BALL CORP
Form 10-Q
August 04, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 27, 2010

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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 June 27, 2010

Common Stock, without par value	91,573,637 shares

Ball Corporation and Subsidiaries
QUARTERLY REPORT ON FORM 10-Q
For the period ended June 27, 2010

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BALL CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

($ in millions, except per share amounts)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Net sales	$2,007.5	$1,744.6	$3,599.8	$3,170.5
Costs and expenses				
Cost of sales (excluding depreciation)	1,643.1	1,436.1	2,961.3	2,610.4
Depreciation and amortization (Notes 9 and 11)	62.4	58.6	125.1	114.4
Selling, general and administrative	77.6	72.9	156.9	141.9
Business consolidation and other activities (Note 6)	2.3	7.2	1.8	12.2
Gain on sale of investment (Note 5)	–	(34.8)	–	(34.8)
	1,785.4	1,540.0	3,245.1	2,844.1
Earnings before interest and taxes	222.1	204.6	354.7	326.4
Interest expense	(36.6)	(24.7)	(70.5)	(50.5)
Debt refinancing costs (Note 12)	(8.1)	–	(8.1)	–
Total interest expense	(44.7)	(24.7)	(78.6)	(50.5)
Earnings before taxes	177.4	179.9	276.1	275.9
Tax provision	(60.8)	(50.0)	(81.7)	(76.6)
Equity in results of affiliates (Note 4)	28.0	5.2	32.7	2.5
Net earnings from continuing operations	144.6	135.1	227.1	201.8
Discontinued operations, net of tax (Note 5)	(75.6)	(1.6)	(78.7)	1.3
Net earnings	69.0	133.5	148.4	203.1
Less net earnings attributable to noncontrolling interests	–	(0.2)	(0.1)	(0.3)
Net earnings attributable to Ball Corporation	$69.0	$133.3	$148.3	$202.8
Amounts attributable to Ball Corporation:				
Continuing operations	$144.6	$134.9	$227.0	$201.5
Discontinued operations	(75.6)	(1.6)	(78.7)	1.3
Net earnings	$69.0	$133.3	$148.3	$202.8
Earnings per share (Note 16):				
Basic – continuing operations	$1.57	$1.44	$2.45	$2.16

Basic – discontinued operations	(0.82)	(0.02)	(0.85)	0.01
Total basic earnings per share	$0.75	$1.42	$1.60	$2.17
Diluted – continuing operations	$1.55	$1.42	$2.42	$2.13
Diluted – discontinued operations	(0.81)	(0.02)	(0.84)	0.01
Total diluted earnings per share	$0.74	$1.40	$1.58	$2.14

See accompanying notes to unaudited condensed consolidated financial statements.

BALL CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

($ in millions)	June 27, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$75.0	$210.6
Receivables, net (Note 7)	1,062.9	534.9
Inventories, net (Note 8)	876.2	881.2
Current derivative contracts (Note 17)	72.4	100.1
Deferred taxes and other current assets	135.8	119.1
Assets held for sale (Note 5)	327.6	416.3
Total current assets	2,549.9	2,262.2
Property, plant and equipment, net (Note 9)	1,656.3	1,751.5
Goodwill (Note 10)	1,887.6	2,008.3
Noncurrent derivative contracts (Note 17)	63.1	80.6
Intangibles and other assets, net (Note 11)	461.4	385.7
Total Assets	$6,618.3	$6,488.3
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt and current portion of long-term debt (Notes 7 and 12)	$550.7	$312.3
Accounts payable	766.4	581.8
Accrued employee costs	190.6	212.0
Current derivative contracts (Note 17)	76.6	83.2
Other current liabilities	227.7	187.8
Liabilities held for sale (Note 5)	68.8	53.1
Total current liabilities	1,880.8	1,430.2
Long-term debt (Note 12)	2,157.1	2,283.9
Employee benefit obligations (Note 13)	981.0	1,013.2
Noncurrent derivative contracts (Note 17)	32.4	48.0
Deferred taxes and other liabilities	120.6	130.0
Total liabilities	5,171.9	4,905.3
Contingencies (Note 18)		
Shareholders' equity (Notes 14 and 15)		
Common stock (162,153,139 shares issued – 2010; 161,513,274 shares issued – 2009)	859.9	830.8
Retained earnings	2,526.9	2,397.1
Accumulated other comprehensive earnings (loss)	(192.7)	(63.8)
Treasury stock, at cost (70,579,502 shares – 2010; 67,492,705 shares – 2009)	(1,749.3)	(1,582.8)
Total Ball Corporation shareholders' equity	1,444.8	1,581.3
Noncontrolling interests	1.6	1.7
Total shareholders' equity	1,446.4	1,583.0

