	Dec. 31, 1995	Sept. 30, 1995
	-----	-----	-----
Finished goods	\$372.5	\$381.4	\$376.9
Work in process	4.4	3.2	5.7
Raw materials	77.2	80.3	70.4
Operating supplies	40.3	37.3	32.6
	-----	-----	-----
	\$494.4	\$502.2	\$485.6
	=====	=====	=====

2. Long-Term Debt

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

	Sept. 30, 1996	Dec. 31, 1995	Sept. 30, 1995
	-----	-----	-----
Bank Credit Agreement:			
Revolving Loans	\$ 423.4	\$ 549.4	\$ 490.0
Bid Rate Loans	155.0	61.0	140.0
Senior Debentures, 11%, due 1999 to 2003	1,000.0	1,000.0	1,000.0
Senior Subordinated Notes:			
10-1/4%, due 1999	250.0	250.0	250.0
10-1/2%, due 2002	150.0	150.0	150.0
10%, due 2002	250.0	250.0	250.0
9-3/4%, due 2004	200.0	200.0	200.0
9.95%, due 2004	100.0	100.0	100.0
Other	241.8	220.2	184.3
	-----	-----	-----
	2,770.2	2,780.6	2,764.3
Less amounts due within one year	14.6	22.9	17.9
	-----	-----	-----
Long-term debt	\$2,755.6	\$2,757.7	\$2,746.4
	=====	=====	=====

The Company has an agreement with a group of banks ("Bank Credit Agreement" or "Agreement") which provides Revolving Loan Commitments under which the Company may borrow up to \$1 billion through December 1998. The Agreement includes Swing Line and Overdraft Account facilities providing for aggregate borrowings up to \$50 million which reduce the amount available for borrowing under the Revolving Loan Commitments. In addition, the terms of the Bank Credit Agreement permit the Company to request Bid Rate Loans from banks participating in the Agreement and to issue Commercial Paper notes to other purchasers. Borrowings outstanding under Bid Rate Loans and Commercial Paper

9

notes are limited to \$450 million in the aggregate and reduce the amount available for borrowing under the Revolving Loan Commitments. The Revolving

Loan Commitments also provide for the issuance of letters of credit totaling up to \$300 million.

At September 30, 1996, the Company had unused credit available under the Bank Credit Agreement of \$302.8 million.

Revolving loans bear interest, at the Company's option, at the prime rate or a Eurodollar deposit-based rate plus a margin linked to published ratings of the Company's senior debt instruments. The margin is currently .875% and is limited to a range of .625% to 1%. Swing Line and Overdraft Account loans bear interest at the prime rate minus the commitment fee percentage, defined below. The weighted average interest rate on borrowings outstanding under the Bank Credit Agreement at September 30, 1996, was 6.34%. While no compensating balances are required by the Agreement, the Company must pay a commitment fee on the excess of the Revolving Loan Commitments over the aggregate amount of Revolving Loans outstanding. The commitment fee, currently .375%, is subject to reduction to .25%, also based on changes in published ratings.

The capital stock and intercompany debt obligations of most of the Company's domestic subsidiaries are pledged as collateral for borrowings under the Agreement and certain other obligations. While these pledges do not directly encumber the operating assets owned by these subsidiaries, the Agreement restricts the creation of liens on them. The Agreement also requires the maintenance of certain financial ratios, restricts the incurrence of indebtedness and other contingent financial obligations, and restricts certain types of business activities and investments.

The Company has commenced discussions with a number of banks, including present lenders under the Bank Credit Agreement, for the purpose of refinancing the Agreement. As presently contemplated, the refinancing would, among other things, increase the immediately available revolving loan commitments to \$1.2 billion, extend the expiration date by three years to December 2001, and provide, on a contingent basis, additional financing to support the Company's acquisition strategy. The refinancing has not been finalized, however, the Company has received commitments exceeding the level requested. Based on the commitments received and on the current status of discussions with the potential lenders, the Company expects to finalize the refinancing during the fourth quarter of 1996.

