

OWENS ILLINOIS INC /DE/
Form DEF 14A
March 26, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

OWENS-ILLINOIS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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OWENS-ILLINOIS, INC.
NOTICE AND PROXY STATEMENT

For

The Annual Meeting of Share Owners

To Be Held

Thursday, April 23, 2009

YOUR VOTE IS IMPORTANT

Please mark, date and sign the enclosed proxy card and promptly return it in the enclosed envelope.

OWENS-ILLINOIS, INC.

**One Michael Owens Way
Perrysburg, Ohio 43551**

NOTICE OF ANNUAL MEETING OF SHARE OWNERS

Dear Owens-Illinois Share Owner:

You are cordially invited to attend the Annual Meeting of Owens-Illinois' share owners to be held on Thursday, April 23, 2009, at 9:00 a.m. in Conference Room A, Plaza 2, at the O-I World Headquarters, Perrysburg, Ohio for the purpose of considering and voting upon the following matters:

1. The election of four directors, each to serve for a term of three years;
2. The ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009;
3. The approval of the Second Restated Certificate of Incorporation increasing the maximum authorized number of directors from eleven to twelve;
4. The approval of the amendment and restatement of the Company's 2005 Incentive Award Plan which, among other things, increases the number of shares available under such plan by 9,000,000, extends the term of the plan until March 2019 and continues to allow grants under the plan to qualify as performance based for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "IRC") and
5. Such other business as may properly be presented for action at the meeting or any postponement or adjournment thereof.

Enclosed is a Proxy Statement, which provides information concerning the Company and the Board of Directors' nominees for election as directors and information concerning the selection of Ernst & Young LLP as the Company's independent registered public accounting firm and information concerning proposed amendments to the Company's Restated Certificate of Incorporation and the Company's 2005 Incentive Award Plan. The Company intends to commence distribution of this notice and the accompanying proxy statement and proxy card on or about March 26, 2009.

The Board of Directors fixed the close of business on February 24, 2009, as the record date for the determination of share owners owning the Company's Common Stock, par value \$.01 per share, entitled to notice of, and to vote at, the Annual Meeting.

Enclosed is a proxy card, which provides you with a convenient means of voting on the matters to be considered at the meeting, whether or not you attend the meeting in person. All you need do is mark the proxy card to indicate your vote, sign and date the card, then return it in the enclosed envelope as soon as conveniently possible. If the shares are held in more than one name, all holders of record should sign the proxy card. If you desire to vote for all of the Board of Directors' nominees for election to the Board of Directors, in favor of the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009; in favor of the proposed amendment to the Company's Restated Certificate of Incorporation; and in favor of the amendment and restatement of the Company's 2005 Incentive Award Plan, you need not mark your votes on the proxy card but need only sign and date it and return it in the enclosed envelope. As an alternative to returning the proxy card, you may choose to make use of the Internet or telephone voting options described in the enclosed Proxy Statement and on the proxy card.

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Management sincerely appreciates your support. We hope to see you at the Annual Meeting.

By order of the Board of Directors,

ALBERT P. L. STROUCKEN
Chairman of the Board

JAMES W. BAEHREN
Secretary

March 26, 2009
Perrysburg, Ohio

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**OWENS-ILLINOIS, INC.
One Michael Owens Way
Perrysburg, Ohio 43551**

**PROXY STATEMENT FOR THE ANNUAL MEETING OF SHARE OWNERS
To Be Held April 23, 2009**

The Annual Meeting of the share owners of Owens-Illinois, Inc. (herein called the "Company") will be held on Thursday, April 23, 2009, at 9:00 a.m. in Conference Room A, Plaza 2, at the O-I World Headquarters, Perrysburg, Ohio. At the Annual Meeting, share owners will vote to elect four directors, each to serve a term of three years, consider the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009, consider the approval of the Second Restated Certificate of Incorporation increasing the maximum authorized number of directors from eleven to twelve, and consider the approval of the amendment and restatement of the Company's 2005 Incentive Award Plan which, among other things, increases the number of shares available under such plan by 9,000,000, extends the term of the plan until March 2019 and continues to allow grants under the plan to qualify as performance based for purposes of IRC Section 162(m).

This Proxy Statement has been prepared in connection with the solicitation by the Company's Board of Directors (the "Board") of proxies for the Annual Meeting and provides information concerning the persons nominated by the Board of Directors for election as directors, and other information relevant to the Annual Meeting. The Company intends to commence distribution of this Proxy Statement and the accompanying proxy card on or about March 26, 2009.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF
SHARE OWNERS TO BE HELD ON APRIL 23, 2009**

The Proxy Statement and the Company's 2008 Annual Report are available on the Company's website at www.o-i.com.

Who May Vote

You will be entitled to vote at the Annual Meeting if you are a share owner of record as of the close of business on February 24, 2009 (the "record date"). At the close of business on the record date, 167,447,802 shares of the Company's Common Stock, par value \$.01 per share ("Common Stock"), were outstanding. Each share of Common Stock entitles the holder of record to one vote on all matters to be voted upon at the Annual Meeting. Shares of Common Stock held by the trustee under the Company's 401(k) plans must be voted by the trustee in accordance with written instructions from participants in such plan or, as to those shares for which no instructions are received, in a uniform manner as a single block in accordance with the instructions received with respect to the majority of shares for which instructions were received from participants. No other securities are entitled to be voted at the Annual Meeting.

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How to Vote

Shares can be voted at the Annual Meeting only if the share owner is present in person or represented by proxy. If shares are owned of record in the share owner's name, the share owner may cast a vote in one of four ways:

Vote by Internet

A share owner can choose to vote shares at any time over the Internet site listed on the accompanying proxy card. The Internet site will give share owners the opportunity to provide voting instructions with respect to their shares and confirm that the instructions have been accurately recorded. If a vote is cast over the Internet site, the share owner does not need to return the proxy card.

Vote by Telephone

A share owner can also vote by telephone at any time by calling the toll-free number (for residents of the U.S. and Canada) listed on the proxy card. To vote, the share owner must enter the control number listed on the proxy card and follow the recorded instructions. If a vote is cast by telephone, the share owner does not need to return the proxy card.

Vote by Mail

If the share owner chooses to vote by mail, the share owner is required to complete, date and sign the accompanying proxy card and return it promptly in the enclosed envelope.

Vote in Person

A share owner can choose to vote in person at the Annual Meeting by ballot.

The telephonic and internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which the Company believes comply with Delaware law, allow share owners to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded.

Share owners who hold their shares beneficially in street name through a nominee (such as a bank or broker) may be able to vote by telephone or the Internet as well as by mail. The share owner should follow the instructions received from the nominee to vote these shares.

The proxy card lists each person nominated by the Board for election as a director. Proxies duly executed and received in time for the meeting will be voted in accordance with share owners' instructions. If no instructions are given, proxies will be voted (a) to elect four directors of the Company for a term of three years to expire at the Annual Meeting in 2012, (b) for ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009, (c) for approval of the Second Restated Certificate of Incorporation increasing the maximum authorized number of directors from eleven to twelve, (d) for approval of the amendment and restatement of the Company's 2005 Incentive Award Plan which, among other things, increases the number of shares available under such plan by 9,000,000, extends the term of the plan until March 2019 and continues to allow grants under the plan to qualify as performance based for purposes of IRC Section 162(m), and (e) in the discretion of the proxy holders as to any other business which may properly come before the meeting.

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Revocability of Proxies

Any proxy solicited hereby may be revoked by the person or persons giving it at any time before it has been exercised at the Annual Meeting by giving notice of revocation to the Company in writing or at the 2009 Annual Meeting.