Total Liabilities and Shareholders' Equity	$6,618.3	$6,488.3

See accompanying notes to unaudited condensed consolidated financial statements.

BALL CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
($ in millions)	June 27, 2010	June 28, 2009
Cash Flows from Operating Activities		
Net earnings	$148.4	$203.1
Discontinued operations, net of tax	78.7	(1.3)
Adjustments to reconcile net earnings to net cash used in continuing operating activities:		
Depreciation and amortization	125.1	114.4
Business consolidation and other activities, net of cash payments (Note 6)	1.8	9.8
Gain on sale of investment (Note 5)	–	(34.8)
Deferred taxes	(11.4)	(9.0)
Other, net	21.9	9.1
Changes in working capital components (Note 7)	(355.7)	(330.9)
Cash provided by (used in) continuing operating activities	8.8	(39.6)
Cash provided by discontinued operating activities	21.9	48.8
Total cash provided by operating activities	30.7	9.2
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(69.1)	(91.7)
Acquisition of equity affiliate (Note 4)	(89.2)	–
Cash collateral, net (Note 17)	0.3	54.7
Proceeds from sale of investment (Note 5)	–	37.0
Other, net	(10.5)	(2.6)
Cash used in continuing investing activities	(168.5)	(2.6)
Cash used in discontinued investing activities	(7.4)	(14.5)
Total cash used in investing activities	(175.9)	(17.1)
Cash Flows from Financing Activities		
Long-term borrowings (Note 12)	1,077.4	511.4
Repayments of long-term borrowings	(977.7)	(594.3)
Change in short-term borrowings (Note 7)	81.0	24.9
Proceeds from issuances of common stock	21.8	12.3
Acquisitions of treasury stock	(162.9)	(1.3)
Common dividends	(18.3)	(18.7)
Other, net	(9.3)	2.9
Cash provided by (used in) financing activities	12.0	(62.8)
Effect of exchange rate changes on cash	(2.4)	2.8
Change in cash and cash equivalents	(135.6)	(67.9)
Cash and cash equivalents – beginning of period	210.6	127.4
Cash and cash equivalents – end of period	$75.0	$59.5

See accompanying notes to unaudited condensed consolidated financial statements.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

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. 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 for this presentation.

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 on February 25, 2010, pursuant to Section 13 of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009 (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 to fairly state the results of the interim period.

Certain prior-year amounts have been reclassified in order to conform to the current-year presentation. In addition, amounts in prior periods have been retrospectively adjusted to reflect the divestiture of the plastics packaging, Americas, segment as discontinued operations. Further details of the divestiture are available in Note 5.

2. Accounting Pronouncements

Recently Adopted Accounting Standards

Effective January 1, 2010, Ball adopted accounting guidance that modifies the way entities account for securitizations and special-purpose entities. In connection with the adoption of the guidance, the company determined that its existing accounts receivable securitization program should be recorded on the balance sheet as of January 1, 2010. Further details of this change in accounting are provided in Note 7.

Also effective January 1, 2010, the company adopted additional guidance regarding variable interest entities (VIE). The new guidance requires a company to perform an analysis to determine whether its variable interest or interests give it a controlling financial interest in a VIE and whether it is the primary beneficiary of a VIE. It also amends previous guidance to require ongoing reassessments of whether a company is the primary beneficiary of a VIE. The adoption of the guidance did not change the accounting for VIEs in Ball's consolidated financial statements. The company has a financial interest in a VIE of which Ball is not deemed to be the primary beneficiary. Additionally, the company has financial interests in other entities that are not considered VIEs under the current accounting guidance.

