

OWENS ILLINOIS INC /DE/
Form DEF 14A
April 08, 2004

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SCHEDULE 14A INFORMATION

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

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Check the appropriate box:

- // Preliminary Proxy Statement
- // Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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OWENS-ILLINOIS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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OWENS-ILLINOIS, INC.
NOTICE AND PROXY STATEMENT

For

The Annual Meeting of Share Owners

To Be Held

Wednesday, May 12, 2004

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 SeaGate
Toledo, Ohio 43666

NOTICE OF ANNUAL MEETING OF SHARE OWNERS

Dear Share Owner:

You are cordially invited to attend the Annual Meeting of Owens-Illinois' share owners which will be held on Wednesday, May 12, 2004, at 2:00 p.m. in the auditorium of the Owens-Illinois World Headquarters Building, One SeaGate, Toledo, Ohio 43666 for the purpose of considering and voting upon the following matters:

1. The election of three directors, each to serve for a term of three years;
2. The approval of the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc., which amends and restates the Stock Option Plan for Directors of Owens-Illinois, Inc., adopted in 1994, together with an increase of 325,000 in the number of shares issuable under the plan;
3. The approval of the Incentive Bonus Plan; and
4. Such other business as may properly be presented for action at the meeting or any adjournment thereof.

Enclosed is a Proxy Statement which provides information concerning the Company and the Board of Directors' nominees for election as directors. Also enclosed is a copy of the Company's Annual Report which describes the results of our operations during 2003 and provides other information about the Company which will be of interest.

The Board of Directors fixed the close of business on March 15, 2004, 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 and in favor of the approval of the Company's 2004 Equity Incentive Plan for Directors and the Incentive Bonus 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.

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

By order of the Board of Directors,

Joseph H. Lemieux
Chairman of the Board

James W. Baehren
Secretary

April 7, 2004
Toledo, Ohio

OWENS-ILLINOIS, INC.

One SeaGate
Toledo, Ohio 43666

**PROXY STATEMENT FOR THE ANNUAL MEETING OF SHARE OWNERS
TO BE HELD MAY 12, 2004**

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The Annual Meeting of the share owners of Owens-Illinois, Inc. (herein called the "Company") will be held on Wednesday, May 12, 2004, at 2:00 p.m. in the auditorium of the Owens-Illinois World Headquarters Building, One SeaGate, Toledo, Ohio 43666. At the Annual Meeting, share owners will elect three directors, each to serve a term of three years, and consider the approval of the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc. (the "2004 Plan") and the Incentive Bonus Plan (the "Bonus Plan"), as more fully described below.

This Proxy Statement has been prepared in connection with the solicitation by the Company's Board of Directors 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 materials on or about April 7, 2004.

The record of share owners entitled to notice of and to vote at the Annual Meeting was taken as of the close of business on March 15, 2004 (the "record date"), and each share owner will be entitled to vote at the meeting any shares of the Company's Common Stock, par value \$.01 per share ("Common Stock"), such share owner held of record at the record date.

VOTING

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. The Internet voting procedures have been designed to authenticate each share owner's identity by use of a unique control number found on the accompanying proxy card. If a vote is cast over the Internet, 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.

1

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 of Directors of the Company (the "Board") for election as 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 Robert J. Dineen, James H. Greene, Jr. and Thomas L. Young as directors of the Company for a term of three years to expire at the annual meeting of share owners in 2007, (b) for the approval of the 2004 Plan, (c) for the approval of the Bonus Plan, and (d) in the discretion of the proxy holders as to any other business which may properly come before the meeting.

PROPOSAL 1

ELECTION OF DIRECTORS

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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 ten members, four of whom are Class I directors whose terms expire at this year's Annual Meeting, three of whom are Class II directors whose terms expire at the 2005 Annual Meeting, and three of whom are Class III directors whose terms expire at the 2006 Annual Meeting. With the exception of Steven R. McCracken, who was appointed to fill a vacancy created by the resignation of Edward A. Gilhuly as a Class II director effective April 1, 2004, all of the directors listed herein, including the nominees, have served as directors since the last Annual Meeting.

As a result of the recent decision of Mr. George R. Roberts not to seek election to another term, the Board has elected to reduce the size of the Board from ten to nine.

The Board, on the recommendation of the Nominating/Corporate Governance Committee, has nominated three persons for election as Class I directors to serve for a three-year term expiring at the Annual Meeting of share owners to be held in 2007 and until their successors have been elected and qualified. The three nominees of the Board are Robert J. Dineen, James H. Greene, Jr. and Thomas L. Young, each of whom is currently serving as a director of the Company. If for any reason any of them 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.

2

The Board nominees and the directors whose terms of office continue after this year's Annual Meeting are listed below with brief statements setting forth their present principal occupations and other information, including directorships in other public companies.

The Company's Board of Directors recommends that the share owners vote FOR the three nominees identified below.

Class I: Nominees for 3 Year Term

James H. Greene, Jr.
Member of KKR & Co. L.L.C.,
the general partner of
Kohlberg Kravis Roberts & Co., L.P.

