

BALL CORP
Form 10-Q
November 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2008

Commission file number 1-7349

BALL CORPORATION

State of Indiana 35-0160610

10 Longs Peak Drive, P.O. Box 5000
Broomfield, CO 80021-2510
303/469-3131

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

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

| Class | Outstanding at October 26, 2008 |
|---------------|------------------------------------|
| Common Stock, | |

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without par value 94,589,820 shares

Ball Corporation and Subsidiaries
QUARTERLY REPORT ON FORM 10-Q
For the period ended September 28, 2008

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

Ball Corporation and Subsidiaries

| (\$ in millions, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| Net sales | \$ 2,008.2 | \$ 1,992.1 | \$ 5,828.7 | \$ 5,719.1 |
| Legal settlement (Note 5) | – | (85.6) | – | (85.6) |
| Total net sales | 2,008.2 | 1,906.5 | 5,828.7 | 5,633.5 |
| Costs and expenses | | | | |
| Cost of sales (excluding depreciation and amortization) | 1,679.9 | 1,659.5 | 4,856.1 | 4,736.4 |
| Depreciation and amortization (Notes 9 and 11) | 73.9 | 71.8 | 224.7 | 206.7 |
| Selling, general and administrative | 67.5 | 84.3 | 227.6 | 253.8 |
| Business consolidation and other costs (Note 6) | 9.1 | – | 20.6 | – |
| Gain on sale of subsidiary (Note 4) | – | – | (7.1) | – |
| | 1,830.4 | 1,815.6 | 5,321.9 | 5,196.9 |
| Earnings before interest and taxes | 177.8 | 90.9 | 506.8 | 436.6 |
| Interest expense | (33.1) | (36.2) | (104.0) | (112.2) |
| Earnings before taxes | 144.7 | 54.7 | 402.8 | 324.4 |
| Tax provision | (45.8) | 3.1 | (128.4) | (85.9) |
| Minority interests | (0.1) | (0.1) | (0.3) | (0.3) |
| Equity in results of affiliates | 3.1 | 3.2 | 11.6 | 9.8 |
| Net earnings | \$ 101.9 | \$ 60.9 | \$ 285.7 | \$ 248.0 |
| Earnings per share (Note 15): | | | | |
| Basic | \$ 1.07 | \$ 0.60 | \$ 2.96 | \$ 2.44 |
| Diluted | \$ 1.05 | \$ 0.59 | \$ 2.92 | \$ 2.40 |
| Weighted average shares outstanding (000s) (Note 15): | | | | |
| Basic | 95,368 | 101,422 | 96,491 | 101,691 |
| Diluted | 96,604 | 102,997 | 97,796 | 103,372 |
| Cash dividends declared and paid, per common share | \$ 0.10 | \$ 0.10 | \$ 0.30 | \$ 0.30 |

See accompanying notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

Ball Corporation and Subsidiaries

| (\$ in millions) | September 28, 2008 | December 31, 2007 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 113.9 | \$ 151.6 |
| Receivables, net (Note 7) | 773.8 | 582.7 |
| Inventories, net (Note 8) | 1,000.9 | 998.1 |
| Deferred taxes and other current assets | 128.2 | 110.5 |
| Total current assets | 2,016.8 | 1,842.9 |
| Property, plant and equipment, net (Note 9) | 1,934.5 | 1,941.2 |
| Goodwill (Note 10) | 1,864.2 | 1,863.1 |
| Intangibles and other assets, net (Note 11) | 396.2 | 373.4 |
| Total Assets | \$ 6,211.7 | \$ 6,020.6 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Short-term debt and current portion of long-term debt (Note 12) | \$ 221.5 | \$ 176.8 |
| Accounts payable | 702.9 | 763.6 |
| Accrued employee costs | 224.3 | 238.0 |
| Income taxes payable and current deferred taxes | 18.7 | 15.7 |
| Other current liabilities | 197.3 | 319.0 |
| Total current liabilities | 1,364.7 | 1,513.1 |
| Long-term debt (Note 12) | 2,438.0 | 2,181.8 |
| Employee benefit obligations (Note 13) | 749.8 | 799.0 |
| Deferred taxes and other liabilities | 251.1 | 183.1 |
| Total liabilities | 4,803.6 | 4,677.0 |
| Contingencies (Note 17) | | |
| Minority interests | 1.5 | 1.1 |
| Shareholders' equity (Note 14) | | |
| Common stock (160,908,149 shares issued – 2008; 160,678,695 shares issued – 2007) | 782.8 | 760.3 |
| Retained earnings | 2,022.0 | 1,765.0 |
| Accumulated other comprehensive earnings | 125.8 | 106.9 |
| Treasury stock, at cost (65,971,800 shares – 2008; 60,454,245 shares – 2007) | (1,524.0) | (1,289.7) |
| Total shareholders' equity | 1,406.6 | 1,342.5 |
| Total Liabilities and Shareholders' Equity | \$ 6,211.7 | \$ 6,020.6 |