The Senior Debentures rank pari passu with the obligations of the Company under the Bank Credit Agreement and other senior indebtedness, and senior in right of payment to all existing and future subordinated debt of the Company. The Senior Debentures are guaranteed on a senior basis by the Company's wholly owned subsidiary, Owens-Illinois Group, Inc. ("Group"), and most of the Company's domestic subsidiaries and secured by a pledge of the capital stock of, and intercompany indebtedness of, Group and such subsidiaries.

3. Cash Flow Information

Interest paid in cash aggregated \$179.4 million and \$180.9 million for the nine months ended September 30, 1996 and September 30, 1995, respectively. Income taxes paid in cash totaled \$25.1 million and \$29.3 million for the nine months ended September 30, 1996 and September 30, 1995, respectively.

4. Contingencies

The Company is one of a number of defendants (typically 10 to 20) in a substantial number of lawsuits filed in numerous state and federal courts by persons alleging bodily injury (including death) as a result of exposure to dust from asbestos fibers. From 1948 to 1958, one of the Company's former business units commercially produced and sold a high-temperature, clay-based insulating material containing asbestos. The insulation material was used in limited industrial applications such as shipyards, power plants and chemical plants. During its ten years in the high-temperature insulation business, the Company's aggregate sales of insulation material containing asbestos were less than \$40 million. The Company exited the insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically allege various theories of liability, including negligence, gross negligence and strict liability and

seek compensatory and punitive damages in various amounts (herein referred to as "asbestos claims"). As of September 30, 1996, the Company estimates that it is a named defendant in asbestos claims involving approximately 18,000 plaintiffs and claimants.

The Company's indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. They are affected by a multitude of factors, including the type and severity of the disease sustained by the claimant; the occupation of the claimant; the extent of the claimant's exposure to asbestos-containing insulation products manufactured or sold by the Company; the extent of the claimant's exposure to asbestos-containing products manufactured or sold by other producers; the number and financial resources of other producer defendants; the jurisdiction of suit; the presence or absence of other possible causes of the claimant's illness; the availability of legal defenses such as the statute of limitations or state of the art; and whether the claim was resolved on an individual basis or as part of a group settlement.

Total indemnity, claim disposition and litigation payments and expenses in asbestos claims and related proceedings may also be affected by (i) settlement and judgment payments by other defendants (which may take the form of a judgment credit for such settlements), (ii) claims or cross-claims by other asbestos manufacturers or suppliers seeking indemnity or contribution from the Company, and (iii) the Company's claims or cross-claims for contribution or indemnity from other asbestos manufacturers, suppliers or related parties. Because the scope and extent of all such contribution and indemnity claims vary considerably according to factual circumstances and applicable law, the Company is unable to estimate the precise extent to which such contribution or indemnity claims may affect the Company's total indemnity, claim disposition

11

and litigation payments and expenses, but the Company nonetheless believes that the probable effect of all such claims or cross-claims against the Company will not be material.

The Company is also one of a number of defendants (typically 30 to 90) in separate bodily injury lawsuits involving as of September 30, 1996 approximately 200 plaintiffs who allege that they are or were maritime workers. On March 31, 1995, a class action against the Company was filed in Common Pleas Court in Cuyahoga County, Ohio which purports to consist of all maritime claimants alleging exposure to the Company's asbestos-containing insulation products. The Company believes that class action treatment of such maritime claims is inappropriate and, accordingly, intends to oppose class certification in this suit. These maritime plaintiffs, who are all represented by the same attorney, primarily allege so-called "in-place" exposure to asbestos-containing products while serving aboard merchant marine vessels. Such cases as a group appear to involve significantly less serious disease compared to traditional filings and the vast majority may not involve any medical condition attributable to exposure to the Company's product. Since 1988, approximately 18,000 such lawsuits have been filed by the same attorney. One thousand of these cases dismissed were "with prejudice." On May 2, 1996, the presiding judge of the Judicial Panel on Multidistrict Litigation (discussed further below) entered an order administratively dismissing without prejudice all maritime worker cases pending in the United States District Court for the Northern District of Ohio. As a result of such order, on such date there remained pending against the Company individual lawsuits involving approximately 200 plaintiffs alleging that they are or were maritime workers and the class action pending in Common Pleas Court in Cuyahoga County, Ohio (discussed above). In view of these factors, the Company presently believes that the probable ultimate disposition of these maritime claims will not involve any material additional indemnity liability and does not include them in the description herein of asbestos claims or in the total number of pending asbestos claims set forth in the first paragraph above.