Director since 1987
Age 53

Mr. Greene was a general partner of Kohlberg Kravis Roberts & Co., L.P. from January 1, 1993 until January 1, 1996, when he became a member of KKR & Co. L.L.C., which is the general partner of Kohlberg Kravis Roberts & Co., L.P. Mr. Greene has been a general partner of KKR Associates, L.P. since January 1, 1993, and prior thereto was a limited partner of KKR Associates, L.P. and an executive of Kohlberg Kravis Roberts & Co., L.P. Mr. Greene is a director of Accuride Corporation, Alliance Imaging, Inc., Amphenol Corporation, Safeway Inc., Shoppers Drug Mart Corporation and Zhong Technologies, Inc. He is a member of both the Compensation and Nominating/Corporate Governance Committees.

Robert J. Dineen
Chairman of the Board of Directors
Layne Christensen Company

Director since 1994
Age 74

Mr. Dineen has been Chairman of the Board of Directors of Layne Christensen Company since 1992. Prior to 1993, Mr. Dineen was President and Chief Executive Officer of The Marley Company for more than five years. Mr. Dineen is a director of Layne Christensen Company. He is chairman of the Nominating/Corporate Governance Committee and a member of both the Audit and Compensation Committees.

Thomas L. Young
Executive Vice President and
Chief Financial Officer
Owens-Illinois, Inc.

Director since 1998
Age 60

Mr. Young has been Executive Vice President since 2004 and Chief Financial Officer since 2003. He previously served the Company as Co-Chief Executive Officer (2004) and Executive Vice President, Administration and General Counsel (1998-2004). Mr. Young is a director of Manor Care Inc.

Class II: Term Expires in 2005

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Anastasia D. Kelly
Executive Vice President and General Counsel
MCI

Director since 2002
Age 54

Ms. Kelly has been Executive Vice President and General Counsel of MCI since 2003. She previously served as an executive officer of Sears, Roebuck and Co. (1999-2003) and as Senior Vice President (1996-1999) and General Counsel and Secretary (1995-1999) of Fannie Mae, a financial services company. She is a member of both the Audit and Compensation Committees.

3

John J. McMackin, Jr.
Member
Williams & Jensen, P.C.

Director since 1994
Age 52

Mr. McMackin has been a member of Williams & Jensen for more than five years.

Steven R. McCracken
President and Chief Executive Officer
Owens-Illinois, Inc.

Director since 2004
Age 50

Mr. McCracken has been President and Chief Executive Officer of the Company since April 1, 2004. He previously served as President of Invista, the global fibers and related intermediates business subsidiary of E. I. DuPont de Nemours and Company ("DuPont") (2003-2004), DuPont Group Vice President (2000-2003) and Vice President and General Manager of DuPont Lycra® (1997-2000)

Class III: Term Expires in 2006

Gary F. Colter
President
CRS Inc.

Director since 2002
Age 58

Mr. Colter has been President of CRS Inc., a corporate restructuring management consulting company, since 2002. He previously served as 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 Saskatchewan Wheat Pool. He is Chairman of the Audit Committee and a member of the Nominating/Corporate Governance Committee.

Joseph H. Lemieux
Chairman of the Board
Owens-Illinois, Inc.

Director since 1987
Age 73

Mr. Lemieux has been Chairman of the Board of the Company since 1991. He previously served as Chief Executive Officer of the Company (1990-2003). Mr. Lemieux is a director of Manor Care Inc.

Michael W. Michelson
Member of KKR & Co. L.L.C.,
the general partner of
Kohlberg Kravis Roberts & Co., L.P.

Director since 1987
Age 52

Mr. Michelson has been a member of KKR & Co. L.L.C., which is the general partner of Kohlberg Kravis Roberts & Co., L.P., since January 1, 1996. Prior thereto, he was a general partner of Kohlberg Kravis Roberts & Co., L.P. Mr. Michelson also is a general partner of KKR Associates, L.P. Mr. Michelson is a director of Alliance Imaging, Inc., Amphenol Corporation and KinderCare Learning Centers, Inc. He is chairman of the Compensation Committee.

4

Board of Directors

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.

Independence

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A majority of the members of the Board are "independent" in accordance with the current 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, Robert J. Dineen, James H. Greene, Jr., Anastasia D. Kelly, Michael W. Michelson and George R. Roberts. In making this determination, the Board examined certain relationships between such independent directors and the Company, including the management, consulting and financial services provided and to be provided to the Company by Kohlberg Kravis Roberts & Co., L.P. ("KKR LP"). Messrs. Greene, Michelson and Roberts are members of KKR & Co. L.L.C., the general partner of KKR LP. After considering numerous factors, including the nature of KKR LP's services and the amount of fees paid by the Company for those services, the Board's understanding of the financial interests of Messrs. Greene, Michelson and Roberts in fees paid to KKR LP and the Board's experience in dealing with these three directors, the Board determined that these independent directors have no material relationships with the Company under the New York Stock Exchange's listing standards.

Attendance at Meetings by Directors

In 2003, the Board met five times. In connection with the meetings of the Board, the non-management directors met four times in executive session in 2003. In addition to the formal meetings indicated above, the Board and the committees of the Board consulted frequently and often acted by written consent taken without a meeting.

Each incumbent 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 2003 averaged 97.1% for incumbent directors as a group.