See accompanying notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Ball Corporation and Subsidiaries

| (\$ in millions) | Nine Months Ended | |
|---|-----------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 |
| Cash Flows from Operating Activities | | |
| Net earnings | \$ 285.7 | \$ 248.0 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 224.7 | 206.7 |
| Business consolidation and other costs (Note 6) | 20.6 | — |
| Gain on sale of subsidiary (Note 4) | (7.1) | — |
| Legal settlement (Note 5) | (70.3) | 85.6 |
| Deferred taxes | 5.5 | (7.7) |
| Other, net | 18.6 | 27.1 |
| Changes in working capital components, excluding effects of acquisitions and dispositions | (339.3) | (154.5) |
| Cash provided by operating activities | 138.4 | 405.2 |
| Cash Flows from Investing Activities | | |
| Additions to property, plant and equipment | (230.8) | (222.9) |
| Proceeds from sale of subsidiary, net of cash sold (Note 4) | 8.7 | — |
| Property insurance proceeds | — | 48.6 |
| Other, net | 9.8 | (5.4) |
| Cash used in investing activities | (212.3) | (179.7) |
| Cash Flows from Financing Activities | | |
| Long-term borrowings | 459.4 | 301.3 |
| Repayments of long-term borrowings | (186.7) | (316.0) |
| Change in short-term borrowings | 43.4 | (106.9) |
| Proceeds from issuances of common stock | 22.1 | 38.0 |
| Acquisitions of treasury stock | (279.6) | (193.1) |
| Common dividends | (28.3) | (30.4) |
| Other, net | 3.5 | 8.3 |
| Cash provided by (used in) financing activities | 33.8 | (298.8) |
| Effect of exchange rate changes on cash | 2.4 | 1.2 |
| Change in cash and cash equivalents | (37.7) | (72.1) |
| Cash and cash equivalents - beginning of period | 151.6 | 151.5 |
| Cash and cash equivalents - end of period | \$ 113.9 | \$ 79.4 |

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Ball Corporation and its controlled affiliates (collectively Ball, the company, we or our) and have been prepared by the company without audit. Certain information and footnote disclosures, including critical and significant accounting policies normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted.

Results of operations for the periods shown are not necessarily indicative of results for the year, particularly in view of the seasonality in the packaging segments and the irregularity of contract revenues in the aerospace and technologies segment. These unaudited condensed consolidated financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto included in the company's Annual Report on Form 10-K filed pursuant to Section 13 of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007 (annual report).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various assumptions believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions and conditions. However, we believe that the financial statements reflect all adjustments which are of a normal recurring nature and are necessary for a fair statement of the results for the interim period.

Certain prior-year amounts have been reclassified in order to conform to the current-year presentation.

2. Accounting Standards

Recently Adopted Accounting Standards

Effective January 1, 2008, Ball adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," and has identified its implications as a critical accounting policy. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. Although it does not require any new fair value measurements, the statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. At this time the January 1, 2008, adoption covers only financial assets and liabilities and those nonfinancial assets and liabilities already disclosed at fair value in the financial statements on a recurring basis but, subject to a deferral, will be expanded to all other nonfinancial assets and liabilities as of January 1, 2009. The company is in the process of evaluating what impact applying SFAS No. 157 to all other nonfinancial assets and liabilities will have on its consolidated financial statements but does not anticipate any material impact at this time. Details regarding the adoption of SFAS No. 157 and its effects on the company's unaudited condensed consolidated financial statements are available in Note 16, "Fair Value of Financial Instruments."

New Accounting Standards

In April 2008 the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in

developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." This FSP is effective for Ball as of January 1, 2009, on a prospective basis, and early adoption is prohibited. The company is in the process of evaluating the new pronouncement but does not anticipate any material impact.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

2. Accounting Standards (continued)

In March 2008 the FASB issued SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133." SFAS No. 161 is intended to enhance the current disclosure requirements in SFAS No. 133. It requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, as well as information about credit-risk-related contingent features. It also requires a company to disclose the fair values of derivative instruments and their gains and losses in a tabular format to make more transparent the location in a company's financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. The company also will be required to cross-reference within the footnotes to help users of financial statements locate information about derivative instruments. SFAS No. 161 is effective for Ball beginning on January 1, 2009, and is currently under evaluation by the company.

In December 2007 the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," which replaces the original SFAS No. 141 issued in June 2001. The new standard retains the fundamental requirements in SFAS No. 141 that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141 (revised 2007) requires an acquirer to recognize the assets acquired and liabilities assumed measured at their fair values on the acquisition date, which replaces SFAS No. 141's cost-allocation method of value recognition. SFAS No. 141 (revised 2007) also requires the costs incurred to complete the acquisition and related restructuring costs to be recognized separately from the business combination. The new standard will be effective for Ball on a prospective basis beginning on January 1, 2009.

3. Business Segment Information

Ball's operations are organized and reviewed by management along its product lines in five reportable segments. Due to first quarter 2008 management reporting changes, Ball's operations in the People's Republic of China (PRC) are now included in the metal beverage packaging, Americas and Asia, segment (previously included with the company's European operations). The results for the quarter and nine months ended September 30, 2007, and our financial position at December 31, 2007, have been retrospectively adjusted to conform to the current year presentation.

Metal beverage packaging, Americas and Asia: Consists of operations in the U.S., Canada, Puerto Rico and the PRC, which manufacture and sell metal beverage containers in North America and the PRC, as well as non-beverage plastic containers in the PRC.

Metal beverage packaging, Europe: Consists of operations in several countries in Europe, which manufacture and sell metal beverage containers.

Metal food & household products packaging, Americas: Consists of operations in the U.S., Canada and Argentina, which manufacture and sell metal food cans, aerosol cans, paint cans and decorative specialty cans.