Vote Required to Approve Matters

A quorum is the presence at the meeting of a number of shares, which are either present or represented by proxy, constituting a majority of the outstanding shares entitled to vote at the meeting. There must be a quorum for the transaction of business at the meeting. If you submit a properly executed proxy card or a telephonic or internet proxy, or you are present at the meeting in person, even if you abstain from voting, your shares will be considered part of the quorum. Broker non-votes (shares held by a broker or nominee that are represented at the meeting, but with respect to which the broker or nominee is not empowered to vote on a proposal) are included in determining the presence of a quorum.

Directors are elected by a plurality of the shares cast at the meeting. If you do not vote for a particular nominee, or you indicate "withhold authority to vote" for a particular nominee on your proxy, your vote will not count either "for" or "against" the nominee. A "broker non-vote" will also have no effect on the outcome. Under the Company's *Corporate Governance Guidelines*, any nominee for director in an uncontested election who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall tender his or her resignation for consideration by the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee shall recommend to the Board the actions to be taken with respect to such offer of resignation.

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote thereon is required to ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2009. Abstentions will have the same effect as votes "against" this proposal and "broker non-votes" will not be counted in determining whether this proposal has been approved.

The affirmative vote of holders of not less than 80% of the outstanding capital stock of the Company is required in order to repeal or amend the provisions of Article X, Article XI or Article XII of the Company's Restated Certificate of Incorporation. Since the proposed amendment to the Restated Certificate of Incorporation is to Section A of Article X, the affirmative vote of holders of 80% of the outstanding capital stock of the Company will be required to approve the Company's Second Restated Certificate of Incorporation. Abstentions and broker non-votes will therefore have the effect of a vote against the proposed amendment.

Under New York Stock Exchange ("NYSE") rules, approval of the amendment and restatement of the 2005 Incentive Award Plan requires the affirmative vote of the holders of a majority of the shares cast on such proposal, in person or by proxy, provided the total votes cast on the proposal represents more than 50% of the outstanding shares entitled to vote on the proposal, which is referred to as the "Outstanding Shares". Votes "For" and "Against" and abstentions are counted as votes cast, while broker non-votes do not count as votes cast but count as Outstanding Shares. Thus, the total sum of votes "For" plus votes "Against" plus abstentions, which is referred to as the "NYSE Votes Cast", must be greater than 50% of the total Outstanding Shares. Further, the number of votes "For" the proposal must be greater than 50% of the NYSE Votes Cast. Thus, abstentions have the same effect as a vote against the proposal. Brokers do not have discretionary authority to vote shares on this proposal without direction from the beneficial

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owner. Thus, broker non-votes could impair our ability to satisfy the requirement that the NYSE Votes Cast represent over 50% of the Outstanding Shares.

Other Matters

Management of the Company does not know of any matter that will be presented for action at the 2009 Annual Meeting other than as described in this Proxy Statement. However, if any other matter should be properly brought to a vote at the meeting, or any adjournment or postponement thereof, all shares covered by proxies solicited hereby will be voted with respect to such matter in accordance with the proxy holders' discretion.

**PROPOSAL 1:
ELECTION OF DIRECTORS**

General

The Company's Restated Certificate of Incorporation provides for a classified Board of Directors consisting of three classes as nearly equal in size as practicable. Each class holds office until the third Annual Meeting for selection of directors following the election of such class. The Board currently consists of eleven members, three of whom are Class I directors whose terms expire at the 2010 Annual Meeting, four of whom are Class II directors whose terms expire at the 2011 Annual Meeting, and four of whom are Class III directors whose terms expire at this year's Annual Meeting. With the exception of David H. Y. Ho, who was appointed to fill a vacancy on the Board in August 2008, all of the directors listed herein, including the other nominees, have served as directors since the last Annual Meeting.

Information on Nominees and Continuing Directors

The Board, on the recommendation of the Nominating/Corporate Governance Committee, has nominated four persons for election as Class III directors to serve for a three-year term expiring at the Annual Meeting of share owners to be held in 2012 and until their successors have been elected and qualified. The four nominees of the Board are Gary F. Colter, David H. Y. Ho, Corbin A. McNeill, Jr. and Helge H. Wehmeier, each of whom is currently serving as a director of the Company. Each nominee has consented to being named in this Proxy Statement and has agreed to serve if elected. If for any reason any nominee should be unavailable to serve, proxies solicited hereby may be voted for a substitute as well as for the other Board nominees. The Board, however, expects all of its nominees to be available.

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The following table provides information on the persons nominated for election to the Board and the continuing directors:

Name, Principal Occupation and Other Directorships	Age	Term Expires at Annual Meeting in	Year Service Commenced
NOMINEES:			
Gary F. Colter	63	2009	2002
President of CRS Inc., a corporate restructuring and strategy management consulting company, since 2002, and, prior thereto, Vice Chairman of KPMG Canada (2000-2002), Global Managing Partner, Financial Advisory Services, of KPMG International (1998-2000) and Vice Chairman of KPMG Canada (1989-1998). Mr. Colter is a director of CIBC and Core-Mark Holding Company, Inc.			
David H. Y. Ho	49	2009	2008
Retired Chairman of the Greater China Region for Nokia Siemens Network, a joint venture between Finland-based Nokia Corporation, a multinational telecommunications company, and Germany-based Siemens AG (2007-2008), and prior thereto, President of Nokia China Investment Limited, the Chinese operating subsidiary of Nokia Corporation (2004-2007) and President of Nokia China Investment Limited, the Chinese operating subsidiary of Finland-based Nokia Corporation (2004-2007), and prior thereto, Senior Vice President, Networks Greater China, Nokia China Investment Limited (2002-2004). Mr. Ho is a director of 3COM Corporation, Pentair Inc. and Sinosteel Corp.			
Corbin A. McNeill, Jr.	69	2009	2005
Retired Chairman and Co-Chief Executive Officer (2000-2002) of Exelon Corporation, a natural gas and electric utility company (formed in the October 2000 merger of Peco Energy Company and Unicom Corporation), and, prior thereto Chairman, President and Chief Executive Officer (1997-1999), Director, President and Chief Executive Officer (1990-1995) and Executive Vice President Nuclear (1988-1990) of Peco Energy Company. Mr. McNeill is a director of Ontario Power Generation, Associated Electric & Gas Insurance Services Ltd., Silver Spring Network, and is Non-Executive Chairman of the Board of Directors of Portland General Electric. Mr. McNeill serves as the Company's lead director.			
Helge H. Wehmeier	66	2009	2005
Retired Vice-Chairman of Bayer Corporation (2002-2004), and, prior thereto, President and Chief Executive Officer of Bayer Corporation (1991-2002). Mr. Wehmeier is a director of PNC Financial Services Group, Inc. and Terex Corporation.			

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Name, Principal Occupation and Other Directorships	Age	Term Expires at Annual Meeting in	Year Service Commenced
CONTINUING DIRECTORS:			
Peter S. Hellman	59	2011	2007
Retired President and Chief Financial and Administrative Officer of Nordson Corporation (2004-2008) and director (2001-2008), and prior thereto, Executive Vice President and Chief Financial and Administrative Officer of Nordson Corporation (2000-2004), and prior thereto, TRW Inc. (1989-1999) in various positions, the most recent of which were President and Chief Operating Officer. Mr. Hellman is a director of Baxter International, Inc. and Qwest Communications International Inc.			
Anastasia D. Kelly	59	2011	2002
Vice Chairman-Legal, Human Resources, Corporate Communication and Corporate Affairs of American International Group, Inc. since 2006, and, prior thereto, Executive Vice President and General Counsel of MCI (2003-2006), Senior Vice President and General Counsel of Sears, Roebuck and Co. (1999-2003) and Senior Vice President (1996-1999) and General Counsel and Secretary (1995-1999) of Fannie Mae, a financial services company.			
John J. McMackin, Jr.	57	2011	1994
Principal of the law firm of Williams & Jensen for more than five years.			
Hugh H. Roberts	57	2011	2007
Retired President, Kraft Foods International Commercial (2004-2007), where he previously also served as President, Kraft Foods International Asia Pacific Region (2001-2003), and, prior thereto, President, KFI Central & Eastern Europe Middle East & Africa Region (1996-2001).			
Albert P. L. Stroucken	61	2010	2005
President, Chairman of the Board and Chief Executive Officer of the Company since December 2006, and, prior thereto, Chairman of the Board of H.B. Fuller Company (1999-2006) and President and Chief Executive Officer of H.B. Fuller (1998-2006), and prior thereto, General Manager, Inorganics Division of Bayer AG (1997-1998), Executive Vice President and President of Industrial Chemicals Division, Bayer Corporation (1992-1997). Mr. Stroucken is a director of Baxter International, Inc.			