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 SeaGate, Toledo, Ohio 43666. 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 each regularly scheduled board meeting in executive session without management and hold such additional executive sessions as they determine necessary or appropriate. The non-management directors met four times in executive session in 2003. In addition, to the extent there are any non-management directors on the Board who are not independent under the New

York Stock Exchange listing standards, the independent directors will meet at least once a year in executive session. The chairman of the Nominating/Corporate Governance Committee or his designee will preside at these executive sessions.

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), any Board committee or any chair of any such committee by mail. To communicate with the Board, any individual directors or any group or committee of directors, correspondence should be addressed to 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 SeaGate, Toledo, Ohio 43666. 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 makes director recommendations to the full Board for appointments to fill vacancies of any unexpired term on the Board and to recommend nominees for submission to share owners for election at each annual meeting. When formulating its director recommendations, the Nominating/Corporate Governance Committee may consider advice and recommendations

from others, including Company share owners, as it deems appropriate. The Nominating/Corporate Governance Committee has the responsibility to extend any offer to a new director candidate to serve on the Board.

When there is a vacancy or a vacancy is expected, 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. 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.

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

6

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.

Committees of the Board of Directors

Subject to applicable provisions of the Company's By-Laws, the Board as a whole appoints the members of each committee. The Board may, at any time, change the authority or responsibility delegated to any committee. There are three standing committees of the Board: the Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee. Below is a description of each committee, together with the identity of the members of each.

Audit Committee

The Audit Committee 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 auditor's qualifications and independence and (d) the performance of the Company's internal audit function and of the independent auditor. 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 attached to this proxy statement as Appendix A and 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 SeaGate, Toledo, Ohio 43666.

The Audit Committee is composed of three directors, Mr. Colter, Mr. Dineen and Ms. Kelly, who 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, is 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. The Audit Committee held eight meetings in 2003.

Compensation Committee

The Compensation Committee is appointed by the Board to discharge the Board's responsibilities relating to compensation of the Company's executives 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 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.

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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 SeaGate, Toledo, Ohio 43666.

7

The Compensation Committee is composed of four directors, Mr. Michelson (Chairman), Mr. Dineen, Mr. Greene and Ms. Kelly, each of whom is an "independent director" under the New York Stock Exchange listing standards. The Compensation Committee held three meetings in 2003.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee is appointed by the Board to provide assistance to the Board (a) in fulfilling its responsibility to the share owners, potential share owners and investment community by identifying individuals qualified to become directors, consistent with criteria approved by 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; (b) developing and recommending to the Board a set of corporate governance principles applicable to the Company; (c) overseeing the evaluation of the Board and the management of the Company; and (d) otherwise 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 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 SeaGate, Toledo, Ohio 43666.

The Nominating/Corporate Governance Committee is composed of three directors, Mr. Dineen (Chairman), Mr. Colter and Mr. Greene, each of whom is an "independent director" under the New York Stock Exchange listing standards. The Nominating/Corporate Governance Committee was newly-formed in 2004 and, as a result, held no meetings in 2003.

The Nominating/Corporate Governance Committee will accept recommendations from share owners for nominees for the Board. The procedures for submitting share owner recommendations are explained below under "Share Owner Proposals and Nominations for 2005 Annual Meeting."

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 SeaGate, Toledo, Ohio 43666. 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 or principal financial officers) at this location on its website.

8

DIRECTOR AND EXECUTIVE COMPENSATION AND OTHER INFORMATION

Director Compensation

Prior to January 1, 2004, each non-management director of the Company received an annual retainer of \$70,000, payable quarterly, plus expenses associated with meetings of the Company's Board or its committees. In addition, each non-management director received a grant under the Directors Stock Option Plan of an option for 5,000 shares of Common Stock annually on the day immediately following the date of the annual meeting of share owners. Options were priced at the fair market value of the Common Stock on the date of grant, had a term of ten years and one day and vested on the first anniversary of the grant date.

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Beginning on January 1, 2004, each non-management director of the Company receives an annual retainer of \$50,000, payable quarterly. Each non-management Director also receives \$2,000 for each board meeting in which such Director participates. The Chairman of the Audit Committee receives an additional annual retainer of \$20,000, and each non-management Director who serves as a chairman of any other Committee receives an additional annual retainer of \$10,000. Each non-management Director who serves as a member of a committee of the Board (including as chairman) receives \$2,000 for each committee meeting in which such Director participates. In addition, subject to the approval of Proposal 2 authorizing the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc., each non-management director will receive a grant under such plan of restricted stock of the Company on the day following the Annual Meeting of share owners with a value of approximately \$50,000 on the date of the grant. This stock cannot be sold by any director until the later to occur of (a) three years after the date of grant, and (b) the end of the director's then current Board term. Each Director is reimbursed for expenses associated with meetings of the Company's 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 bond of Moody's A-rated companies, plus one percent. Distributions from the plan are made in cash.

Summary Compensation Table

The following table shows, for the years ended December 31, 2001, 2002 and 2003, the cash compensation paid by the Company and its subsidiaries, as well as certain other compensation paid or accrued for those years, to the Company's Chief Executive Officer in 2003 and the four most highly compensated executive officers of the Company other than the Chief Executive Officer (the "named executive officers") in all capacities in which they served. On April 1, 2004, Steven R. McCracken joined the Company as President and Chief Executive Officer. Prior to joining the Company, Mr. McCracken spent nearly 30 years at DuPont, serving most recently as President of its INVISTA subsidiary. At the

9

Company's annual meeting, Mr. McCracken will also assume the position of Chairman of the Board from Mr. Lemieux.