Plastic packaging, Americas: Consists of operations in the U.S. and Canada (through most of the third quarter of 2008), which manufacture and sell polyethylene terephthalate (PET) and polypropylene containers, primarily for use in beverage and food packaging. This segment also includes the manufacture and sale of plastic containers used for industrial and household products.

Aerospace and technologies: Consists of the manufacture and sale of aerospace and other related products and the providing of services used primarily in the defense, civil space and commercial space industries.

The accounting policies of the segments are the same as those in the unaudited condensed consolidated financial statements. A discussion of the company's critical and significant accounting policies can be found in Ball's annual report. We also have investments in companies in the U.S., PRC and Brazil, which are accounted for under the equity method of accounting and, accordingly, those results are not included in segment sales or earnings.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

3. Business Segment Information (continued)

| Summary of Business by Segment (\$ in millions) | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| Net Sales | | | | |
| Metal beverage packaging, Americas & Asia | \$ 767.0 | \$ 797.0 | \$ 2,304.8 | \$ 2,369.9 |
| Legal settlement (Note 5) | – | (85.6) | – | (85.6) |
| Total metal beverage packaging, Americas & Asia | 767.0 | 711.4 | 2,304.8 | 2,284.3 |
| Metal beverage packaging, Europe | 511.3 | 454.2 | 1,487.9 | 1,259.7 |
| Metal food & household products packaging, Americas | 365.0 | 349.5 | 912.0 | 912.3 |
| Plastic packaging, Americas | 184.1 | 195.0 | 574.0 | 580.3 |
| Aerospace & technologies | 180.8 | 196.4 | 550.0 | 596.9 |
| Net sales | \$ 2,008.2 | \$ 1,906.5 | \$ 5,828.7 | \$ 5,633.5 |
| Net Earnings | | | | |
| Metal beverage packaging, Americas & Asia | \$ 77.0 | \$ 71.2 | \$ 228.4 | \$ 262.2 |
| Business consolidation costs (Note 6) | (0.6) | – | (4.0) | – |
| Legal settlement (Note 5) | – | (85.6) | – | (85.6) |
| Total metal beverage packaging, Americas & Asia | 76.4 | (14.4) | 224.4 | 176.6 |
| Metal beverage packaging, Europe | 76.7 | 74.8 | 201.9 | 197.7 |
| Metal food & household products packaging, Americas | 15.8 | 14.5 | 44.9 | 25.4 |
| Business consolidation costs (Note 6) | (4.5) | – | (4.5) | – |
| Total metal food & household products packaging, Americas | 11.3 | 14.5 | 40.4 | 25.4 |
| Plastic packaging, Americas | 5.3 | 7.7 | 15.8 | 17.1 |
| Business consolidation costs (Note 6) | (4.0) | – | (8.3) | – |
| Total plastic packaging, Americas | 1.3 | 7.7 | 7.5 | 17.1 |
| Aerospace & technologies | 18.4 | 18.3 | 56.0 | 53.5 |
| Gain on sale of subsidiary (Note 4) | – | – | 7.1 | – |
| Total aerospace & technologies | 18.4 | 18.3 | 63.1 | 53.5 |
| Segment earnings before interest and taxes | 184.1 | 100.9 | 537.3 | 470.3 |
| Undistributed corporate expenses, net | (6.3) | (10.0) | (26.7) | (33.7) |
| Business consolidation and other costs (Note 6) | – | – | (3.8) | – |
| Total undistributed corporate expenses, net | (6.3) | (10.0) | (30.5) | (33.7) |
| Earnings before interest and taxes | 177.8 | 90.9 | 506.8 | 436.6 |
| Interest expense | (33.1) | (36.2) | (104.0) | (112.2) |
| Tax provision | (45.8) | 3.1 | (128.4) | (85.9) |
| Minority interests | (0.1) | (0.1) | (0.3) | (0.3) |
| Equity in results of affiliates | 3.1 | 3.2 | 11.6 | 9.8 |
| Net earnings | \$ 101.9 | \$ 60.9 | \$ 285.7 | \$ 248.0 |

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

3. Business Segment Information (continued)

| (\$ in millions) | As of September 28, 2008 | As of December 31, 2007 |
|---|--------------------------------|-------------------------------|
| Total Assets | | |
| Metal beverage packaging, Americas & Asia | \$ 1,574.5 | \$ 1,400.8 |
| Metal beverage packaging, Europe | 2,512.4 | 2,369.3 |
| Metal food & household products packaging, Americas | 1,079.5 | 1,141.7 |
| Plastic packaging, Americas | 547.7 | 568.8 |
| Aerospace & technologies | 275.4 | 278.7 |
| Segment assets | 5,989.5 | 5,759.3 |
| Corporate assets, net of eliminations | 222.2 | 261.3 |
| Total assets | \$ 6,211.7 | \$ 6,020.6 |

The following table provides the 2007 segment net sales and earnings before interest and taxes had the change in segment presentation for Ball's PRC operations occurred as of January 1, 2007:

| (\$ in millions) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total 2007 |
|---|------------------|-------------------|------------------|-------------------|---------------|
| Net Sales | | | | | |
| Metal beverage packaging, Americas & Asia | \$ 701.8 | \$ 871.2 | \$ 711.4(a) | \$ 728.1 | \$ 3,012.5 |
| Metal beverage packaging, Europe | 320.7 | 484.8 | 454.2 | 393.9 | 1,653.6 |
| Earnings Before Interest and Taxes | | | | | |
| Metal beverage packaging, Americas & Asia | 101.9 | 89.1 | (14.4)(a) | 64.2 | 240.8 |
| Metal beverage packaging, Europe | 36.8 | 86.1 | 74.8 | 31.2 | 228.9 |

(a) Amounts were reduced by a pretax legal settlement of \$85.6 million.