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Name, Principal Occupation and Other Directorships	Age	Term Expires at Annual Meeting in	Year Service Commenced
Dennis K. Williams Retired Chairman of the Board of IDEX Corporation (2000-2006), where he previously also served as President and Chief Executive Officer (2000-2005), and, prior thereto, President and Chief Executive Officer of GE Power Systems Industrial Products (1998-2000). Mr. Williams is a director of AMETEK, Inc. and Actuant Corporation.	63	2010	2005
Thomas L. Young President, Titus Holdings Ltd., a private investment company, and, prior thereto, Executive Vice President and Chief Financial Officer of the Company, positions he held since 2004 and 2003, respectively, Co-Chief Executive Officer (2004) and Executive Vice President, Administration and General Counsel (1998-2004). Mr. Young is a director of Franklin Electric Co., Inc. and Robeco General Partners Private Equity Fund III.	65	2010	1998

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE FOUR NOMINEES IDENTIFIED ABOVE.

Information Concerning the Board

The Board has the ultimate authority for the management of the Company's business. The Board selects the Company's executive officers, delegates responsibilities for the conduct of the Company's operations to those officers, and monitors their performance. Certain important functions of the Board are performed by committees comprised of members of the Board, as provided below.

Independence

A majority of the members of the Board are "independent" in accordance with the New York Stock Exchange listing standards. The Board has affirmatively determined that each of the following directors is an independent director of the Company under the listing standards of the New York Stock Exchange: Gary F. Colter, Peter S. Hellman, David H. Y. Ho, Anastasia D. Kelly, Corbin A. McNeill, Jr., Hugh H. Roberts, Helge H. Wehmeier and Dennis K. Williams. In making this determination, the Board has determined that none of these directors has any relationships with the Company other than their roles as directors.

Attendance at Meetings by Directors

In 2008, the Board met eight times. In connection with the meetings of the Board, the non-management directors met six times in executive session in 2008 and the independent directors met once.

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Each member of the Board attended 75% or more of the aggregate number of meetings of the Board and of committees of the Board of which such Director was a member. Attendance at Board and committee meetings during 2008 averaged 98.2% for directors as a group.

The Company does not have a policy with regard to board members' attendance at Annual Meetings, although members of the Board are encouraged to attend. All members of the board attended the 2008 Annual Meeting.

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines. A copy of the Guidelines is available on the Investor Relations section of the Company's website (www.o-i.com). A copy of the Guidelines is also available in print to share owners upon request, addressed to the Corporate Secretary at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551-2999. The address of the Company's website provided above or elsewhere in the Proxy Statement is not intended to function as a hyperlink, and the contents of the Company's website are not a part of this Proxy Statement or incorporated by reference.

Non-Management Directors

The non-management directors meet at most regularly scheduled Board meetings in executive session without management and hold such additional executive sessions as they determine necessary or appropriate. The non-management directors met six times in executive session in 2008. In addition, the independent directors met once in executive session in 2008. The lead director or his designee presides at these executive sessions.

Lead Director

The Chair of the Nominating/Corporate Governance Committee serves as the lead director. Mr. McNeill was appointed lead director effective December 8, 2006. The lead director acts as a key liaison with the chief executive officer, assists the chairman of the Board in setting the Board agenda, chairs executive sessions of the Board, and communicates board member feedback to the chief executive officer.

Stock Ownership

In 2005 the Board established stock ownership guidelines for its members. Each member of the Board is required to own shares of the Company's Common Stock having a value equal to five times the director's annual cash retainer. The directors have four years from the effective date of the policy or the date of joining the Board, if later, to attain the required stock ownership guideline. Until the stock ownership guidelines are met, directors are required to retain 100% of the "net profit shares" acquired from grants of restricted stock or exercises of stock options. Net profit shares are those shares remaining after payment of tax obligations.

Communicating with the Board

Share owners and other interested parties may contact any member (or all members) of the Board (including, without limitation, the non-management directors as a group), the lead director, any Board committee or any chair of any such committee by mail. To communicate with the Board, the lead director, any individual directors or any group or committee of directors, correspondence should be addressed to

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the Board of Directors or any such individual directors or group or committee of directors by either name or title. All such correspondence should be sent "c/o General Counsel/Corporate Secretary" at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551-2999. All communications so received will be opened by the office of the Company's general counsel for the sole purpose of determining whether the contents represent a message to the directors. Any contents that are not in the nature of advertising, promotions of a product or service or patently offensive material will be forwarded promptly to the addressee. In the case of communications to the Board or any group or committee of directors, the general counsel's office will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the envelope is addressed.

Process for Selecting Nominees for the Board

The Nominating/Corporate Governance Committee of the Board is responsible for identifying individuals qualified to become members of the Board and selecting, or recommending that the Board select, the candidates for all directorships to be filled by the Board or by the share owners at an annual or special meeting of share owners. In identifying candidates for membership on the Board, the Committee will take into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity and the extent to which the candidate would fill a present need on the Board. The Committee will conduct all necessary and appropriate inquiries into the backgrounds and qualifications of possible candidates and shall consider questions of independence and possible conflicts of interest of members of the Board of Directors and executive officers.

The Board currently consists of 11 members. Under the Company's Restated Certificate of Incorporation, the maximum size of the Board is 11 members. The Board is proposing to amend and restate the Restated Certificate of Incorporation to increase the maximum authorized number of directors that may serve on our Board of Directors from eleven (11) to twelve (12). That provision cannot be repealed or amended unless approved by the affirmative vote of holders of not less than 80% of all outstanding shares of Common Stock.

The Nominating/Corporate Governance Committee will consider potential candidates for director that have been recommended by the Company's directors, the chief executive officer, other members of senior management, and share owners. The procedures for the nomination of director candidates by share owners are described below under the heading "2010 Annual Meeting of Share Owners." Outside consultants may also be employed to help in identifying potential candidates.

Members of the Nominating/Corporate Governance Committee discuss and evaluate possible candidates in detail, and determine which individuals to explore in more depth. Once a candidate is identified whom the Nominating/Corporate Governance Committee wants to seriously consider and move toward nomination, one or more members of the Nominating/Corporate Governance Committee will enter into discussions with the candidate. The performance of incumbent members of the Board is evaluated annually by the Nominating/Corporate Governance Committee. Incumbent directors whose performance is satisfactory generally will be renominated by the Board at the end of their term. In that case, the Nominating/Corporate Governance Committee does not consider a vacancy to exist.

Table of Contents***Qualifications of Director Nominees***

Candidates for the Board should show evidence of leadership in their particular field, have broad business experience and the ability to exercise sound business judgment. In addition, candidates should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the share owners. Candidates should also be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Further information can be found below under the heading "Nominating/Corporate Governance Committee."