Name and Principle Position	Year	Long Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary (\$)	Bonus \$(1)	Other Annual Compensation \$(2)	Restricted Stock Award(s) (\$)	Securities Underlying Options/SAR's #(3)	Long-term Incentive Payouts \$(4)	All Other Compensation \$(5)
Terry L. Wilkison(6) Executive	2003	\$ 355,000	\$ 167,000	\$ 95,483	\$ 238,320(7)	36,000	\$ 68,115	\$ 9,739(8)
	2002	340,833	320,000	28,200	199,800	40,000	133,258	9,822
V.P. Plastics Group General Manager	2001	315,833	250,000	413,241	451,500	100,000	108,272	8,489
Thomas L. Young(9) Executive V.P. and Chief Financial Officer	2003	355,000	167,000	105,216	297,900(10)	52,824(11)	67,868	9,739(8)
	2002	340,833	320,000	106,828	199,800	95,793	132,736	9,542
	2001	315,833	250,000	459,331	451,500	100,000	107,848	8,106
Joseph H. Lemieux(12) Chairman	2003	770,000	512,000	430,263	397,200(13)	315,000(14)	279,569	72,129(8)(15)
	2002	742,500	675,000	435,050	635,046	310,000	413,100	69,360
	2001	696,667	525,000	1,125,954	1,307,468	160,000	335,644	66,449
Peter J. Robinson Sr. V.P., General Manager, Asia Pacific Operations	2003	622,024(16)	584,003(17)	115,634	178,740(18)	30,000	74,860	7,087(19)
	2002	497,294	637,024	25,861	179,820	35,000	179,811	5,280
	2001	432,401	544,063	598,911	602,000	75,000	146,096	4,404
Franco Todisco Sr. V.P., General Manager, of European Operations	2003	596,313	150,000	0	119,160(20)	18,000	0	63,806(21)
	2002	542,157	150,000	0	99,900	20,000	0	53,140
	2001	526,413	73,632	107,688	90,300	35,000	0	48,306

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Except as otherwise provided in footnote 17 below, the amounts disclosed in this column represent awards under the Owens-Illinois, Inc. Senior Management Incentive Plan for the year indicated. Amounts, if any, deferred at the election of a named executive officer are included in the year earned.

- (2) For Mr. Wilkison, in 2003 this column includes \$41,797 for amounts reimbursed to Mr. Wilkison for the payment of taxes and \$53,686 for the value of certain perquisites provided by the Company to Mr. Wilkison, of which \$29,602 is attributable to financial planning provided by the Company and \$16,250 is attributable to his personal use of an automobile provided by the Company; in 2002 this column represents amounts reimbursed to Mr. Wilkison for the payment of taxes; and in 2001 this column represent amounts reimbursed during the year for the payment of taxes, including taxes in the amount of \$385,527 due in connection with the grant in 2001 to Mr. Wilkison of shares of restricted stock under the Company's 1997 Equity Participation Plan. In 2001 and 2002, the value of perquisites received by Mr. Wilkison did not exceed the reporting threshold for such benefits.

For Mr. Young, this column represents amounts reimbursed to Mr. Young for the payment of taxes, including (a) in 2003 the amount of \$75,692 for taxes due in connection with contributions by the Company to the Secular Trust Plan on behalf of Mr. Young in 2003; (b) in 2002 the amount of \$75,631 for taxes due in connection with contributions by the Company to the Secular Trust Plan on behalf of Mr. Young in 2002; and (c) in 2001 the amount of \$436,818 for taxes due in connection with the grant in 2001 to Mr. Young of shares of restricted stock under the Company's 1997 Equity Participation Plan. In 2001, 2002 and 2003, the value of perquisites received by Mr. Young did not exceed the reporting threshold for such benefits.

For Mr. Lemieux, in 2003 this column includes \$374,269 for amounts reimbursed to Mr. Lemieux for the payment of taxes, including the amount of \$290,401 representing taxes due in connection with contributions by the Company to the Secular Trust Plan on behalf of Mr. Lemieux in 2003 and \$55,994 for the value of certain perquisites provided by the Company to Mr. Lemieux, of which \$27,154 is attributable to his personal use of Company aircraft and \$16,250 is attributable to his personal use of an automobile provided by the Company; in 2002 this column includes \$382,216 for amounts reimbursed to Mr. Lemieux for the payment of taxes, including the amount of \$290,169 for taxes due in connection with contributions by the Company to the Secular Trust Plan on behalf of Mr. Lemieux in 2002 and \$52,834 for the value of certain perquisites provided by the Company to Mr. Lemieux, of which \$22,027 is attributable to his personal use of Company aircraft and \$17,636 is attributable to financial planning provided by the Company; and in 2001 this column includes the amount of \$1,065,060 reimbursed to Mr. Lemieux for the payment of taxes, including the amount of \$974,049 for taxes due in connection with the grant of 160,000 shares of restricted stock in 2001, and \$60,894 for the value of certain perquisites provided by the Company to Mr. Lemieux, of which \$28,359 is attributable to his personal use of Company aircraft.