4. Sale of Subsidiary

On February 15, 2008, Ball Aerospace & Technologies Corp. completed the sale of its shares in an Australian subsidiary for approximately \$10.5 million, including \$1.8 million of cash sold. After an adjustment for working capital items, the sale resulted in a pretax gain of \$7.1 million (\$4.4 million after tax).

5. Legal Settlement

During the second quarter of 2007, Miller Brewing Company (Miller), a U.S. customer, asserted various claims against a wholly owned subsidiary of the company, primarily related to the pricing of the aluminum component of the containers supplied by the subsidiary, and on October 4, 2007, the dispute was settled in mediation. Miller received \$85.6 million (\$51.8 million after tax) on settlement of the dispute, and Ball retained all of Miller's beverage can and end supply through 2015. Miller received a one-time payment of approximately \$70 million (\$42 million after tax) in January 2008 (recorded on the December 31, 2007, consolidated balance sheet in other current liabilities) with the

remainder of the settlement to be recovered over the life of the supply contract through 2015.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

6. Business Consolidation and Other Costs

Business Consolidation Costs

2008

Metal Beverage Packaging, Americas & Asia

On April 23, 2008, the company announced plans to close a U.S. metal beverage packaging plant in Kent, Washington. The plant had two 12-ounce aluminum beverage can manufacturing lines that produced approximately 1.1 billion cans annually. A pretax charge of \$0.6 million (\$0.4 million after tax) was recorded in the third quarter in addition to the pretax charge of \$10.6 million (\$6.4 million after tax) recorded in the second quarter results related to the closed operations. The charges recorded in 2008 include \$9.2 million for employee severance, pension and other employee benefit costs and \$2 million primarily related to accelerated depreciation and the write down to net realizable value of certain fixed assets and related spare parts and tooling inventory. Cash payments of \$1.9 million were made in the third quarter against the reserves. The plant was shut down during the third quarter of 2008, and all costs, excluding pension costs of \$5.2 million, are expected to be incurred or paid during the balance of 2008 and during 2009.

In the second quarter, a gain of \$7.2 million (\$4.4 million after tax) was recorded for the recovery of previously expensed pension, employee severance and other benefit closure obligation costs no longer required. This reflects a decision made in the second quarter to continue to operate existing end-making equipment and not install a new beverage can end module that would have been part of a multi-year project. Cash payments of \$1.5 million were made in the first nine months of 2008 against the remaining reserves related to the U.S. beverage can end modernization project. The remaining reserves are expected to be utilized in 2008 and 2009 as the multi-year U.S. end modernization project is completed.

Metal Food & Household Products Packaging, Americas

In the third quarter, the company recorded a pretax charge of \$4.5 million (\$2.8 million after tax) for previously announced closed facilities. The charge included \$4.2 million related to lease cancellation costs for the Commerce, California, facility and \$0.3 million for additional environmental cleanup costs related to the sale of the Burlington, Ontario, facility. Cash payments of \$0.2 million were made during the third quarter against the reserves and the remaining reserves are expected to be utilized during the balance of 2008 and during 2009.

Plastic Packaging, Americas

In the second quarter, the company announced plans to close a plastic packaging plant in Brampton, Ontario. The plant manufactured polypropylene bottles for foods and was acquired in 2006 with the company's acquisition of certain North American plastic bottle container assets of Alcan Packaging. The closed operations will be consolidated into the company's other plastic packaging manufacturing facilities in North America. A charge of \$4 million (before and after tax) was recorded during the third quarter in addition to the pretax charge of \$4.3 million (\$3.8 million after tax) recorded in the second quarter results related to the closed operations. The charges recorded in 2008 included \$1.9 million for severance costs, \$2.5 million for lease cancellation costs related to the property and \$3.9 million for accelerated depreciation and the write down of fixed assets to net realizable value. Cash payments of \$0.5 million were made in the first nine months of 2008 against the reserves. The plant was shut down during the third quarter of

2008, and all reserves are expected to be utilized during the balance of 2008 and during 2009.

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Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

6. Business Consolidation and Other Costs (continued)

2007

Metal Food & Household Products Packaging, Americas

In October 2007 the company announced plans to close aerosol and general line can manufacturing facilities in Commerce, California, and Tallapoosa, Georgia, and to exit the custom and decorative tinplate can business located in Baltimore, Maryland. A pretax charge of \$41.9 million (\$25.4 million after tax) was recorded in the fourth quarter in connection with the closure of the aerosol plants, including \$10.7 million for severance costs, \$23 million for the write down of fixed assets to net realizable value, \$2.4 million for excess inventory and \$5.8 million for other associated costs. Cash payments of \$2.9 million were made in the first nine months of 2008 against the reserves. The remaining reserves are expected to be utilized during the balance of 2008 and during 2009. The carrying value of fixed assets remaining for sale in connection with the plant closures was \$5.4 million at September 28, 2008.

2006

Metal Food & Household Products Packaging, Americas

In October 2006 the company announced plans to close the Burlington, Ontario, and Alliance, Ohio, plants as part of the realignment of the metal food and household products packaging, Americas, segment following the acquisition earlier in that year of U.S. Can. Operations have ceased at both plants, and payments of \$1.8 million were made in the first nine months of 2008 against the reserves. The Burlington facility was sold in the third quarter of 2008, and the remaining reserves related to employee costs are expected to be paid during the balance of 2008 and the first quarter of 2009.