Committees of the Board of Directors

Subject to applicable provisions of the Company's By-Laws, the Board appoints the members of each committee. The Board may, at any time, change the authority or responsibility delegated to any committee. There are four standing committees of the Board: the Audit Committee, the Compensation Committee, the Nominating/Corporate Governance Committee and the Risk Management Committee.

Committee Membership

The members of the Board serving on committees of the Board and the number of meetings held in 2008 by the committees are identified below.

Name	Audit	Compensation	Nominating/ Corporate Governance	Risk Management
<i>Independent Directors:</i>				
Gary F. Colter	Chair		X	
Peter S. Hellman	X	X		
David H. Y. Ho				X
Anastasia D. Kelly		Chair		
Corbin A. McNeill, Jr.		X	Chair	
Hugh H. Roberts		X		
Helge H. Wehmeier			X	X
Dennis K. Williams	X	X		
<i>Non-Independent Directors:</i>				
John J. McMackin, Jr.				X
Thomas L. Young				Chair
<i>Employee Director:</i>				
Albert P. L. Stroucken				X
Number of Meetings in 2008	9	6	6	3

Audit Committee

The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Exchange Act. It represents and assists the Board with the oversight of: (a) the integrity of the Company's financial statements and internal controls; (b) the Company's compliance with legal and regulatory requirements; (c) the independent registered public accounting firm's qualifications and independence; and (d) the performance of the Company's internal audit function and of the independent registered public accounting

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firm. The Audit Committee operates under a written charter adopted by the Board (the "Audit Committee Charter"), which sets forth the specific responsibilities of the Audit Committee. A copy of the Audit Committee Charter is available on the Investor Relations section of the Company's website (www.o-i.com) and in print, free of charge, to any share owner upon request addressed to the Corporate Secretary at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551-2999.

All members of the Audit Committee meet the audit committee independence requirements of the New York Stock Exchange and also satisfy the enhanced independence standards applicable to audit committees pursuant to Rule 10A-3(b)(i) under the Securities Exchange Act of 1934, as amended. The Board has determined that Mr. Colter, the chair of the Committee, and Mr. Hellman are each qualified as an "audit committee financial expert" within the meaning of Securities and Exchange Commission ("SEC") regulations and that all of the Committee members meet the financial literacy requirements of the New York Stock Exchange. No member of the Audit Committee serves on the audit committee of more than three public companies.

Compensation Committee

The Compensation Committee assists the Board with respect to compensation of the Company's executive officers and directors. In carrying out such responsibilities, the Compensation Committee administers the Amended and Restated Stock Option Plan, the Amended and Restated 1997 Equity Participation Plan, the 2005 Incentive Award Plan, the Company's annual bonus plans and certain other benefit plans of the Company and makes recommendations to the Board with respect to the compensation to be paid and benefits to be provided to directors, officers and employees of the Company.

The Compensation Committee operates under a written charter adopted by the Board (the "Compensation Committee Charter"), which sets out the specific responsibilities of the Compensation Committee. A copy of the Compensation Committee Charter is available on the Investor Relations section of the Company's website (www.o-i.com) and in print, free of charge, to any share owner upon request addressed to the Corporate Secretary at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551-2999.

Each member of the Compensation Committee is an "independent director" under the New York Stock Exchange listing standards.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee assists the Board (a) in identifying individuals qualified to become directors, consistent with criteria approved by the Board, and recommending that the Board select the candidates for all directorships to be filled by share owners or the Board; (b) by developing and recommending to the Board a set of corporate governance principles applicable to the Company; (c) by overseeing the evaluation of the Board; and (d) by taking a leadership role in shaping the corporate governance of the Company.

The Nominating/Corporate Governance Committee operates under a written charter adopted by the Board (the "Nominating/Corporate Governance Committee Charter"), which sets out the specific responsibilities of the Committee. A copy of the Nominating/Corporate Governance Committee Charter is available on the Investor Relations section of the Company's website (www.o-i.com) and in print, free of charge, to share owners upon request, addressed to the Corporate Secretary at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551-2999.

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Each member of the Nominating/Corporate Governance Committee is an "independent director" under the New York Stock Exchange listing standards.

The Nominating/Corporate Governance Committee will accept recommendations from share owners for nominees for the Board. The procedures for submitting share owner recommendations are described below under the heading "2010 Annual Meeting of Share Owners."

Risk Management Committee

The Risk Management Committee assists the Board in fulfilling its responsibility to share owners, potential share owners and the investment community by (a) assessing, and providing oversight to management relating to the identification and evaluation of, major strategic, operational, regulatory, information and external risks inherent in the business of the Company (the "Risks") and the control processes with respect to the Risks; (b) overseeing the risk management, compliance and control activities of the Company; (c) overseeing the integrity of the Company's systems of operational controls regarding legal and regulatory compliance; and (d) overseeing compliance with legal and regulatory requirements, including, without limitation, with respect to the conduct of the Company's business. The Risk Management Committee does not have responsibility for matters subject to the jurisdiction of another committee of the Board pursuant to that committee's charter. Under the terms of its charter, the Risk Management Committee (i) reviews and evaluates management's identification of all major Risks to the business and their relative weight; (ii) assesses the adequacy of management's risk assessment, its plans for risk control or mitigation, and disclosure; (iii) reviews the Company's disclosure of Risks in all filings with the SEC (including the Annual Report on Form 10-K); and (iv) together with the Audit Committee, reviews, assesses and discusses with the general counsel, the chief financial officer and the independent registered public accounting firm (A) any significant risks or exposures; (B) the steps management has taken to minimize such risks or exposures; and (C) the Company's underlying policies with respect to risk assessment and risk management.

Code of Business Conduct and Ethics

The Company has a Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees of the Company, including the principal executive officer, the principal financial officer and the principal accounting officer. The Code of Business Conduct and Ethics is available on the Investor Relations section of the Company's website (www.o-i.com) and in print, free of charge, to share owners upon request, addressed to the Corporate Secretary at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551-2999. The Company intends to post amendments to, or waivers from, its Code of Business Conduct and Ethics (to the extent applicable to the Company's directors, executive officers, principal financial officer or principal accounting officer) at this location on its website.

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DIRECTOR COMPENSATION AND OTHER INFORMATION

Director Compensation

Each non-management director of the Company receives an annual retainer of \$60,000, payable quarterly. Each non-management director also receives \$2,000 for each Board meeting in which such director participates. The Chair of the Audit Committee receives an additional annual retainer of \$20,000, the Chair of the Compensation Committee receives an additional retainer of \$15,000, and each non-management director who serves as a chair of any other Committee receives an additional annual retainer of \$10,000. The lead director receives an annual retainer of \$20,000 in addition to the annual retainer for service as chair of a Committee. Each non-management director who serves as a member of a committee of the Board (including as chair) receives \$2,000 for each committee meeting in which such director participates. In addition, each non-management director will receive each year on the date immediately following the date of annual meeting of share owners, a grant of restricted stock units ("RSUs") under the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc. with respect to a number of shares of Common Stock having a fair market value on the date of grant equal to \$85,000, rounded up or down to nearest whole share of Common Stock. RSUs will be 100% vested on the first anniversary of date of grant ("Normal Vesting Date"), or earlier upon a director's termination of membership by reason of director's death, disability or retirement. In addition, upon a Director's termination of membership for any reason other than death, disability, retirement or for cause, RSUs will vest pro rata on a daily basis based on number of days of service in 12 month period from date of grant to normal vesting date. Any unvested RSUs are forfeited at termination of membership on the Board. Upon a director's termination of membership for cause all RSUs are immediately forfeited. Vested RSUs will be paid in shares of Common Stock, on a one for one basis, within 30 days after normal vesting date, or if earlier, within 30 days after termination of membership which constitutes a separation from service under IRC Section 409A. Each director is reimbursed for expenses associated with meetings of the Board or its committees.