In January 2010, the FASB issued additional guidance regarding fair value measurements, specifically requiring the disclosure of transfers in and out of Level 1 and 2 (previously only required for Level 3 assets and liabilities) and more specific detailed disclosure of the activity in Level 3 fair value measurements (on a gross basis rather than a net basis). The new guidance also clarifies existing disclosure regarding the level of disaggregation of asset and liability classes, as well as the valuation techniques and inputs used to measure fair value for Level 2 and Level 3 fair value measurements. The disclosure requirement for transfers in and out of Level 1 and 2 was effective for Ball in this report and had no impact on the unaudited condensed consolidated financial statements. The reporting of Level 3 activity on a gross basis will be effective for Ball as of January 1, 2011, and is expected to affect only the Level 3 pension plan assets, which do not represent a significant component of the total pension assets.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

2. Accounting Pronouncements (continued)

In February 2010, the FASB issued revised guidance on subsequent events. Under revised guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective upon issuance.

New Accounting Guidance

In July 2010 accounting guidance was issued to enhance disclosures about a company's allowance for doubtful accounts receivable and the credit quality of its financing receivables. In general it amends existing disclosure guidance to require a company to provide a greater level of disaggregated information and to disclose credit quality indicators, past due information and modifications of its financing receivables. The disclosures required at the end of a reporting period will be effective for Ball as of December 31, 2010, and included in the company's annual report. The disclosures about activity occurring during a reporting period will be effective for Ball on a prospective basis as of January 1, 2011. The company is evaluating the impact the guidance will have on its consolidated financial statements.

In April 2010 accounting guidance was issued to outline the criteria that should be met for determining when the milestone method of revenue recognition is appropriate in research or development transactions. The new guidance will be effective as of January 1, 2011. Ball is currently evaluating the impact of the new guidance on its aerospace and technologies segment.

3. Business Segment Information

Effective June 15, 2010, with the announced sale of the company's plastics packaging, Americas, business (discussed in Note 5), segment information has been retrospectively adjusted to reflect this change. Ball's operations are organized and reviewed by management along its product lines and presented in four reportable segments.

Metal beverage packaging, Americas and Asia: Consists of operations in the U.S., Canada and the People's Republic of China (PRC), which manufacture and sell metal beverage containers in North America and the PRC, as well as non-beverage plastic containers in the PRC. The Americas and Asia operations have been aggregated based on similar economic characteristics.

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, aerosol, paint and general line containers, as well as decorative specialty containers.

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.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

3. Business Segment Information (continued)

Summary of Business by Segment

($ in millions)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Net Sales				
Metal beverage packaging, Americas & Asia	$1,036.0	$749.1	$1,810.4	$1,369.5
Metal beverage packaging, Europe	479.3	490.6	846.8	834.4
Metal food & household products packaging, Americas	312.0	323.4	597.4	607.0
Aerospace & technologies	180.2	181.5	345.2	359.6
Net sales	$2,007.5	$1,744.6	$3,599.8	$3,170.5
Net Earnings				
Metal beverage packaging, Americas & Asia	$114.5	$74.8	$188.5	$121.0
Business consolidation activities (Note 6)	0.8	(3.3)	1.3	(8.3)
Total metal beverage packaging, Americas & Asia	115.3	71.5	189.8	112.7
Metal beverage packaging, Europe	72.5	64.8	107.5	95.7
Metal food & household products packaging, Americas	33.4	35.1	55.1	84.7
Aerospace & technologies	18.6	14.8	32.1	29.4
Segment earnings before interest and taxes	239.8	186.2	384.5	322.5
Undistributed corporate expenses, net	(14.6)	(12.4)	(26.7)	(26.9)
Gain on sale of investment (Note 5)	–	34.8	–	34.8
Business consolidation and other activities (Note 6)	(3.1)	(4.0)	(3.1)	(4.0)
Total undistributed corporate expenses, net	(17.7)	18.4	(29.8)	3.9
Earnings before interest and taxes	222.1	204.6	354.7	326.4
Interest expense	(44.7)	(24.7)	(78.6)	(50.5)
Tax provision	(60.8)	(50.0)	(81.7)	(76.6)
Equity in results of affiliates (Note 4)	28.0	5.2	32.7	2.5
Net earnings from continuing operations	144.6	135.1	227.1	201.8
Discontinued operations, net of tax	(75.6)	(1.6)	(78.7)	1.3
Net earnings	69.0	133.5	148.4	203.1
Less net earnings attributable to noncontrolling interests	–	(0.2)	(0.1)	(0.3)
Net earnings attributable to Ball Corporation	$69.0	$133.3	$148.3	$202.8