The Company is also one of a number of defendants (typically 15 to 30) in a number of lawsuits and claims, some of which are class actions, brought by or on behalf of public or private property owners, alleging damages as a result of the presence of asbestos-containing insulation in various properties. These lawsuits typically assert multiple theories of liability, including negligence, breach of warranty and strict liability, and seek various forms of monetary and equitable relief, including compensatory and punitive monetary damages, restitution and removal of asbestos-containing material. As of

September 30, 1996, the Company was a named defendant in 7 such pending property damage lawsuits and claims, one of which is a class action, which are not included in the total number of pending asbestos claims set forth in the first paragraph above.

The asbestos claims, including both compensatory and punitive damage claims, against the Company and the other defendants in the bodily injury and property damage lawsuits and the other claims referred to above exceed several billion dollars in the aggregate. Additionally, since 1982 a number of former producers and/or miners of asbestos or asbestos-containing products which were

12

or would be co-defendants with the Company in the bodily injury lawsuits and claims and/or in the property damage lawsuits and claims have filed for reorganization under Chapter 11 of the United States Bankruptcy Code ("Co-Defendant Bankruptcies"). Pending lawsuits have been stayed as to all but one of these entities, but continue against the Company and the other defendants.

In July 1991, the Judicial Panel on Multidistrict Litigation consolidated in the Eastern District of Pennsylvania virtually all of the federal cases for possible coordinated and aggregate disposition and other processing techniques (the "MDL Case"). Included in the MDL Case is a case in the Eastern District of Texas where a petition had been filed to certify a nationwide litigation class action with respect to all asbestos-related bodily injury claims pending in the United States both in federal and state court. The Company believes that such a nationwide litigation class action is not supported by the existing case law. The number of plaintiffs in the cases pending in the MDL Case in which the Company is a defendant is included in the reported pending plaintiffs and claimants. In 1992, the court entered an order severing and retaining any claims for punitive damages in cases remanded for trial of the compensatory damage claims. The court, through various administrative orders, is giving priority to claims involving malignancies and serious asbestosis both in terms of settlement activity and in terms of remand for trial where a settlement with all defendants is not possible.

In addition, in January 1993, in an action in which the Company was not a party, a class action complaint, an answer and a stipulation of settlement of such class action complaint were filed contemporaneously in the United States District Court for the Eastern District of Pennsylvania. The lawsuit and settlement are between a proposed class of persons occupationally or secondarily exposed to asbestos but who did not have bodily injury suits pending as of January 15, 1993, and a group of 20 companies who manufactured or sold asbestos products and whose asbestos claims are managed by the Center for Claims Resolution. The Company and a number of other former producers of asbestos-containing products are not members of the Center for Claims Resolution. The proposed settlement, negotiated between the member companies and class counsel, seeks to create an administrative mechanism to process future asbestos-related claims against such companies. Under the proposed settlement, in order to receive compensation, claimants would be required to satisfy objective medical and product exposure criteria. The class action and proposed settlement raise a number of novel and complex issues, including the potential impact of the proposed settlement on the Company's contribution and settlement credit rights. The trial court has resolved some, but not all of those issues in ruling on the fairness of the proposed settlement to personal injury claimants. Several of the trial court's rulings were before the United States Court of Appeals for the Third Circuit pursuant to an interlocutory appeal. In May 1996, the United States Court of Appeals for the Third Circuit vacated the class certification and remanded the case to the district court with direction to decertify the class. The members of the Center for Claims Resolution filed a petition for a writ of certiorari to the United States Supreme Court.