The Deferred Compensation Plan for Directors of Owens-Illinois, Inc. provides an opportunity for non-management directors to defer payment of their directors' fees. Under the plan, a non-management director may defer receipt of all or any portion of the cash portion of the compensation described above. Deferrals may be credited into a cash account or into a Company stock unit account. Funds held in a cash account accrue interest at a rate equal from time to time to the average annual yield on domestic corporate bonds of Moody's A-rated companies, plus one percent. Distributions from the plan are made in cash.

From time to time the Compensation Committee engages a compensation consultant to conduct a competitive analysis of market pay levels for non-employee directors and to make recommendations for program changes, as appropriate. In 2007, the Compensation Committee engaged Watson Wyatt to do such an analysis, resulting in certain changes to the compensation for non-employee directors on January 1, 2008.

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The total compensation paid to non-management directors in 2008 is reflected in the following table.

DIRECTOR COMPENSATION IN 2008

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)	Option Awards \$(3)	All Other Compensation (\$)	Total (\$)
Gary F. Colter	\$ 126,000	\$ 56,667	\$ 0	\$ 0	\$ 182,667
Peter S. Hellman	100,000	56,667	0	0	156,667
David H. Y. Ho (4)	32,175	0	0	0	32,175
Anastasia D. Kelly	99,000	56,667	0	0	155,667
John J. McMackin, Jr	82,000	56,667	0	0	138,667
Corbin A. McNeill, Jr	130,000	56,667	0	0	186,667
Hugh H. Roberts	88,000	56,667	0	0	144,667
Helge H. Wehmeier	94,000	56,667	0	0	150,667
Dennis K. Williams	104,000	56,667	0	0	160,667
Thomas L. Young (5)	92,000	56,667	0	0	148,667

(1)

The cash amounts paid to each director are made up of the following amounts:

Name	Annual Retainer	Annual Committee Chair Retainer	Board Meeting Fees	Committee Meeting Fees	Total
Gary F. Colter	\$ 60,000	\$ 20,000	\$ 16,000	\$ 30,000	\$ 126,000
Peter S. Hellman	60,000	0	16,000	24,000	100,000
David H. Y. Ho (4)	22,175	0	8,000	2,000	32,175
Anastasia D. Kelly	60,000	15,000	12,000	12,000	99,000
John J. McMackin, Jr	60,000	0	16,000	6,000	82,000
Corbin A. McNeill, Jr	60,000	30,000	16,000	24,000	130,000
Hugh H. Roberts	60,000	0	16,000	12,000	88,000
Helge H. Wehmeier	60,000	0	16,000	18,000	94,000
Dennis K. Williams	60,000	0	14,000	30,000	104,000
Thomas L. Young (5)	60,000	10,000	16,000	6,000	92,000

(2)

Amounts in this column reflect the expense recognized for financial reporting purposes for the indicated fiscal year, in accordance with Financial Accounting Standard ("FAS") 123R, with respect to awards of restricted shares of the Company's stock, which may include awards made during earlier years as well as the indicated year. Pursuant to SEC rules, in each case, the amount of compensation expense was calculated excluding forfeiture assumptions. The assumptions used to value awards and determine annual compensation expense are set forth in Note 13 to the audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 17, 2009. The aggregate number of shares of restricted Common Stock held at December 31, 2008 by each Director is 5,945 for Mr. Colter (including 1,586 restricted stock units), 3,104 for Mr. Hellman (including 1,586 restricted stock units), 0 for Mr. Ho, 5,945 for Ms. Kelly (including 1,586 restricted stock units), 5,945 for Mr. McMackin (including 1,586 restricted stock units), 5,945 for Mr. McNeill (including 1,586 restricted stock units), 1,586 for Mr. Roberts (including 1,586 restricted stock units), 71,562 for Mr. Stroucken (including 0 restricted stock units), 5,945 for

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Mr. Wehmeier (including 1,586 restricted stock units), 5,945 for Mr. Williams (including 1,586 restricted stock units), 5,861 for Mr. Young (including 1,586 restricted stock units).

- (3) Amounts required to be presented in this column are the amounts expensed under FAS 123R during 2008, if any, with respect to options. All options previously granted to directors were fully amortized and expensed prior to 2006. The aggregate number of shares of Common Stock subject to options outstanding at December 31, 2007 for each Director is 10,000 for Ms. Kelly, all of which are currently exercisable, 10,000 for Mr. McMackin, all of which are currently exercisable and 5,000 for Mr. Young, all of which are currently exercisable.
- (4) Mr. Ho did not join the Board until August 2008.
- (5) Mr. Young is a party to a consulting agreement with the Company, as described below under the heading "Certain Transactions". In March 2007, the Board approved an amendment to Mr. Young's consulting agreement under which, effective on the date of the 2007 Annual Meeting, Mr. Young would forego any further payments under the consulting agreement and would begin receiving compensation as a director. Prior to such amendment, Mr. Young had chosen to forego receipt of cash board fees to the extent the amounts paid to him under the consulting agreement exceeded the board fees to which he would otherwise have been entitled. In addition, in 2004 and 2006 he elected not to receive the grant of restricted stock granted to other non-management directors.

Certain Transactions

During 2008, the law firm of Williams & Jensen, P.C., of which Mr. McMackin is a member, received fees for legal services in connection with various matters. It is anticipated that the Company will continue to utilize the services of Williams & Jensen, P.C. on various Company matters.

In connection with his retirement, the Company entered into a consulting agreement with Mr. Young, a member of the Board. The agreement provides that Mr. Young, when and as requested by the chief executive officer, will provide consulting services and advice to the Company. The term of the agreement, which began on April 1, 2005 after Mr. Young ceased his employment with the Company, is for six years. Mr. Young may provide up to 60 days of advisory and consulting services in the first year of the agreement, up to 50 days of advisory and consulting services in the second year of the agreement and up to 40 days of advisory and consulting services in the third year of the agreement. During the term of the agreement and for two years thereafter, he will not accept employment with, or provide consulting or similar services to, any party on any matters having any possible conflict with the interests of the Company. For his services and commitments, the Company pays Mr. Young for his advisory and consulting services (i) an annual retainer of (a) \$180,000 during the first year of the agreement, (b) \$150,000 during the second year of the agreement, and (c) \$120,000 during the third year of the agreement, and (ii) an additional fee of \$3,000 for each day in excess of days per year specified above that he renders services as described above or for each day that he renders advisory and consulting services in the fourth through sixth years of the term of the agreement. The Company will reimburse him for reasonable expenses that he incurs in providing these services for the Company. In addition, during the term of the agreement the Company will provide him necessary office space, equipment and services. The principal service provided by Mr. Young under the agreement is to provide support for the Company in the form of witness testimony and consultation in certain third party reimbursement lawsuits the Company has pending. In March 2007, the Board approved an amendment to Mr. Young's consulting agreement under which, effective on the date of the Annual Meeting, Mr. Young would forego any further payments under the consulting agreement and would begin receiving compensation as a director. Prior to such amendment, Mr. Young had chosen to forego receipt of

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cash board fees to the extent the amounts paid to him under the consulting agreement exceeded the board fees to which he would otherwise have been entitled.