Summary

The following table summarizes the 2008 year-to-date activity related to the amounts provided for business consolidation activities:

| (\$ in millions) | Fixed Assets/ Spare Parts | Employee Costs | Other | Total |
|-------------------------------|---------------------------------|-------------------|---------|---------|
| Balance at December 31, 2007 | \$ 7.4 | \$ 16.5 | \$ 5.6 | \$ 29.5 |
| Charges to earnings, net | 5.4 | 3.9 | 7.5 | 16.8 |
| Payments | — | (6.4) | (2.4) | (8.8) |
| Asset dispositions and other | (7.6) | (0.7) | 0.7 | (7.6) |
| Balance at September 28, 2008 | \$ 5.2 | \$ 13.3 | \$ 11.4 | \$ 29.9 |

Other Costs

2008

Corporate

In the second quarter, a pretax charge of \$3.8 million (\$2.3 million after tax) was recorded for estimated costs related to previously closed and sold facilities.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

7. Receivables

| (\$ in millions) | September 28, 2008 | December 31, 2007 |
|--------------------------------|--------------------------|-------------------------|
| Trade accounts receivable, net | \$ 688.5 | \$ 505.4 |
| Other receivables | 85.3 | 77.3 |
| | \$ 773.8 | \$ 582.7 |

Trade accounts receivable are shown net of an allowance for doubtful accounts of \$14.2 million at September 28, 2008, and \$13.2 million at December 31, 2007. Other receivables primarily include non-income tax receivables, such as property tax, sales tax and certain vendor rebate receivables.

A receivables sales agreement provides for the ongoing, revolving sale of a designated pool of trade accounts receivable of Ball's North American packaging operations, up to \$250 million. The agreement qualifies as off-balance sheet financing under the provisions of SFAS No. 140, as amended by SFAS No. 156. Net funds received from the sale of the accounts receivable totaled \$240 million at September 28, 2008, and \$170 million at December 31, 2007, and are reflected as a reduction of accounts receivable in the condensed consolidated balance sheets.

8. Inventories

| (\$ in millions) | September 28, 2008 | December 31, 2007 |
|------------------------------------|--------------------------|----------------------|
| Raw materials and supplies | \$ 413.1 | \$ 433.6 |
| Work in process and finished goods | 587.8 | 564.5 |
| | \$ 1,000.9 | \$ 998.1 |

9. Property, Plant and Equipment

| (\$ in millions) | September 28, 2008 | December 31, 2007 |
|--------------------------|--------------------------|-------------------------|
| Land | \$ 90.5 | \$ 92.2 |
| Buildings | 823.1 | 820.1 |
| Machinery and equipment | 3,028.3 | 2,914.2 |
| Construction in progress | 184.2 | 154.7 |
| | 4,126.1 | 3,981.2 |
| Accumulated depreciation | (2,191.6) | (2,040.0) |
| | \$ 1,934.5 | \$ 1,941.2 |

Property, plant and equipment are stated at historical cost. Depreciation expense amounted to \$69.5 million and \$211.2 million for the three months and nine months ended September 28, 2008, respectively, and \$67.4 million and

\$194.1 million for the three months and nine months ended September 30, 2007, respectively.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

10. Goodwill

| (\$ in millions) | Metal Beverage Packaging, Americas & Asia | Metal Beverage Packaging, Europe | Metal Food & Household Products Packaging, Americas | Plastic Packaging, Americas | Total |
|--|---|---|--|-----------------------------------|------------|
| Balance at December 31, 2007 | \$ 310.1 | \$ 1,084.6 | \$ 354.3 | \$ 114.1 | \$ 1,863.1 |
| Effects of foreign currency exchange rates | - | 1.1 | - | - | 1.1 |
| Balance at September 28, 2008 | \$ 310.1 | \$ 1,085.7 | \$ 354.3 | \$ 114.1 | \$ 1,864.2 |

In accordance with SFAS No. 142, goodwill is not amortized but instead tested annually for impairment. There has been no goodwill impairment since the adoption of SFAS No. 142 on January 1, 2002.

11. Intangibles and Other Assets

| (\$ in millions) | September 28, 2008 | December 31, 2007 |
|---|--------------------------|-------------------------|
| Investments in affiliates | \$ 81.9 | \$ 77.6 |
| Intangibles (net of accumulated amortization of \$106.1 at September 28, 2008, and \$92.9 at December 31, 2007) | 109.0 | 121.9 |
| Company-owned life insurance | 86.1 | 88.9 |
| Noncurrent derivative asset | 52.8 | - |
| Other | 66.4 | 85.0 |
| | \$ 396.2 | \$ 373.4 |

Total amortization expense of intangible assets amounted to \$4.4 million and \$13.5 million for the three months and nine months ended September 28, 2008, respectively, and \$4.4 million and \$12.6 million for the comparable periods in 2007, respectively.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