In August 1993, another of the Company's co-defendants, Fibreboard Corporation, filed two actions, which were thereafter certified by the

13

District Court as mandatory settlement classes. One class action resolved all future asbestos-related claims against Fibreboard and the second class action resolved all of Fibreboard's insurance coverage claims against its insurers, which settlements were also approved by the District Court. In July 1996, the United States Court of Appeals for the Fifth Circuit affirmed the District Court's orders certifying a mandatory class action and approving the settlements.

The precise impact on the Company of the Co-Defendant Bankruptcies and other proceedings mentioned above is not determinable. These filings and proceedings have created a substantial number of unprecedented and complex issues. However, the Company believes the Co-Defendant Bankruptcies probably have adversely affected the Company's share of the total liability to plaintiffs in previously settled or otherwise determined lawsuits and claims and also may adversely affect the Company's share of the total liability to plaintiffs in the future. Additionally, the Company believes that the dissemination of the class notices in the Center for Claims Resolution and Fibreboard Corporation class actions described above may have increased the number of claims and lawsuits against the Company or accelerated the filing of such claims.

In April 1986, the Company and Aetna Life & Casualty Company ("Aetna") agreed to a final settlement fully resolving asbestos bodily injury and property damage insurance coverage litigation between them (which followed the entry of partial summary judgment in favor of the Company in such litigation). The Company has processed claims which have effectively exhausted its coverage under the Aetna agreement. In 1984, the Company initiated similar litigation in New Jersey against the Company's insurers, agents and related parties for the years 1977 through 1985 in which the Company sought damages and a declaration of coverage for both asbestos bodily injury and property damage claims under insurance policies in effect during those years (Owens-Illinois, Inc. v. United Insurance Co., et al, Superior Court of New Jersey, Middlesex County, November 30, 1984). The total coverage sought in this litigation before deducting the settlements described below and giving consideration to reinsurer insolvencies and, in the Company's opinion, applicable to both bodily injury and property damage was \$670 million. In April 1990, the Company obtained summary judgment for the coverage sought in this litigation and Owens Insurance Limited ("OIL"), an affiliate of the Company and one of the defendant insurers, in turn, obtained summary judgment under certain reinsurance contracts. The defendants appealed the summary judgment granted to the Company and in April 1993, the New Jersey Superior Court, Appellate Division affirmed the trial court on all policy interpretation issues but remanded for trial certain other issues. All parties petitioned the New Jersey Supreme Court for review.

In December 1994, the New Jersey Supreme Court issued its decision upholding the Appellate Division decision in favor of the Company's position on one issue, but reversing and remanding a second issue to the trial court for further proceedings.

Shortly before the issuance of the New Jersey Supreme Court decision, the Company partially settled its coverage claim against OIL to the extent of

14

reinsurance provided to OIL by certain reinsurance companies representing approximately 19% of total United Insurance coverage limits. The settlements resulted in payments totalling approximately \$100 million. Subsequently, the Company reached separate settlements with various other reinsurers, and with OIL to the extent of reinsurance provided by such settling reinsurance companies. Such settlements confirmed approximately \$140 million of additional coverage for the Company's asbestos-related losses. These settlements also included all of the reinsurers who had continued to participate actively as litigating parties in the United Insurance case.

In November 1995, before all the settlements described above were finalized, a reinsurer of OIL during the years affected by the United Insurance case brought a separate suit against OIL seeking a declaratory judgment that it had no reinsurance obligation to OIL due to alleged OIL fraud and also to OIL not having joined non-party reinsurers as parties in the United Insurance case as alleged to be required under New Jersey's "entire controversy" doctrine (Employer's Mutual vs Owens-Insurance Limited, Superior Court of New Jersey, Morris County, December 1995). The Company was not a named party to this cause of action but was subsequently joined in it as a necessary party defendant.