Compensation Committee Interlocks and Insider Participation

Until July 2008, the following directors served on the Compensation Committee of the Board: Anastasia D. Kelly (Chair), Corbin A. McNeill, Jr., Hugh H. Roberts and Dennis K. Williams. Beginning July 2008, the following directors served on the Compensation Committee of the Board: Anastasia D. Kelly (Chair), Peter S. Hellman, Corbin A. McNeill, Jr., Hugh H. Roberts and Dennis K. Williams. No member of the Committee has any relationship with the Company requiring disclosure under Item 404 or Item 407(e)(4)(iii) of SEC Regulation S-K. No executive officer of the Company served on any board of directors or compensation committee of any other board for which any of the Company's directors served as an executive officer at any time during 2008.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

The Compensation Committee of the Board (the "Committee") discharges the Board's responsibilities relating to compensation of the Company's executives and directors. In order to maximize overall Company performance, the Committee believes it is essential to successfully attract, retain and reward senior management. Those objectives are furthered by offering market competitive compensation in a manner that emphasizes performance-based pay. The Committee annually evaluates the senior management compensation program structure and pay levels, with emphasis on base salary, and annual and long-term incentives as they comprise the largest portion of total compensation. Approximately 65% of total compensation opportunity is variable and based on Company, business unit and individual performance. Total pay opportunity and each pay element is targeted at the 50th percentile of the established market; actual compensation earned is a function of performance and may be substantially more or less than the target opportunity.

To assess the alignment of historical pay and performance, the Committee requested that Watson Wyatt, the Committee's executive compensation consultant, prepare an analysis of historical pay and Company performance for the period 2005 - 2007 against the pay and performance of our comparator group (see below for list of peer companies). Historical realizable pay is the amount of compensation (base salary, annual incentive and long-term incentives) the top five executives have realized (or potentially could realize). Historical performance is evaluated on several key financial metrics. Three metrics were used to complete this study over the three year period 2005 to 2007 - total shareholder return ("TSR"), average return on invested capital ("ROIC"), and earnings per share ("EPS") growth. These metrics were chosen as they strike a balance between growth and return measures, offer an external investor perspective (i.e., TSR), and describe the Company's bottom-line business performance and capital efficiency. In addition, ROIC and EPS are measures used in our performance share plan during the 2005 - 2007 time period. Overall, the Watson Wyatt study indicates that realizable pay over this time period was at the 58th percentile while overall performance was at the 68th percentile. This study demonstrated that the Company's pay levels are correlated with performance and that the compensation program is operating as intended.

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In considering adjustments to base salary, the Committee annually reviews competitive market data and makes individual assessments of each named executive officer's performance and experience to determine appropriate merit and / or market adjustments. In 2008, our named-executive officers had merit increases that averaged 4.3% which does not include any market adjustments. Salaries for this group are positioned at or slightly below the market median.

O-I's annual incentives largely focus on Company profitability. In 2008, we did not meet our annual incentive plan target performance levels for EBIT growth, gross profit margin and working capital as a percent of sales which resulted in a below target payout for our named executive officers, despite setting record performance on EPS and EBIT.

O-I's long-term incentive program is entirely equity-based and consists of three components: non-qualified stock options (40% of award value), performance shares (40% of award value) tied to achievement of 3-year financial goals, and restricted stock (20% of award value). The Committee believes this long-term incentive mix optimally achieves the compensation objectives of performance-based rewards linked to shareholder value and retention. All results significantly exceeded the established goals for the performance shares, resulting in a maximum payout for the 2006 - 2008 cycle.

The Committee believes that, overall, the Company's compensation programs are well aligned to both share owner interests and the competitive market and are designed to reward overall Company and individual performance. The Committee will regularly review the current compensation programs in light of market conditions in 2009.

Compensation Programs

In determining total compensation levels for its executive officers, the Committee reviews tally sheets and market pay. Tally sheets allow the Committee to understand total historical pay opportunity, realizable pay, current unvested compensation, accumulated wealth, perquisites, benefits, and amounts payable upon separation from service under various events. The Committee examines two sources of market data data from a comparator group of companies and published survey data.

The comparator group of companies is a selected mix of companies in the packaging and manufacturing sectors with an emphasis on companies with similar characteristics such as size, global presence, asset intensity, and other relevant factors. Watson Wyatt, the Committee's executive compensation consultant, reviews available data from public companies and, based on its knowledge of our industry and the Committee's preferences, recommends companies for possible inclusion in the comparator group. The chief executive officer and senior vice president & chief human resources officer review the list prior to presenting it to the Committee, and may make recommendations of other companies to consider, or to exclude based on their knowledge of the Company's industry. The Committee determines the final list of companies to be included.

The Committee reviews the list of comparator companies on an annual basis. The intent is to maintain stability in the comparator group over time, although changes may be made based on comparator company performance, mergers / acquisitions, and other relevant factors. Watson Wyatt performs an independent review of the peer group for potential changes, if any. The goal is to stay consistent with the peer size range and business economics, such as the Industrials and Materials industry. Due to it's acquisition by Ingersoll-Rand, Trane Inc. was deleted and ITT Corp. was added.

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The comparator group of companies used for determining compensation in 2008 were:

Ball Corp.	Owens Corning
Bemis Co. Inc.	Pactiv Corp.
Borgwarner Inc.	Parker-Hannifin Corp.
Crown Holdings Inc.	PPG Industries, Inc.
Cummins Inc.	Praxair Inc.
Dana	Rohm and Haas Co.
Dover Corp.	Sealed Air Corp.
Eastman Chemical Co.	Silgan Holdings Inc.
Eaton Corp.	Smurfit-Stone Container Corp.
Illinois Tool Works	Sonoco Products Co.
Ingersoll-Rand Co. Ltd.	Temple-Inland Inc.
ITT Corp.	Timken Co.
Meadwestvaco Corp.	TRW Automotive Holdings Corp

The comparator group of companies had a 2007 median revenue of \$7.4 billion, and median market cap of \$5.0 billion compared to O-I's revenue of \$7.6 billion and market cap of \$7.8 billion.

In addition to examining the compensation data published by these companies in their proxies, the Committee also considers data published in general executive compensation surveys. Although there is a priority placed on data from other manufacturing companies, the view may be broadened to allow for a wider comparison, in particular for certain positions below the named executive officers which may not be separately reported by the comparator group. The following surveys were used to conduct our published survey analysis:

Watson Wyatt Data Services 2008/09 Top Management Survey

William M Mercer 2008 Executive Compensation Survey

Towers Perrin 2008 Executive Compensation Database

Hewitt 2008 Executive Total Compensation Measurement Survey

We collected data from the general industry as well as the durable goods manufacturing industry. All survey data have been adjusted (whenever possible) through regression analysis to reflect the Company's or applicable business unit revenues.

Data on base pay, short-term incentives and long-term incentives are viewed individually and in aggregate when reviewing total compensation levels.

Total Direct Compensation

Total direct compensation is the combination of base pay, annual incentive and long-term incentives. The Company's compensation structure (base salary midpoint, target annual incentive and target long-term incentive) is positioned at or near the 50th percentile of the market. An executive officer's actual total direct compensation may be higher or lower than the market 50th percentile based on individual performance, experience, past leadership roles, and Company performance. In making compensation decisions, the Committee considers each component individually and the executive officer's total direct compensation to assure overall alignment with the Company's compensation philosophy and principles.

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Base Pay

The base pay program is designed to ensure the ability to attract and retain key executives. Base salary market values are positioned at approximately the 50th percentile of the market. Individual salaries may be higher or lower depending upon a number of factors, including performance, experience, leadership and past assignments.

The Committee reviews executive officer salaries at least once per year, and may adjust salaries according to current market conditions, individual performance, and the results of benchmarking against survey data.

The Committee reviewed executive officer base pay levels on April 1, 2008. Executive officers received increases ranging from 3% to 6% of base salary.

Annual Incentive

The annual incentive is designed to motivate the achievement of overall financial results as well as motivate individual performance. Annual incentive target values are generally positioned at the 50th percentile of the market. Each year the Committee reviews the performance measures to ensure they are providing appropriate incentives for the achievement of goals that are important to the Company for that year. The Committee may change the measures used, the weightings, and how the targets are set in determining the plan for the upcoming year.