12. Debt and Interest Costs

Long-term debt consisted of the following:

| (in millions) | September 28, 2008 | | December 31, 2007 | |
|---|----------------------|------------|----------------------|------------|
| | In Local Currency | In U.S. \$ | In Local Currency | In U.S. \$ |
| Notes Payable | | | | |
| 6.875% Senior Notes, due December 2012 (excluding premium of \$2.3 in 2008 and \$2.7 in 2007) | \$ 509.0 | \$ 509.0 | \$ 550.0 | \$ 550.0 |
| 6.625% Senior Notes, due March 2018 (excluding discount of \$0.7 in 2008 and \$0.8 in 2007) | \$ 450.0 | 450.0 | \$ 450.0 | 450.0 |
| Senior Credit Facilities, due October 2011 (at variable rates) | | | | |
| Term A Loan, British sterling denominated | 78.6 | 144.8 | 82.9 | 164.7 |
| Term B Loan, euro denominated | € 323.8 | 473.1 | € 341.3 | 498.2 |
| Term C Loan, Canadian dollar denominated | C\$ 123.6 | 119.7 | C\$ 126.8 | 127.6 |
| Term D Loan, U.S. dollar denominated | \$ 462.5 | 462.5 | \$ 487.5 | 487.5 |
| U.S. dollar multi-currency revolver borrowings | \$ 372.4 | 372.4 | \$ — | — |
| British sterling multi-currency revolver borrowings | 6.4 | 11.7 | 2.1 | 4.2 |
| Industrial Development Revenue Bonds | | | | |
| Floating rates due through 2015 | \$ 13.0 | 13.0 | \$ 13.0 | 13.0 |
| Other | Various | 10.6 | Various | 13.7 |
| | | 2,566.8 | | 2,308.9 |
| Less: Current portion of long-term debt | | (128.8) | | (127.1) |
| | | \$ 2,438.0 | | \$ 2,181.8 |

At September 28, 2008, approximately \$327 million was available under the multi-currency revolving credit facilities, which provide for up to \$735 million in U.S. dollar equivalents. The company also had short-term uncommitted credit facilities of up to \$336 million at September 28, 2008, of which \$92.7 million was outstanding and due on demand.

The notes payable are guaranteed on a full, unconditional and joint and several basis by certain of the company's wholly owned domestic subsidiaries. The notes payable also contain certain covenants and restrictions including, among other things, limits on the incurrence of additional indebtedness and limits on the amount of restricted payments, such as dividends and share repurchases. Exhibit 20 contains unaudited condensed, consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries. Separate financial statements for the guarantor subsidiaries and the non-guarantor subsidiaries are not presented, because management has determined that such financial statements would not be material to investors.

The company was in compliance with all loan agreements at September 28, 2008, and has met all debt payment obligations. The U.S. note agreements, bank credit agreement and industrial development revenue bond agreements contain certain restrictions relating to dividend payments, share repurchases, investments, financial ratios, guarantees and the incurrence of additional indebtedness.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

13. Employee Benefit Obligations

| (\$ in millions) | September 28, 2008 | December 31, 2007 |
|---|--------------------------|-------------------------|
| Total defined benefit pension liability | \$ 386.2 | \$ 406.2 |
| Less current portion | (26.0) | (25.7) |
| Long-term defined benefit pension liability | 360.2 | 380.5 |
| Retiree medical and other postemployment benefits | 180.7 | 193.3 |
| Deferred compensation plans | 184.2 | 185.4 |
| Other | 24.7 | 39.8 |
| | \$ 749.8 | \$ 799.0 |

Components of net periodic benefit cost associated with the company's defined benefit pension plans were:

| (\$ in millions) | Three Months Ended | | | | | |
|------------------------------------|--------------------|---------|---------|--------------------|---------|---------|
| | September 28, 2008 | | | September 30, 2007 | | |
| | U.S. | Foreign | Total | U.S. | Foreign | Total |
| Service cost | \$ 10.7 | \$ 2.3 | \$ 13.0 | \$ 10.3 | \$ 2.3 | \$ 12.6 |
| Interest cost | 12.7 | 8.5 | 21.2 | 11.8 | 7.7 | 19.5 |
| Expected return on plan assets | (15.9) | (4.6) | (20.5) | (13.7) | (4.7) | (18.4) |
| Employee contributions | - | (0.7) | (0.7) | - | - | - |
| Amortization of prior service cost | 0.2 | (0.1) | 0.1 | 0.3 | (0.2) | 0.1 |
| Recognized net actuarial loss | 2.6 | 0.9 | 3.5 | 3.3 | 1.3 | 4.6 |
| Subtotal | 10.3 | 6.3 | 16.6 | 12.0 | 6.4 | 18.4 |
| Non-company sponsored plans | 0.3 | - | 0.3 | 0.3 | - | 0.3 |
| Net periodic benefit cost | \$ 10.6 | \$ 6.3 | \$ 16.9 | \$ 12.3 | \$ 6.4 | \$ 18.7 |

| (\$ in millions) | Nine Months Ended | | | | | |
|------------------------------------|--------------------|---------|---------|--------------------|---------|---------|
| | September 28, 2008 | | | September 30, 2007 | | |
| | U.S. | Foreign | Total | U.S. | Foreign | Total |
| Service cost | \$ 32.2 | \$ 7.0 | \$ 39.2 | \$ 30.7 | \$ 6.6 | \$ 37.3 |
| Interest cost | 38.1 | 25.8 | 63.9 | 35.3 | 22.5 | 57.8 |
| Expected return on plan assets | (47.9) | (14.1) | (62.0) | (40.9) | (13.6) | (54.5) |
| Employee contributions | - | (0.7) | (0.7) | - | - | - |
| Amortization of prior service cost | 0.8 | (0.4) | 0.4 | 0.7 | (0.4) | 0.3 |
| Recognized net actuarial loss | 7.7 | 2.8 | 10.5 | 10.1 | 3.6 | 13.7 |
| Subtotal | 30.9 | 20.4 | 51.3 | 35.9 | 18.7 | 54.6 |
| Non-company sponsored plans | 1.0 | - | 1.0 | 0.9 | 0.1 | 1.0 |

| | | | | | | | | | | | | |
|---------------------------|----|------|----|------|----|------|----|------|----|------|----|------|
| Net periodic benefit cost | \$ | 31.9 | \$ | 20.4 | \$ | 52.3 | \$ | 36.8 | \$ | 18.8 | \$ | 55.6 |
|---------------------------|----|------|----|------|----|------|----|------|----|------|----|------|