For Mr. Robinson, in 2003 this column includes \$56,853 for amounts reimbursed to Mr. Robinson for the payment of taxes and \$58,781 for the value of certain perquisites provided by the Company to Mr. Robinson, of which \$43,430 is attributable to his personal use of an automobile provided by the Company; and in 2001 and 2002 this column represents amounts reimbursed to Mr. Robinson for the payment of taxes, including in 2001 the amount of \$566,932 for taxes due in connection with the grant in 2001 to Mr. Robinson of shares of restricted stock under the Company's 1997 Equity Participation Plan. In 2001 and 2002, the value of perquisites received by Mr. Robinson did not exceed the reporting threshold for such benefits.

10

For Mr. Todisco, this column represents amounts reimbursed to Mr. Todisco in 2001 for taxes due in connection with the grant in 2001 to Mr. Todisco of shares of restricted stock under the Company's 1997 Equity Participation Plan. In 2001, 2002 and 2003, the value of perquisites received by Mr. Todisco did not exceed the reporting threshold for such benefits.

- (3) No SARs were granted to any of the named executive officers during 2003.
- (4) The amounts disclosed in this column represent awards under the Company's Performance Award Plan for the year indicated. Amounts, if any, deferred at the election of an executive officer are included in the year earned.
- (5) Except as otherwise provided in footnotes 8, 15, 19 and 21 below, the amounts disclosed in this column for 2003 represent matching cash contributions by the Company to the Stock Purchase and Savings Program ("SPASP") and the Executive Deferred Savings Plan, both defined contribution plans. The SPASP is a tax-qualified defined contribution plan intended to satisfy the requirements of Section 401(k) of the Internal Revenue Code of 1986. The Company contributes to each participant's account maintained under the SPASP an amount of Common Stock equal to 50% of the participant's contributions to the SPASP but not more than 4% of (a) the participant's earnings or (b) \$200,000 for 2003, whichever is lower. The difference between the theoretical Company matching contribution under the SPASP for each participant, without regard to the legally imposed maximum, and the maximum contribution permitted under law is used to determine the number of theoretical shares of Common Stock which would have been purchased for the participant's account in the absence of the IRS limitation on participant's earnings in excess of \$200,000 for 2003. Amounts deferred into the Executive Deferred Savings Plan at the election of the participant may be credited to either a cash deferral account earning interest at a prescribed rate or a Company stock deferral account. Any balance in the plan is paid in cash to the individual at termination of employment.

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- (6) Mr. Wilkison served as Executive Vice President Plastics Group General Manager during 2003, became Co-Chief Executive Officer on January 1, 2004 and served in that position on an interim basis prior to the appointment of Steven R. McCracken as President and Chief Executive Officer effective April 1, 2004, and currently holds the position of Executive Vice President Plastics Group General Manager, effective April 1, 2004.
- (7) As of December 31, 2003, Mr. Wilkison held 134,000 shares of restricted stock of the Company with a value of \$1,593,260 (determined by the closing price of the Common Stock on the New York Stock Exchange on December 31, 2003).
- (8) Includes the following amounts equal to the value of premiums paid during 2003 by the Company in connection with life insurance policies issued pursuant to the Owens-Illinois Executive Life Insurance Plan and Participation Agreements entered into between the Company and certain named executive officers: Mr. Lemieux, \$12,379; Mr. Wilkison, \$1,739; and Mr. Young, \$1,739.
- (9) Mr. Young served as Executive Vice President and Chief Financial Officer during 2003, became Co-Chief Executive Officer on January 1, 2004 and served in that position on an interim basis prior to the appointment of Steven R. McCracken as President and Chief Executive Officer effective April 1, 2004, and currently holds the position of Executive Vice President and Chief Financial Officer, effective April 1, 2004.
- (10) As of December 31, 2003, Mr. Young held 145,000 shares of restricted stock of the Company with a value of \$1,724,050 (determined by the closing price of the Common Stock on the New York Stock Exchange on December 31, 2003).
- (11) Represents 30,000 options to purchase Common Stock granted to Mr. Young under the Company's Amended and Restated 1997 Equity Participation Plan and 22,824 options granted to Mr. Young in 1992 and 1993, the expiration date of which was extended by one year in 2004.
- (12) Mr. Lemieux retired as Chief Executive Officer of the Company as of the end of the year 2003.
- (13) As of December 31, 2003, Mr. Lemieux held 444,469 shares of restricted stock of the Company with a value of \$5,284,736 (determined by the closing price of the Common Stock on the New York Stock Exchange on December 31, 2003).
- (14) Represents 100,000 options to purchase Common Stock granted to Mr. Lemieux under the Company's Amended and Restated 1997 Equity Participation Plan and 215,000 options granted to Mr. Lemieux in 1992 and 1993, the expiration date of which was extended by one year in 2004.
- (15) Also includes a premium of \$28,950 paid by the Company on a whole life insurance policy owned by Mr. Lemieux.
- (16) Includes payments in the amount of \$123,126, which payments were made to Mr. Robinson in lieu of contributions on his behalf to a superannuation fund to provide post-retirement pension benefits. Mr. Robinson's bonus is provided under a separate bonus plan relating to the Company's Asia Pacific business.
- (17) Includes \$235,498 accrued to Mr. Robinson under the ACI Packaging Services Pty. Ltd. Senior Executive Retention and Confidentiality Agreement.
- (18) As of December 31, 2003, Mr. Robinson held phantom stock units under the Company's Amended and Restated 1997 Equity Participation Plan with respect to 56,000 shares of Common Stock and 100,000 shares of restricted stock of the Company with a combined value of \$1,854,840 (determined by the closing price of the Common Stock on the New York Stock Exchange on December 31, 2003).
- (19) Represents the statutory minimum amounts contributed by the Company to a superannuation fund on behalf of Mr. Robinson.
- (20) As of December 31, 2003, Mr. Todisco held 42,000 shares of restricted stock of the Company with a value of \$499,380 (determined by the closing price of the Common Stock on the New York Stock Exchange on December 31, 2003).
- (21) Includes \$54,907 accrued to Mr. Todisco in a TFR Fund to be paid to Mr. Todisco upon his termination of employment or retirement and \$8,899 for life, supplementary medical coverage and personal accident insurance for the benefit of Mr. Todisco.