In 2008, the program measured the achievement of EBIT, gross profit margin, and working capital as a percent of sales (the latter based on a five point average, measured at December 31, 2007, March 31, 2008, June 30, 2008, September 30, 2008, and December 31, 2008). All three measures are the same as those used in 2007. We believe that the balance of these three goals are important to driving shareholder value and motivating the right leadership behaviors. EBIT linked with gross profit margin encourages profitable growth and provides a meaningful indicator of management's performance in managing our base business. Working capital focuses management on cash generation and provides a meaningful link to our balance sheet.

An incentive pool is created by exceeding performance thresholds against established targets for EBIT and gross profit margin, each weighted at 50%. Each measure stands alone and may result in bonus pool funding. If an incentive pool is created, the amount payable is then determined based on exceeding performance thresholds against established targets for EBIT, gross profit margin and working capital, weighted according to region-specific goals. For the Company overall, the weighting for 2008 is EBIT at 40%, gross profit margin at 40%, and working capital at 20%. For the business units, the weightings for these measures range between EBIT (35% 42.5%), gross profit margin (35% 42.5%), and working capital (15% 30%).

Once the pool is created, 80% of the individual award is based strictly on overall financial results, with the remaining 20% being discretionary to reward individual performance and results, and overall leadership contribution to the Company. In 2008, the awards to named executive officers were determined either at the Company level, where 100% of the financial results is based on total Company results (Messrs. Stroucken, White, Baehren and Crawford); or at a business unit level, where 50% of the financial results is based on business unit results, with the remaining 50% being based on total Company results (Mr. Ridder).

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The Committee reviews and approves the measures and financial targets set for each plan year. In this process, they consider the overall Company budget (as approved by the Board of Directors), the state of the industry and other external economic factors. In setting the goals for 2008, each measure required year-over-year improvement to earn a payout. Over the past five years, payouts ranging from zero to 200% of target have been earned at the Company level, which is indicative of the variability of bonus payouts in years when financial performance is higher or lower.

For 2008, the Company and two of the four business units achieved less than target performance overall, while the remaining two business units achieved greater than target performance. Specific performance is shown below:

	Weight	Target	Actual
EBIT	40%	\$ 1,202.0MM	\$ 1,152.8MM
Gross Profit Margin	40%	21.5%	21.0%
Working Capital	20%	18.3%	18.1%

Target awards are set for each executive. For 2008, the targets and payouts (both as a percentage of base pay) earned were:

Name	Target	Actual Payout
Albert P. L. Stroucken	150%	56.7%
Edward C. White	80%	30.2%
James W. Baehren	65%	24.6%
L. Richard Crawford	80%	30.2%
Gregory W. J. Ridder	60%	37.5%

Upon review of the market data, effective January 1, 2008, the Committee approved raising Messrs. White and Crawford's targets from 70% to 80%. In deciding the 2008 payouts, the Committee determined that each individual earned the full 20% of the discretionary component based on his overall performance and contribution to Company results.

Long-Term Incentives

Long-term incentive compensation is delivered solely in the form of equity. Delivering this component of executive compensation as equity further aligns the executive officers' interests with share owner interests. This component of the executive compensation package rewards each executive officer's current contributions to the Company and provides motivation to achieve overall Company goals and drive share owner value over time.

Three types of equity are awarded: stock options; restricted stock; and performance shares. The awards are expressed as a dollar amount and split as follows at the executive officer level:

40% of the award value is made in non-qualified stock options

20% of the award value is made in restricted stock

40% of the award value is made as performance shares

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Individual equity awards are determined based on a review of data from the comparator group, as well as published survey data. Awards are targeted at the 50th percentile of the market. Individual awards may vary based on performance, leadership, potential and other relevant factors. When making grant decisions, the Committee focuses on the dollar value of the award and, in the case of the performance shares, on the achievement of certain goals over a three year performance period.

Stock options and performance shares, which equate to 80% of the opportunity of the long-term incentive award, have a strong pay for performance orientation. They are a significant enough portion of total compensation to have a meaningful impact to our executive's total compensation if goals are not achieved or if the Company shares do not appreciate over the long term. Restricted stock is intended to strengthen retention. The use and overall weighting of performance shares (40% of total long-term incentive opportunity) focus management on fundamental long-term financial goals in addition to stock price performance. The combination of 100% of long-term incentive awards being granted in the form of equity along with our stock ownership guidelines (described below) promotes significant alignment with share owner interests. For 2008, the executive officers received grants with the following target values:

Name	Target
Albert P. L. Stroucken	\$4,000,000
Edward C. White	\$ 450,000
James W. Baehren	\$ 450,000
L. Richard Crawford	\$ 500,000
Gregory W. J. Ridder	\$ 275,000

The actual amount earned under this plan is a function of the performance of the Common Stock (for stock options and restricted shares); and additionally for the performance shares, Company performance against pre-established three year goals.

The Committee reviews the mix of long-term incentive awards annually, and may make changes based on relevance to desired business objectives and market practices. In 2008, the Committee did not change the mix of long-term incentive awards from 2007.

Stock Options

The value of options is based on the Black-Scholes value of Common Stock on the grant date, using the same assumptions used for financial accounting purposes. To determine the number of options awarded, 40% of the total long-term incentive award is divided by the Black-Scholes value of the Common Stock on the date of the grant to determine the number of options granted. For instance, assuming an overall long term incentive award equal to \$100,000, Common Stock price of \$15.00, and Black-Scholes value of \$6.15, the number of options granted would be calculated as follows:

$$\$100,000 \times 40\% = \$40,000 / \$6.15 = 6,504 \text{ options}$$

Beginning in 2005, the stock options granted under long-term incentive program vest 25% on each of the four anniversaries following the grant date. The options have a term of seven years.

Restricted Stock

To determine the number of shares awarded, 20% of the total value of the approved equity award is divided by the Common Stock price to arrive at the number of restricted shares granted. For instance,

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assuming an overall total long term incentive award equal to \$100,000, and Common Stock price of \$15.00, the number of shares granted would be calculated as follows:

$$\$100,000 \times 20\% = \$20,000 / \$15.00 = 1,333 \text{ shares}$$

Restricted shares vest 25% on each of the four anniversaries following the grant date.

Performance Shares

The third form of equity granted is performance shares. First granted in 2005, performance shares are meant to reward financial performance over a three year cycle. Grants made in 2006 had a performance cycle of January 1, 2006 December 31, 2008, and paid out a maximum award of 150% of the award granted; 2007 grants have a performance cycle of January 1, 2007 December 31, 2009; 2008 grants have a performance cycle of January 1, 2008 December 31, 2010.

Subject to certain exceptions, performance shares do not vest until the end of the related performance period. The performance criteria are approved by the Committee at the grant date. The performance shares granted for 2006, 2007 and 2008 measure the Company's performance over a three year period in return on invested capital (calculated as segment operating profit, times one minus the Company's tax rate, divided by the sum of total debt, minority share owner interest and total share owners' equity) ("ROIC"), and an EPS growth rate (defined as earnings per share from continuing operations before asbestos-related charges and items that are not representative of ongoing operations). ROIC and EPS growth rate are equally weighted. If performance against both targets is below the threshold level relative to the targets established by the Committee for the three year period, no award is earned. To the extent that performance against either or both of the targets meets or exceeds the threshold level relative to the established targets for the three year period, named executive officers can earn from 50% to 150% of the award granted. The Committee reviews audited financial results prior to determining the amount of any award earned under this plan, and there is no discretion applied to individual payout amounts.