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

3. Business Segment Information (continued)

Summary of Business by Segment (continued)

($ in millions)	June 27, 2010	December 31, 2009
Total Assets		
Metal beverage packaging, Americas & Asia	$ 2,378.2	$ 2,111.8
Metal beverage packaging, Europe	2,138.3	2,357.9
Metal food & household products packaging, Americas	1,127.0	932.9
Aerospace & technologies	298.1	268.2
Segment assets from continuing operations	5,941.6	5,670.8
Corporate assets, net of eliminations	349.1	401.2
Assets held for sale	327.6	416.3
Total assets	$ 6,618.3	$ 6,488.3

4. Acquisitions

Guangdong Jianlibao Group Co., Ltd (Jianlibao)

On June 15, 2010, the company acquired Jianlibao's 65-percent interest in a joint venture metal beverage can and end plant in Sanshui, PRC. Ball has owned 35 percent of the joint venture plant since 1992. Ball acquired the plant and related assets for $89.2 million in cash (net of cash acquired) and assumed debt and also entered into a long-term supply agreement with Jianlibao and one of its affiliates. The company recorded equity earnings of $22.1 million, which was composed of equity earnings and a gain realized on the fair value of Ball's equity investment as a result of the required purchase accounting, which is still in process. The acquisition of the remaining interest is not significant to the metal beverage packaging, Americas and Asia, segment.

Anheuser-Busch InBev n.v./s.a. (AB InBev)

On October 1, 2009, the company acquired three of AB InBev's beverage can manufacturing plants and one of its beverage can end manufacturing plants, all of which are located in the U.S., for $574.7 million in cash. The additional plants, which employ approximately 635 people, enhance Ball's ability to serve its customers. The following unaudited pro forma consolidated results of operations for the three and six months ended June 28, 2009, have been prepared as if the acquisition had occurred as of January 1, 2009.

($ in millions)	Three Months Ended June 28, 2009	Six Months Ended June 28, 2009
Net sales	$ 1,912.6	$ 3,506.5
Net earnings from continuing operations	138.1	204.8
Basic earnings per share from continuing operations	1.47	2.19
Diluted earnings per share from continuing operations	1.45	2.16

The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisition been in effect for the three and six months ended June 28, 2009, nor are they necessarily indicative of the results that may be obtained in the future. The pro forma adjustments primarily include the after-tax effect of increased interest expense related to incremental borrowings used to finance the acquisition. The adjustments also include the after-tax effects of amortization of the customer relationship intangible asset, inventory step-up adjustment and decreased depreciation expense on plant and equipment based on extended useful lives partially offset by increased fair values.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

5. Dispositions

Plastics Packaging, Americas

On June 15, 2010, the company entered into an agreement to sell its plastics packaging, Americas, business to Amcor Limited. On August 2, 2010, Ball completed the sale of its plastics packaging business and received proceeds of $280 million, including $15 million of contingent consideration recognized at closing. The sale of Ball's plastics packaging business includes five U.S. plants that manufacture polyethylene terephthalate (PET) bottles and preforms and polypropylene bottles, as well as associated customer contracts and other related assets.