Option/SAR Grants in Last Fiscal Year(1)

The following table provides information on options to purchase shares of Common Stock granted in 2003 to the named executive officers.

Individual Grants

Name	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees In Fiscal Year(4)	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(5)	
					5%	10%
Terry L. Wilkison	36,000(2)	2.8%	\$ 9.93	02/18/13	\$ 224,817	\$ 569,731(5)
Thomas L. Young	30,000(2) 17,252(3) 5,572(3)	2.3% 1.3% 0.4%	9.93 36.31 36.31	02/18/13 05/14/04 04/2/04	187,348 31,323 10,117	474,776(5) 62,646(6) 20,233(6)
Joseph H. Lemieux	100,000(2) 200,000(3) 15,000(3)	7.8% 15.6% 1.2%	9.93 12.50 11.50	02/18/13 05/14/04 04/2/04	624,492 125,000 8,625	1,582,586(5) 250,000(7) 17,250(8)
Peter J. Robinson	30,000(2)	2.3%	9.93	02/18/13	187,348	474,776(5)
Franco Todisco	18,000(2)	1.4%	9.93	02/18/13	112,409	284,866(5)

(1) No SARs were granted to any of the named executive officers during 2003.

(2) Exercises of one-half of the options are permitted after each of the fifth and sixth anniversaries of the date of the grant; provided, options shall become exercisable after the first anniversary of the date of the grant thereof at the time when the average fair market value per share (as evidenced by the closing price of the underlying stock on the principal exchange on which it is traded) for any period of 20 consecutive trading days (commencing after such first anniversary) is at least equal to the product of the fair market value per share on the date of grant times the amount shown below under "Stock Price Multiple" as to the percentage of the shares of stock initially subject to the option shown below under "Exercise Percentage."

Stock Price Multiple	Resulting Stock Price	Exercise Percentage
120%	\$ 11.92	25%
144%	14.30	50%
172%	17.08	75%
206%	20.46	100%

Under the Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc., for all options granted between January 1, 1992 and December 31, 1996, rights to receive Additional Options, as defined in the Second Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc., are attached to each option and Additional Options will be granted upon exercise, subject to certain conditions, if the exercise price is paid using shares of Common Stock owned by the optionee or the related tax obligation is paid using shares of Common Stock owned by the optionee or by relinquishing Common Stock which the optionee is entitled to receive upon the exercise of the options. Under the Amended and Restated 1997 Equity Participation Plan of Owens-

Illinois, Inc., for all options granted under the plan, rights to receive Additional Options, as defined in the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc., are attached to each option and Additional Options will be granted upon exercise, subject to certain conditions, if the exercise price is paid using shares of Common Stock owned by the optionee or the related tax

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obligation is paid using shares of Common Stock owned by the optionee or by relinquishing Common Stock which the optionee is entitled to receive upon the exercise of the options. The options granted in 2003 are not transferable except (a) by will or pursuant to the applicable laws of descent and distribution upon death of the optionee or (b) by gift to (i) such optionee's spouse, children or certain other relatives of the optionee, (ii) a trust for the benefit of such persons, (iii) a limited liability company or partnership, all of whose members or partners consist of the optionee or the above-listed relatives or trust, or (iv) a non-profit organization or charitable trust, contributions to which are tax-deductible.