The value of the performance shares is equal to 80% of the Common Stock price on the date of grant. On behalf of the Compensation Committee, Watson Wyatt conducted an analytical review of the degree of difficulty of the performance goals based on probability testing using historical financial results and predicted volatility. Based on the analysis, we determined that 20% is an appropriate discount rate for determining the number of shares to award. To determine the number of performance shares granted, 40% of the total value of the approved equity award is divided by 80% of the Common Stock price on the grant date. For instance, assuming an overall long term incentive award equal to \$100,000 and Common Stock price of \$15.00, the number of performance shares granted would be calculated as follows:

$$\$100,000 \times 40\% = \$40,000 / (\$15.00 \times 80\%) = 3,333 \text{ units}$$

If a payout is earned at the end of the performance period, performance shares are paid out in shares of Common Stock.

The Committee has discretion to make changes based on certain one-time events, accounting/tax rule changes, changes to capital structure, and / or extraordinary items that do not accurately represent the Company's operating performance.

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For the 2006 2008 performance cycle, a payout at 150% of target was earned against the noted goals:

	Three	
	Year Target	Actual
ROIC	8.17%	13.98%
EPS Growth Rate	10.0%	76.6%

At the October 17, 2007 meeting of the Committee, the Company proposed, and the Committee agreed to, re-setting the performance measures due to the divestiture of the Plastics business. The effect of this was simply to modify the measures used over the cycles already in progress (2005 2007, 2006 2008, 2007 2009) to accurately reflect the business as it exists post-sale of Plastics.

Equity Granting Practices

The Committee has established a formal process to govern equity grants. The same process is used for all employees receiving equity grants, including the named executive officers. Each December, the Committee is asked to determine the overall amount (dollar value) of equity available for awards during the upcoming year's grant cycle. In making a proposal to the Committee, the Company reviews prior year grants, current competitive market data, run rate and overhang data, and each executive officer's overall compensation package in relation to the market. Once the overall amount of equity available is determined, the chief executive officer makes individual award recommendations for each senior executive. These recommendations are presented to the Committee for review and approval. The Committee works with Watson Wyatt to determine CEO grant value using the same general criteria. The option strike price is determined on the date the awards are approved by the Committee and is set at the closing price of the Common Stock on the date of approval (or the last business day prior to the grant date if the grant date falls on a non-business day). In order to streamline administrative processes, a grant date of March 7 has been adopted by the Committee. That date falls outside of the quarterly blackout periods prescribed under the Addendum to Insider Trading Policy applicable to all named executive officers.

All equity grants to officers of the Company must be approved by the Committee. The Committee did, however, delegate authority to the chief executive officer to grant a certain number of awards, not to exceed 100,000 shares, (whether options, restricted stock, or performance shares) for events such as the hiring or promotion of key personnel, provided the recipient is not an officer subject to Section 16b of the Securities Exchange Act, which would require Committee approval.

Stock Ownership Guidelines

In 2005, the Committee implemented stock ownership guidelines for all executive officers. The guidelines are as follows:

Chairman & CEO five times base salary

Senior Business / Function Leader 2.5 times base salary

Other Key Leaders (as designated by CEO) 1.5 times base salary

The guidelines state that the targeted level of ownership must be achieved within five years of the time the individual becomes subject to the guideline. In addition, the Committee has also implemented share retention guidelines. These guidelines state that, until the stock ownership guidelines are met, executive officers are required to retain 75% of the "net profit shares" acquired from option exercises, restricted stock or performance shares. "Net profit shares" are those shares remaining after payment of tax obligations and, if applicable, option exercise costs.

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The Committee reviews ownership levels for executive officers on an annual basis. Failure to comply with the stock ownership and retention guidelines may result in delays of promotions and / or future compensation increases.

Ownership achievement against the guidelines is measured at June 30 each calendar year, based on a 200 day moving average of the stock price. For 2008, the named executives have achieved the following toward their ownership guidelines:

Albert P. L. Stroucken	446%
Edward C. White	551%
James W. Baehren	581%
L. Richard Crawford	455%
Gregory W. J. Ridder	211%

Tax Deductibility under 162(m)

Under U. S. federal income tax law, the Company cannot take a tax deduction for certain compensation paid in excess of \$1,000,000 to named U. S. based executive officers. However, performance-based compensation, as defined in the tax law, is fully deductible if the programs are approved by share owners and meet other requirements. The Company's policy is to qualify its incentive compensation programs for full corporate deductibility, to the extent feasible and consistent with its overall compensation goals. The Company has taken steps to qualify its annual incentives, as well as stock options and performance share awards under its equity plan, for full deductibility as "performance-based compensation." The Company may make payments that are not fully deductible if, in its judgment, such payments are necessary to achieve the Company's compensation objectives and to protect share owner interests.

Health and Welfare and Retirement Benefits

The Company maintains a comprehensive health and welfare benefits plan for all its U.S. based employees. The benefits offered to U.S. executive officers under this plan are essentially the same as those offered to all salaried employees of the Company. Named officers residing outside the U.S. generally participate in health and welfare benefit plans offered to salaried employees in their home location.

The Company also maintains life insurance benefits for its named executive officers who were officers prior to 2006. Upon retirement, the paid-up policy is distributed to the executive officer. The retiring executive officer also receives a tax reimbursement for the value of the policy. In 2006, the Company closed this plan to new entrants. U.S. executive officers hired after December 31, 2005 are covered by a term-life policy. The term life policy may be converted, at the participant's expense, to an individual policy upon termination or retirement, subject to the terms and conditions of the insurance company.

The Salary Retirement Plan (a defined benefit pension plan), was closed to new entrants after December 31, 2004. Also effective December 31, 2004, the Company changed the way that benefits can be paid. Benefits accrued at December 31, 2004 are eligible to be paid in a lump sum. Benefits accrued post-December 31, 2004, however, are only eligible to be paid on an annuity basis. As a qualified plan, benefits are limited by IRS regulations.

For those employees who earn compensation in excess of these limits, the Company maintains an unfunded Supplemental Retirement Benefit Plan ("SRBP"). This plan allows for benefits in excess of the

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IRS limits to be accrued and paid to participants upon retirement. As a non-qualified plan, all payments are made in a lump sum out of the general assets of the Company. Mr. Stroucken accrues a benefit under this plan pursuant to the terms of his employment agreement.

The Company maintains a superannuation plan for the benefit of employees in Australia. Similar to a cash balance plan in the United States, this plan provides a defined benefit to the employee at retirement based on the employee's level of contribution to the plan during his / her career with the Company. The plan requires a minimum Company contribution for each employee and provides for a higher level of Company contribution if the employee also elects to contribute. The plan complies with local regulations governing superannuation benefits in Australia.

The Stock Purchase and Savings Plan ("SPASP") is a defined contribution plan, provided under section 401(k) of the Internal Revenue Code. Contributions to the plan are subject to annual limits established by the IRS. While employees may direct their own contributions into a number of provided investments, the Company match is made in Common Stock. The match is immediately vested, and participants can move the match out of Common Stock, and into any of the other investments, at any time subject to blackout periods and other trading window restrictions. For participants hired January 1, 2005 and later, who are not eligible to participate in the Salary Retirement Plan, the Company also makes a base contribution to the SPASP each payroll period, which is invested in the same investment options selected by the participants for their own contributions.

Other Benefits

Watson Wyatt performed a comprehensive analysis of the Company's perquisites in terms of both value and prevalence. The perquisites were compared using a variety of perspectives: the Company's peer group, the S&P 100 and the Fortune 500. Overall the Company's perquisites are competitive with the peer group median. Under board policy, for security reasons, the Company's chief executive officer generally uses the Company aircraft for both business and personal travel. Per the terms of his employment

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agreement, Mr. Stroucken's personal use of the Company aircraft is limited to 50 hours per year. Personal travel by any other officers requires the approval of the chief executive officer.

O-I Benefits & Perquisites	Value Provided by O-I	Stroucken	White	Baehren	Crawford	Ridder
Health & Welfare US Executives						
Health, Dental, Vision, Short- & Long-Term Disability	Comprehensive coverage					