Ball's plastics business employed approximately 1,000 people and had sales of $635 million in 2009. The manufacturing plants are located in Ames, Iowa; Batavia, Illinois; Bellevue, Ohio; Chino, California; and Delran, New Jersey; and research and development operations are based in Broomfield and Westminster, Colorado.

The following tables summarize the operating results for, and the assets and liabilities of, the discontinued operations:

($ in millions)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Net sales	$149.3	$181.6	$263.2	$341.3
Earnings from operations	$3.4	$8.7	$1.4	$13.1
Loss on asset impairment	(107.1)	–	(107.1)	–
Loss on business consolidation activities (a)	(4.4)	(11.9)	(7.3)	(11.9)
Tax benefit	32.5	1.6	34.3	0.1
Discontinued operations, net of tax	$(75.6)	$(1.6)	$(78.7)	$1.3

(a) The first quarter of 2010 includes a net charge of $2.2 million to reflect individually insignificant costs and gains related to previously announced plastics plant closures. The second quarter of 2009 includes a charge of $11.9 million related primarily to the closure of plastics packaging manufacturing plants in New York and Wisconsin.

($ in millions)	June 27, 2010	December 31, 2009
Assets:		
Receivables	$ 44.3	$ 13.3
Inventories	59.1	62.9
Property, plant and equipment	188.8	197.5
Goodwill	–	106.5
Other assets	35.4	36.1
Total assets held for sale	$ 327.6	$ 416.3
Liabilities:		
Accounts payable	$ 54.5	$ 41.4

Other liabilities		14.3		11.7
Total liabilities held for sale	$	68.8	$	53.1

Investment in DigitalGlobe Inc. (DigitalGlobe)

In May 2009 the company sold 75 percent of its investment in DigitalGlobe, a provider of commercial high resolution earth imagery products and services, in conjunction with DigitalGlobe's initial public offering. The sale generated proceeds of $37.0 million and a non-operating pretax gain of $34.8 million ($30.7 million after tax). The remaining investment in DigitalGlobe, classified as an other long-term asset, has been accounted for as a marketable equity investment and, as such, is marked to market, with the unrealized gain being held in accumulated other comprehensive earnings (loss). (See Note 14.)

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

6. Business Consolidation Activities

2010

Metal Beverage Packaging, Americas and Asia

Net earnings of $0.5 million ($0.3 million after tax) and $0.8 million ($0.5 million after tax) were recorded in the first and second quarters of 2010, respectively, primarily to reflect individually insignificant costs and gains related to previously announced plant closures.

Corporate and Other Costs

In the second quarter, charges of $3.1 million ($1.9 million after tax) were recorded primarily to establish a reserve associated with an environmental matter at a previously owned facility.

2009

Metal Beverage Packaging, Americas and Asia

In the second quarter of 2009, a charge of $3.3 million ($2 million after tax) was taken for severance and other employee benefits related to a reduction of personnel in the plants and headquarters of the Americas portion of this segment. In the first quarter of 2009, a charge of $5 million ($3.1 million after tax) was taken related to accelerated depreciation for operations that ceased in the quarter at the company's Kansas City plant.

Corporate and Other Costs

A pretax charge of $2.9 million ($1.8 million after tax) was recorded in the second quarter of 2009 for transaction costs required to be expensed for the October 1, 2009, acquisition of four plants from AB InBev. (See Note 4.) In addition, a $1.0 million pretax charge ($0.6 million after tax) was taken in the second quarter related to previously closed and sold facilities.