- (3) Represents options the expiration date of which was extended by one year in 2003. The options that had an expiration date of April 2, 2003 were extended to April 2, 2004 and the options that had an expiration date of May 14, 2003 were extended to May 14, 2004. No other changes were made in the terms of the options.
- (4) Exclusive of the options extended during 2003, as described in footnote 3 above, the percentages of total options granted in 2003 to each named executive officer were as follows: Mr. Wilkison, 4.0%; Mr. Young, 3.4%; Mr. Lemieux, 11.2%; Mr. Robinson, 3.4%; and Mr. Todisco, 2.0%.
- (5) Based on actual option term and annual compounding. The assumed annual rates of appreciation of 5 and 10 percent would result in the price of the Common Stock increasing to \$16.175 and \$25.756, respectively, over the ten-year life of the options granted in 2003 (which would equal a total increase in stock price of 63% and 159%, respectively). These assumed rates of growth were selected by the Securities and Exchange Commission for illustration purposes only and are not intended to predict future stock prices, which will depend upon market conditions and the Company's future performance and prospects.
- (6) Based on actual option term and annual compounding. The assumed annual rates of appreciation of 5 and 10 percent would result in the price of the Common Stock increasing to \$38.126 and \$39.941, respectively, over the remaining life of these options (which would equal a total increase in stock price of 5% and 10%, respectively). These assumed rates of growth were selected by the Securities and Exchange Commission for illustration purposes only and are not intended to predict future stock prices, which will depend upon market conditions and the Company's future performance and prospects.
- (7) Based on actual option term and annual compounding. The assumed annual rates of appreciation of 5 and 10 percent would result in the price of the Common Stock increasing to \$13.125 and \$13.750, respectively, over the remaining life of these options (which would equal a total increase in stock price of 5% and 10%, respectively). These assumed rates of growth were selected by the Securities and Exchange Commission for illustration purposes only and are not intended to predict future stock prices, which will depend upon market conditions and the Company's future performance and prospects.
- (8) Based on actual option term and annual compounding. The assumed annual rates of appreciation of 5 and 10 percent would result in the price of the Common Stock increasing to \$12.075 and \$12.650, respectively, over the remaining life of these options (which would equal a total increase in stock price

13

of 5% and 10%, respectively). These assumed rates of growth were selected by the Securities and Exchange Commission for illustration purposes only and are not intended to predict future stock prices, which will depend upon market conditions and the Company's future performance and prospects.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

The following table provides information on the exercise of options to purchase Common Stock during 2003 by the named executive officers and the value of such officers' unexercised options to purchase Common Stock at December 31, 2003. No options were exercised by named executive officers in 2003.

Name	Number of Securities Underlying Unexercised Options/SARs At December 31, 2003	Value of Unexercised In-the-Money Options/SARs At December 31, 2003(1)
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	Number of Securities			
	Underlying Options Exercisable	Unexercised SARs At December 31, 2003	Exercisable	Unexercisable
Terry L. Wilkison	166,250	234,750	\$ 639,250	\$ 127,560
Thomas L. Young	244,532	228,750	26,275	115,800
Joseph H. Lemieux	782,500	542,500	1,068,300	352,750
Peter J. Robinson	83,750	281,250	16,625	108,675
Franco Todisco	68,750	74,250	226,588	63,780

(1)

Based on the closing price of the Company's Common Stock on the New York Stock Exchange on December 31, 2003 of \$11.89.

Long-Term Incentive Plans Awards in Last Fiscal Year

The named executive officers are covered by the Company's Performance Award Plan ("PAP") under which eligible employees receive annual cash awards payable at the end of the three-year period covered by the grant of the award. Award payouts under PAP are based on the average annual attainment of the performance objectives set by the Compensation Committee of the Company's Board. As discussed in the Board Compensation Committee Report below, no PAP allotments were made for the 2003-2005 award period.

14

Pension Plans

The following table illustrates the estimated annual benefits payable under the Owens-Illinois Salary Retirement Plan (the "Retirement Plan") and nonqualified retirement plans in various average earnings classifications upon normal retirement at age 65:

Highest Three-Year Average Annual Earnings	Years of Credited Service					
	20	25	30	35	40	45
\$ 200,000	\$ 52,426	\$ 65,532	\$ 78,639	\$ 91,745	\$ 103,865	\$ 115,985
400,000	108,029	135,036	162,043	189,050	213,145	237,385
600,000	165,171	206,464	247,757	289,050	322,425	358,785
800,000	222,314	277,893	333,471	389,050	431,705	480,185
1,000,000	279,457	349,321	419,186	489,050	540,985	601,585
1,200,000	336,600	420,750	504,900	589,050	650,265	722,985
1,400,000	393,743	492,179	590,614	689,050	759,545	844,385
1,600,000	450,886	563,607	676,329	789,050	868,825	965,785
1,800,000	508,029	635,036	762,043	889,050	978,105	1,087,185
2,000,000	565,171	706,464	847,757	989,050	1,087,385	1,208,585
2,200,000	622,314	777,893	933,471	1,089,050	1,196,665	1,329,985
2,400,000	679,457	849,321	1,019,186	1,189,050	1,305,945	1,451,385
2,600,000	736,600	920,750	1,104,900	1,289,050	1,415,225	1,572,785

The above pension table illustrates benefits calculated on a straight-life annuity basis, and reflects the greater of the regular benefit or the "grandfathered" benefit available under the formula in effect prior to January 1, 1989. The regular benefit does not contain an offset for social security or other amounts, whereas the "grandfathered" benefit does provide for a partial offset for social security benefits.

The compensation covered by the plans under which the benefits are summarized in the table above equals the sum of base salary, Senior Management Incentive Plan and Performance Award Plan payments, as reported in the Summary Compensation Table for the named executive officers for the last three fiscal years, and is equal to the highest three-year average of such amounts. At January 31, 2004, Mr. Wilkison had 5 years of credited service, Mr. Young had 27 years of credited service and Mr. Lemieux had 46 years of credited service, under the Retirement Plan. To the extent that benefits in the preceding table cannot, under the limitations of the Code, be provided under the Retirement Plan, such benefits will be provided under the Company's Supplemental Retirement Benefit Plan (the "SRBP"). Peter J. Robinson and Franco Todisco are not covered by a Company-sponsored pension plan.