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

13. Employee Benefit Obligations (continued)

Contributions to the company's defined global benefit pension plans, not including the unfunded German plans, were \$43.5 million in the first nine months of 2008 (\$58.9 million in 2007). The total contributions to these funded plans are expected to be approximately \$46 million in 2008. Payments to participants in the unfunded German plans were €13.2 million (\$20.1 million) in the first nine months of 2008 and are expected to be approximately €18 million (approximately \$27 million) for the full year.

14. Shareholders' Equity and Comprehensive Earnings

Accumulated Other Comprehensive Earnings

Accumulated other comprehensive earnings include the cumulative effect of foreign currency translation, pension and other postretirement items and realized and unrealized gains and losses on derivative instruments receiving cash flow hedge accounting treatment.

| (\$ in millions) | Foreign Currency Translation | Pension and Other Postretirement Items (net of tax) | Effective Financial Derivatives(a) (net of tax) | Accumulated Other Comprehensive Earnings |
|--------------------|------------------------------------|---|--|---|
| December 31, 2007 | \$ 221.8 | \$ (104.0) | \$ (10.9) | \$ 106.9 |
| Change | 6.8 | 6.1 | 6.0 | 18.9 |
| September 28, 2008 | \$ 228.6 | \$ (97.9) | \$ (4.9) | \$ 125.8 |

(a) Refer to Item 3, "Quantitative and Qualitative Disclosures About Market Risk," for a discussion of the company's use of derivative financial instruments.

Comprehensive Earnings

| (\$ in millions) | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| Net earnings | \$ 101.9 | \$ 60.9 | \$ 285.7 | \$ 248.0 |
| Foreign currency translation adjustment | (88.7) | 39.4 | 6.8 | 56.2 |
| Pension and other postretirement items | 2.1 | 1.5 | 6.1 | 7.0 |
| Effect of derivative instruments | (49.1) | (14.4) | 6.0 | (1.6) |
| Comprehensive earnings | \$ (33.8) | \$ 87.4 | \$ 304.6 | \$ 309.6 |

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Shareholders' Equity and Comprehensive Earnings (continued)

Stock-Based Compensation Programs

The company has shareholder-approved stock option plans under which options to purchase shares of Ball common stock have been granted to officers and employees at the market value of the stock at the date of grant. Payment must be made at the time of exercise in cash or with shares of stock owned by the option holder, which are valued at fair market value on the date exercised. In general, options are exercisable in four equal installments commencing one year from the date of grant and terminating 10 years from the date of grant. A summary of stock option activity for the nine months ended September 28, 2008, follows:

| | Outstanding Options | | Nonvested Options | |
|---------------------------------------|---------------------|----------|-------------------|------------|
| | Number of | Weighted | Number of | Weighted |
| | Shares | Average | Shares | Grant Date |
| | | Exercise | | Fair Value |
| | | Price | | |
| Beginning of year | 4,747,005 | \$ 32.06 | 1,664,980 | \$ 10.88 |
| Granted | 879,000 | 50.11 | 879,000 | 12.82 |
| Vested | | | (552,595) | 10.80 |
| Exercised | (323,045) | 20.06 | | |
| Canceled/forfeited | (58,763) | 45.35 | (58,763) | 10.97 |
| End of period | 5,244,197 | 35.68 | 1,932,622 | 11.78 |
| Vested and exercisable, end of period | 3,311,575 | 28.20 | | |
| Reserved for future grants | 3,663,698 | | | |

The options granted in April 2008 included 384,995 stock-settled stock appreciation rights, which have the same terms as the stock options. The weighted average remaining contractual term for all options outstanding at September 28, 2008, was 6.3 years and the aggregate intrinsic value (difference in exercise price and closing price at that date) was \$37.1 million. The weighted average remaining contractual term for options vested and exercisable at September 28, 2008, was 4.8 years and the aggregate intrinsic value was \$48.2 million. The company received \$1.2 million from options exercised during the three months ended September 28, 2008. The intrinsic value associated with these exercises was \$2.7 million, and the associated tax benefit of \$1.1 million was reported as other financing activities in the condensed consolidated statement of cash flows. During the nine months ended September 28, 2008, the company received \$6.5 million from options exercised. The intrinsic value associated with exercises for that period was \$9.5 million and the associated tax benefit reported as other financing activities was \$3.5 million.