Following the settlements described above, OIL, through its independent counsel, advised the Company that in view of the number and terms of the prior reinsurer settlements, and further in view of the inclusion in such settlements of all the reinsurers who had previously been participating as litigating parties in the United Insurance case, OIL's independent directors had authorized OIL's counsel to pursue settlement negotiations with the

Company. Negotiations thereafter took place between representatives of the Company and OIL's counsel. The negotiation was also aided by the involvement of three professional mediators who had been involved in several of the earlier reinsurer settlements. A settlement agreement (the "OIL Settlement") was ultimately reached, and endorsed by all the mediators and approved by OIL's independent directors, calling for the payment of remaining non-settled reinsurance at 78.5% of applicable reinsurance limits, increasing to 81% and accruing interest at 10% for any amounts not paid at the 78.5% level within 45 days after receipt of notice from OIL of the OIL Settlement.

In December 1995, the presiding judge in the United Insurance case entered a Consent Judgment settling the United Insurance case as to all remaining issues and all parties with the single exception of a broker malpractice claim asserted by the Company, which remains pending. In the Consent Judgment Order, the presiding judge specifically found that the OIL Settlement is a good faith and non-collusive settlement and that it is fair and reasonable as to OIL and all of OIL's non-settling reinsurers.

Subsequent to the entry of the Consent Judgment Order described above, OIL gave notice of the OIL Settlement to all nonsettling reinsurers affected by the United Insurance case, informing all such reinsurers of the terms of the OIL Settlement and demanding timely payment from such reinsurers pursuant to such terms. Certain previously nonsettling reinsurers made the payments called for under the OIL Settlement or otherwise settled their obligations thereunder. Other nonsettling reinsurers, possibly due to the pendency of the

15

Employers Mutual case described above, did not, however, make the payments called for under the OIL Settlement by the date specified therein.

In June 1996, the Superior Court of New Jersey, Morris County granted OIL summary judgment on the "entire controversy" doctrine claim in the Employers Mutual case.

As a result of payments and commitments that have been made by reinsurers pursuant to the OIL Settlement and the earlier settlement agreements described above and certain other available insurance, the Company has to date confirmed coverage for its asbestos-related costs of approximately \$297 million. Of the total amount confirmed to date, \$236 million had been received through September 30, 1996; and the balance of approximately \$61 million will be received throughout 1996 and the next several years. The remainder of the insurance asset of approximately \$213 million relates principally to the reinsurers who have not yet paid their reinsurance obligations under the OIL Settlement.

The Company believes, based on the rulings of the trial court, the Appellate Division and the New Jersey Supreme Court, as well as its understanding of the facts and legal precedents (including specifically the legal precedent requiring that reinsurers "follow the fortunes" of and adhere to any good faith, fair and reasonable settlement entered into by the primary carrier which such reinsurers had agreed to reinsure) and based on advice of counsel, McCarter & English, that it is probable substantial additional payments will be received to cover the Company's asbestos-related claim losses, in addition to the amounts already received or to be received as a result of the settlements described above.

As a result of Chapter 11 filings, the recent class action filings, and the continuing efforts in various federal and state courts to resolve asbestos lawsuits and claims in nontraditional manners, as well as the continued filings of new lawsuits and claims, the Company believes that its ultimate asbestos-related contingent liability (i.e., its indemnity or other claim disposition costs plus related litigation expenses) is difficult to estimate with certainty. However, the Company has continually monitored the trends of matters which may affect its ultimate liability and continually analyzes the trends, developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company.

Based on the trends and developments and their effect on the Company's ability to estimate probable costs of pending and likely future asbestos-related claims, the higher than expected costs of disposing of claims in certain jurisdictions, and taking into account the expected reimbursement principally as a result of the United Insurance case, the Company determined in 1993 that it will likely have probable asbestos-related liabilities and costs which exceed its probable asbestos-related insurance reimbursement in the

approximate amount of \$325 million. Accordingly, the Company recorded a charge of such amount against its Consolidated Results of Operations for the fourth quarter of 1993 and established a reserve for probable asbestos-related liabilities and costs of \$975 million and recorded an insurance asset of \$650 million, which amount was principally based on the Company's expected recovery