A significant portion of the pension benefits payable to certain named executive officers is provided under the SRBP. Such benefits have historically represented an unfunded liability of the Company. The Company previously provided for funding of a significant portion of the retirement benefits due under the SRBP through cash payments to certain participants in the plan. Such funding arrangements offset the liabilities under the SRBP at the time of such funding. All or a significant portion of the remaining retirement benefits under the SRBP will be provided to certain named executive officers through insurance policies purchased by the Company and held in a secular trust plan (the "Secular Trust Plan") for each participant in the Secular Trust Plan. The amounts paid by the Company on behalf of each participant constitute income to the participant. The Company makes tax payments in an amount sufficient to cover each participant's taxes on both the insurance premiums paid by the Company and the tax payments.

Employment Agreements. The Company entered into employment agreements with certain officers, including the named executive officers listed above, that entitle the participants to receive their base salaries and to participate in designated benefit plans of the Company. The agreements provide for termination of employment at any time, with or without cause, and the benefit plans designated therein and each employee's rights to receive salary and bonuses pursuant thereto are subject to modification by the Company in its sole discretion.

Certain Transactions

During 2003, 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.

Compensation Committee Interlocks and Insider Participation

The following non-employee directors served on the Compensation Committee of the Company's Board of Directors until March 2004: Edward A. Gilhuly, James H. Greene, Jr. and Michael W. Michelson (Chair). Commencing March 2004, the following non-employee directors serve on the Compensation Committee of the Company's Board of Directors: Robert J. Dineen, James H. Greene, Jr., Anastasia D. Kelly and Michael W. Michelson (Chair). Until June 1987, Mr. Gilhuly and Mr. Greene were officers of the Company. Messrs. Greene, Michelson and Gilhuly are members of KKR & Co. L.L.C., the general partner of Kohlberg Kravis Roberts & Co., L.P., which provides management, consulting and financial services to the Company for an annual fee. In 2003 the payment for the management fee and expenses was \$2,226,720. In 2004, the annual fee will be \$1,375,000. Such services include, but are not necessarily limited to, advice and assistance concerning any and all aspects of the operation, planning and financing of the Company and its subsidiaries, as needed from time to time.

Board Compensation Committee Report on Executive Compensation

The Compensation Committee (the "Committee") of the Company's Board of Directors establishes the Company's policies regarding the compensation of its executive officers and other key managers, and oversees the compensation practices employed pursuant to those policies. The Committee also administers the Company's Amended and Restated 1997 Equity Participation Plan, the Performance Award Plan ("PAP"), and, with the Chief Executive Officer, the Senior Management Incentive Plan ("SMIP"). The Committee has direct responsibility for the compensation of the Chief Executive Officer.

The Company's principal objective is to increase share owner value over time. The Committee's executive compensation policies are intended, and have been structured, to achieve this objective by emphasis on and adherence to the following principles: (1) focus on a significant equity orientation among executives to align their interests with those of all other share owners, (2) linkage of compensation with achievement of certain specific financial, strategic and operating goals which underlie long-term share owner value, (3) maintenance of plans which are intended to be competitive with those of other successful companies of comparable size, particularly those in the industries in which the Company competes, and (4) effective communication and straightforward administration of plans that are well understood and not unduly complex.

The components of the Company's executive officer compensation are:

Base Salary

Annual Incentive

Long-Term Incentives

Benefits

16

Base Salary. Base salaries are set at levels intended to be competitive with industrial companies of comparable size in a broad range of American industries, which the Committee believes are the Company's competitors for executive talent. The Committee reviews salaries annually and provides salary adjustments based on periodic reviews of competitive considerations. In May 2003, Mr. Lemieux was granted a \$30,000 increase in base salary, representing a 3.4% increase on an annualized basis.

Annual Incentive. The Company's SMIP establishes target annual incentives for key executives in the form of a percentage of base salary (up to a maximum target incentive of 100% in the case of the Chief Executive Officer). In 2003, the SMIP provides for annual incentive awards consisting of a corporate performance component based on annual rate of return on net assets ("RONA") and an earnings per share ("EPS") targets, on an equally weighted basis, established by the Board as the performance objectives for the year, an operating unit RONA performance component (for executive positions at the unit level), and a discretionary component. Each performance component and, in the aggregate, the discretionary components are contingent on the Company's performance relative to the corporate RONA and EPS objectives for the year.

The SMIP establishes quantitative relationships between performance and payout percentages within defined minimum/maximum ranges. The total bonus pool available for distribution to all covered executives, including the Chief Executive Officer, cannot exceed 150% of the total of all target bonuses for the covered executives.

A recipient of an SMIP payment may elect to receive restricted stock in lieu of cash for all or a portion of such payment. Such restricted stock is issued under the terms of the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc., which plan was approved by the share owners at the 1997 Annual Meeting. A recipient who so elects receives a number of shares of restricted stock equal to 120% of the amount of cash forgone divided by the closing price of the Common Stock on the last trading day