Based on the Black-Scholes option pricing model, adapted for use in valuing compensatory stock options in accordance with SFAS No. 123 (revised 2004), options granted in April 2008 have an estimated weighted average fair value at the date of grant of \$12.82 per share. The actual value an employee may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised. Consequently, there is no assurance that the value realized by an employee will be at or near the value estimated. The fair values were estimated using the following weighted average assumptions:

0.80%

| | |
|---------------------------------|------------|
| Expected dividend yield | |
| Expected stock price volatility | 24.48% |
| Risk-free interest rate | 2.99% |
| Expected life of options | 5.25 years |
| Forfeiture rate | 12.00% |

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Shareholders' Equity and Comprehensive Earnings (continued)

In addition to stock options, the company may issue to officers and certain employees restricted shares and restricted stock units, which vest over various periods. Other than the performance-contingent grants discussed below, such restricted shares and restricted stock units generally vest in equal installments over five years. Compensation cost is recorded based upon the fair value of the shares at the grant date.

To encourage certain senior management employees and outside directors to invest in Ball stock, Ball adopted a deposit share program in March 2001 (subsequently amended and restated in April 2004) that matches purchased shares with restricted shares. In general, restrictions on the matching shares lapse at the end of four years from date of grant, or earlier in stages if established share ownership guidelines are met, assuming the relevant qualifying purchased shares are not sold or transferred prior to that time. Grants under the plan are accounted for as equity awards and compensation expense is recorded based upon the closing market price of the shares at the grant date.

In April 2008 and 2007, the company's board of directors granted 246,650 and 170,000 performance-contingent restricted stock units, respectively, to key employees, which will cliff-vest if the company's return on average invested capital during a 36-month performance period and 33-month performance period, respectively, is equal to or exceeds the company's cost of capital. If the performance goals are not met, the shares will be forfeited. Current assumptions are that the performance targets will be met and, accordingly, grants under the plan are being accounted for as equity awards and compensation expense is recorded based upon the closing market price of the shares at the grant date. On a quarterly basis, the company reassesses the probability of the goals being met and adjusts compensation expense as appropriate. No such adjustment was considered necessary at the end of the third quarter 2008 for either grant.

For the three and nine months ended September 28, 2008, the company recognized in selling, general and administrative expenses pretax expense of \$5.3 million (\$3.2 million after tax) and \$15.3 million (\$9.2 million after tax), respectively, for share-based compensation arrangements, which represented \$0.03 per both basic and diluted share for the third quarter and \$0.10 per basic share and \$0.09 per diluted share for the first nine months. For the three and nine months ended September 30, 2007, the company recognized pretax expense of \$4 million (\$2.4 million after tax) and \$12.3 million (\$7.5 million after tax) for such arrangements, which represented \$0.02 per basic and diluted share and \$0.07 per basic and diluted share, respectively, for those periods. At September 28, 2008, there was \$42.5 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. This cost is expected to be recognized in earnings over a weighted average period of 2.5 years.

Stock Repurchase Agreements

Through the third quarter of 2008, we repurchased \$257.5 million of our common stock, net of issuances, including a \$31 million settlement on January 7, 2008, of a forward contract entered into in December 2007 for the repurchase of 675,000 shares.

Net share repurchases through the third quarter also included the settlement of an accelerated share repurchase agreement entered into in December 2007 to buy \$100 million of the company's common shares. Ball advanced the \$100 million on January 7, 2008, and received 2,038,657 shares, which represented 90 percent of the total shares as calculated using the previous day's closing price. The agreement was settled on July 11, 2008, and the company received an additional 138,521 shares.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Earnings Per Share

| (\$ in millions, except per share amounts; shares in thousands) | Three Months Ended September | | Nine Months Ended | |
|--|---------------------------------|-------------|-----------------------|-----------------------|
| | September 28, 2008 | 30, 2007 | September 28, 2008 | September 30, 2007 |
| Diluted Earnings per Share: | | | | |
| Net earnings | \$ 101.9 | \$ 60.9 | \$ 285.7 | \$ 248.0 |
| Weighted average common shares | 95,368 | 101,422 | 96,491 | 101,691 |
| Effect of dilutive securities | 1,236 | 1,575 | 1,305 | 1,681 |
| Weighted average shares applicable to diluted earnings per share | 96,604 | 102,997 | 97,796 | 103,372 |
| Diluted earnings per share | \$ 1.05 | \$ 0.59 | \$ 2.92 | \$ 2.40 |

Information needed to compute basic earnings per share is provided in the condensed consolidated statements of earnings.

The following outstanding options were excluded from the diluted earnings per share calculation because they were anti-dilutive (i.e., the sum of the proceeds, including the unrecognized compensation, exceeded the average closing stock price for the period):

| Option Price: | Three Months Ended September | | Nine Months Ended September | |
|---------------|---------------------------------|-------------|--------------------------------|-------------|
| | September 28, 2008 | 30, 2007 | September 28, 2008 | 30, 2007 |
| \$ 43.69 | 355,050 | – | – | 89,250 |
| \$ 49.32 | 906,779 | 944,600 | 906,779 | 944,600 |
| \$ 50.11 | 871,600 | – | 871,600 | – |
| | 2,133,429 | 944,600 | 1,778,379 | 1,033,850 |

16. Fair Value of Financial Instruments

Ball adopted SFAS No. 157 effective January 1, 2008, for financial assets and liabilities and for nonfinancial assets and liabilities measured on a recurring basis. As discussed in Note 2, SFAS No. 157 establishes a framework for measuring value and expands disclosures about fair value measurements. Although it does not require any new fair value measurements, the statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). However, it permits a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical expedient. SFAS No. 157 requires that the fair value of a liability include the nonperformance risk (including an

entity's credit risk and other risks such as settlement risk) related to the liability being measured.