16

and reimbursement in the United Insurance case. In December 1994, as a result of the settlements described above and other relevant factors including the status of the United Insurance litigation at that time, the Company further determined that the \$650 million insurance asset should be reduced by \$100 million (in addition to the approximately \$100 million of insurance proceeds received as a result of the December 1994 settlements described above). The Company recorded a charge of \$100 million in 1994 to reflect this lower insurance asset valuation. Additionally, as a result of the OIL Settlement and analysis of various factors related thereto, the Company has determined that this asset should be reduced further by \$40 million (in addition to the approximately \$140 million of insurance proceeds received or to be received as a result of the 1995 settlements described above). As a consequence, the Company recorded a pretax charge of \$40 million in the fourth quarter of 1995 to reflect this lower valuation.

Based on all the factors and matters relating to the Company's asbestos-related litigation and claims, the Company believes that its asbestos-related costs and liabilities will not exceed by a material amount the sum of the available insurance reimbursement the Company believes it has and will have principally as a result of the United Insurance case, and the OIL Settlement of that case, as described above, and the amount of such charges described in the preceding paragraph.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. The ultimate legal and financial liability of the Company in respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot be estimated with certainty. However, the Company believes, based on its examination and review of such matters and experience to date, that such ultimate liability will not be material in relation to the Company's Consolidated Financial Statements.

17

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

Results of Operations - Third Quarter 1996 compared with Third Quarter 1995

The Company recorded net earnings of \$62.0 million for the third quarter of 1996, an increase of 10.5% over third quarter 1995 net earnings of \$56.1 million. Consolidated operating profit for the third quarter of 1996 was \$168.1 million, an increase of \$8.0 million, compared to the same period in 1995. The increase is attributable to higher operating profit for both the Glass Containers segment and Plastics and Closures segment.

Capsule segment results (in millions of dollars) for the third quarter of 1996 and 1995 were as follows:

	Net sales (Unaffiliated customers)		Operating profit	
	1996	1995	1996	1995
Glass Containers	\$ 747.1	\$ 712.3	\$ 126.6	\$ 123.5
Plastics and Closures	266.6	249.5	42.8	36.8
Eliminations and other retained costs	.4	.4	(1.3)	(.2)
Consolidated total	\$1,014.1	\$ 962.2	\$ 168.1	\$ 160.1

Net sales of the Glass Containers segment, led by international operations, increased \$34.8 million, or 4.9%, over 1995. The combined U.S. dollar sales of the segment's foreign affiliates increased over prior year, reflecting higher unit shipments by several of the foreign affiliates. The inclusion of recently acquired glass container operations in Hungary, Finland, and Estonia more than offset lower unit shipments in Venezuela, India and Brazil and the effects of devaluations of the Venezuelan currency in late 1995 and early 1996. Domestically, glass container unit shipments were slightly below prior year levels due in part to the absence in 1996 of sales of soft drink bottles as a result of the conversion from glass to plastic containers. For the Company, this conversion is completed but is affecting 1996 comparisons to prior year periods. Increased shipments to U.S. brewers more than offset lower demand for food containers, including iced tea and juice bottles. Net sales of the Plastics and Closures segment increased \$17.1 million, or 6.9%, over the prior year. The increase resulted from higher unit shipments of closures and plastic containers for personal care, health care and household products, and the reported sales of the recently acquired plastic container operations in Finland.

The operating profit of the Glass Containers segment increased \$3.1 million to \$126.6 million, compared to \$123.5 million in the third quarter of 1995. Domestically, operating profit was favorably impacted by the effects of an improved cost structure and increased productivity, which nearly offset the effects of inflation and slightly lower unit pricing in some product lines. The combined U.S. dollar operating profit of the segment's foreign affiliates

18

increased from the third quarter of 1995. Increased operating profit from the United Kingdom affiliate along with positive contributions from the recently acquired glass container operations in Hungary, Finland and Estonia more than offset soft market conditions in Brazil and Venezuela and recent currency devaluations in Venezuela. The operating profit of the Plastics and Closures segment increased \$6.0 million, or 16.3%, compared to the third quarter of 1995. The increase resulted from higher unit shipments in most businesses and the recent restructuring of the labels and carriers business.

First Nine Months 1996 compared with First Nine Months 1995

For the first nine months of 1996, the Company recorded net earnings of \$168.2 million, an increase of 13.3% over the first nine months of 1995 net earnings of \$148.4 million. Consolidated operating profit for the first nine months of 1996 was \$483.2 million, an increase of \$21.1 million, or 4.6%, compared to the same 1995 period. The increase is attributable to higher operating profit in the Plastics and Closures segment. The estimated effective tax rate for the first nine months of 1996 was 34.0%, compared with 35.4% estimated for the first nine months of 1995 and the actual rate of 32.5% for the full year 1995.

Capsule segment results (in millions of dollars) for the first nine months of 1996 and 1995 were as follows:

	Net sales (Unaffiliated customers)		Operating profit	
	1996	1995	1996	1995
Glass Containers	\$2,086.0	\$2,089.3	\$ 355.8	\$ 360.0

Plastics and Closures	796.3	780.5	135.7	112.8
Eliminations and other retained costs	1.3	1.0	(8.3)	(10.7)

Consolidated total	\$2,883.6	\$2,870.8	\$ 483.2	\$ 462.1
=====				

Net sales of the Glass Containers segment for the first nine months of 1996 nearly equaled the first nine months of 1995. The reported sales of recently acquired glass container operations in Hungary, Finland and Estonia more than offset the effects of currency devaluation on reported U.S. dollar sales in Venezuela and Colombia and lower unit shipments in Brazil. Domestically, glass container unit shipments declined in part due to the absence in 1996 of sales of soft drink containers as a result of the conversion of soft drink containers from glass to plastic. As a result of obtaining additional business and increased consumer demand for premium and specialty beers, the increase in shipments to U.S. brewers more than offset the lower shipments of food containers, including iced tea and juice bottles. In the Plastics and Closures segment, net sales increased \$15.8 million, or 2.0%, over 1995. Increased unit shipments in most businesses and the reported sales of the recently acquired plastic container operations in Finland more than offset the effects of lower resin prices on pass-through arrangements with customers.

19

The operating profit of the Glass Containers segment decreased 1.2%, or \$4.2 million, from the prior year. Domestically, operating profit increased over 1995 as a result of an improved cost structure, which more than offset lower unit shipments and slightly lower unit pricing in some product lines. Internationally, soft market conditions in Brazil and Venezuela and recent currency devaluations in Venezuela resulted in lower U.S. dollar operating profit of the segment's affiliates located in those countries. The operating profit of the Plastics and Closures segment improved 20.3%, or \$22.9 million, compared to the first nine months of 1995. The increase resulted from higher unit shipments, improved manufacturing performance, the recent restructuring of the labels and carriers business, and a consolidation of manufacturing capacity in the specialty products business. Also, the segment's operations in Mexico compared favorably to the first nine months of 1995, when results were adversely affected by the December 1994 devaluation of the peso. Other retained costs of \$8.3 million for the first nine months of 1996 compared to \$10.7 million for the first nine months of 1995 reflecting lower employee benefit costs and higher net financial services income.

Capital Resources and Liquidity

The Company's total debt at September 30, 1996 was \$2.88 billion compared to \$2.83 billion at December 31, 1995 and \$2.84 billion at September 30, 1995.

At September 30, 1996, the Company had available credit totaling \$1 billion under the Bank Credit Agreement expiring in December 1998, of which \$302.8 million had not been utilized. At December 31, 1995, the Company had \$322.0 million of credit which had not been utilized under the Agreement. Cash provided by operating activities was \$238.8 million for the first nine months of 1996 compared to \$42.3 million in 1995.

In the twelve-month period commencing October 1, 1996, the Company anticipates that cash flow from its operations and from utilization of available credit under the Bank Credit Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations. The Company faces additional demands upon its liquidity for asbestos-related payments. Based on the Company's expectations regarding favorable trends which should lower its aggregate payments for lawsuits and claims and its expectation of the collection of its insurance coverage and reimbursement for such lawsuits, and also based on the Company's expected operating cash flow, the Company believes that the payment of any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

The Company has commenced discussions with a number of banks, including present lenders under the Bank Credit Agreement, for the purpose of refinancing the Agreement. As presently contemplated, the refinancing would, among other things, increase the immediately available revolving loan commitments to \$1.2 billion, extend the expiration date by three years to

December 2001, and provide, on a contingent basis, additional financing to support the Company's acquisition strategy. The refinancing has not been

20

finalized, however, the Company has received commitments exceeding the level requested. Based on the commitments received and on the current status of discussions with the potential lenders, the Company expects to finalize the refinancing during the fourth quarter of 1996.

Upon the finalization of the refinancing, the Company expects that the utilization of available credit under the Bank Credit Agreement, combined with cash flows from operations, will be sufficient to fund its operating and seasonal working capital needs, debt service including relatively modest scheduled principal payments, and other obligations through early 1999. Beyond that, based upon current levels of operations and anticipated growth, the Company anticipates that it will have to refinance existing indebtedness, sell assets and/or otherwise raise funds in either the private or public markets to make all of the principal payments when due under its outstanding debt securities, beginning with principal payments due in 1999 under the 10-1/4% Senior Subordinated Notes. There can be no assurance that the Company will be able to refinance existing indebtedness or otherwise raise funds in a timely manner or that the proceeds therefrom will be sufficient to make all such principal payments.

21

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

(a) Contingencies. Note 4 to the Condensed Consolidated Financial Statements, "Contingencies," that is included in Part I of this Report, is incorporated herein by reference.

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

(a) Exhibits:

Exhibit 23 Consent of McCarter & English

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter for which this Report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

OWENS-ILLINOIS, INC.

Date November 1, 1996

By /s/ Lee A. Wesselmann

Lee A. Wesselmann, Senior Vice President and
Chief Financial Officer (Principal Financial
Officer)

OWENS-ILLINOIS GROUP, INC.

Date November 1, 1996

By /s/ Lee A. Wesselmann

Lee A. Wesselmann, Senior Vice President and
Chief Financial Officer (Principal Financial
Officer)

INDEX TO EXHIBITS

Exhibit

23	Consent of McCarter & English.
27	Financial Data Schedule.

CONSENT OF MCCARTER & ENGLISH

October 30, 1996

Ladies and Gentlemen:

We consent to the incorporation by reference in this Quarterly Report on Form 10-Q of Owens-Illinois, Inc. and Owens-Illinois Group, Inc. for the quarter ended September 30, 1996, of the reference to our firm under the caption "Legal Proceedings."

Very truly yours,

/s/McCarter & English

McCarter & English

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the September 30, 1996 condensed consolidated balance sheet, and the condensed consolidated results of operations for the nine-month period then ended and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-END>		SEP-30-1996
<CASH>		125,100,000
<SECURITIES>		0
<RECEIVABLES>		478,700,000
<ALLOWANCES>		36,900,000
<INVENTORY>		494,400,000
<CURRENT-ASSETS>		1,210,700,000
<PP&E>		3,345,400,000
<DEPRECIATION>		1,450,700,000
<TOTAL-ASSETS>		5,566,800,000
<CURRENT-LIABILITIES>		955,000,000
<BONDS>		2,770,200,000
<PREFERRED-MANDATORY>		0
<PREFERRED>		21,600,000
<COMMON>		1,200,000
<OTHER-SE>		673,500,000
<TOTAL-LIABILITY-AND-EQUITY>		5,566,800,000
<SALES>		2,883,600,000
<TOTAL-REVENUES>		2,975,500,000
<CGS>		2,234,700,000
<TOTAL-COSTS>		2,234,700,000
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		225,000,000
<INCOME-PRETAX>		287,700,000
<INCOME-TAX>		97,900,000
<INCOME-CONTINUING>		168,200,000
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		168,200,000
<EPS-PRIMARY>		1.39
<EPS-DILUTED>		1.39