Following is a summary of activity by segment related to business consolidation activities for the six months ended June 27, 2010:

($ in millions)	Metal Beverage Packaging, Americas & Asia	Metal Food & Household Products Packaging, Americas	Corporate and Other Costs	Total
Balance at December 31, 2009	$10.4	$7.3	$10.2	$27.9
Charges (gains) in continuing operations	(1.3)	–	3.1	1.8
Charges in discontinued operations	–	–	2.4	2.4
Cash payments and other activity	(0.8)	(0.8)	(3.9)	(5.5)

Balance at June 27, 2010	$8.3	$6.5	$11.8	$26.6

All remaining reserves for business consolidation activities are expected to be utilized during the balance of 2010. The carrying value of fixed assets remaining for sale in connection with previous plant closures was approximately $5.3 million at June 27, 2010.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

7. Receivables

($ in millions)	June 27, 2010	December 31, 2009
Trade accounts receivable, net	$987.6	$439.9
Other receivables	75.3	95.0
	$1,062.9	$534.9

Trade accounts receivable are shown net of an allowance for doubtful accounts of $12.0 million at June 27, 2010, and $13.6 million at December 31, 2009. Other receivables primarily include property and sales tax receivables 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. At December 31, 2009, the amount of accounts receivable sold under the securitization program was $250 million and, under the previous accounting guidance, this amount was presented in the consolidated balance sheet as a reduction of accounts receivable as a result of the true sale of receivables. However, upon the company's adoption of new prospective accounting guidance effective January 1, 2010, the amount of accounts receivable sold is not reflected as a reduction of accounts receivable on the balance sheet at June 27, 2010, resulting in a $250 million increase in accounts receivable as compared to December 31, 2009, as well as a corresponding working capital outflow from operating activities in the statement of cash flows. There was $60.0 million of accounts receivable sold to the conduit under the securitization program at June 27, 2010, which has been presented as an increase in short-term debt in the balance sheet and in the financing activities section of the statement of cash flows.

8. Inventories

($ in millions)	June 27, 2010	December 31, 2009
Raw materials and supplies	$337.3	$ 426.2
Work in process and finished goods	538.9	455.0
	$876.2	$ 881.2

In the fourth quarter of 2009, the company identified that ending inventory was not properly valued in its metal beverage packaging, Americas and Asia, segment. An adjustment was required in the normal inventory review process to properly value ending inventory, and an evaluation of the inventory valuation process was performed. This evaluation indicated that under the historic method used to value inventory in this segment, including determining appropriate deferred variances, the quarterly estimates of the deferred pricing variances did not adequately consider the impact of extreme price volatility and inventory turnover in ending inventories. Ball has modified its controls for capitalization of inventory variances. The modifications include a more timely review of variance calculations and a detailed metal price analysis. Additionally, the calculation methodology was modified to more accurately take into account the fluctuations in the London Metal Exchange (LME) pricing and inventory balances.

As a result of the evaluation, a cumulative $15.9 million pretax out-of-period adjustment was recorded in cost of sales in the fourth quarter of 2009, which should have impacted the prior three quarters of 2009 and the fourth quarter of

2008. Had the inventory been valued under the revised method, pretax earnings in the second quarter of 2009 would have been lower by $13.9 million ($8.5 million after tax and $0.09 per diluted share) and year-to-date pretax earnings would have been lower by $16.1 million ($9.8 million after tax and $0.10 per diluted share). Management has assessed the impact of these adjustments and does not believe these amounts were quantitatively or qualitatively material, individually or in the aggregate, to any previously issued financial statements or to the full-year results of operations for 2009.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

9. Property, Plant and Equipment

($ in millions)	June 27, 2010	December 31, 2009
Land	$82.9	$86.3
Buildings	779.0	788.2
Machinery and equipment	2,652.5	2,675.1
Construction in progress	119.0	132.7
	3,633.4	3,682.3
Accumulated depreciation	(1,977.1)	(1,930.8)
	$1,656.3	$1,751.5

Property, plant and equipment are stated at historical cost. Depreciation expense amounted to $59.7 million and $119.7 million for the three and six months ended June 27, 2010, respectively, and $55.0 million and $107.5 million for the comparable periods in 2009, respectively.

10. Goodwill

($ in millions)	Metal Beverage Packaging, Americas & Asia	Metal Beverage Packaging, Europe	Metal Food & Household Products Packaging, Americas	Total
Balance at December 31, 2009	$588.8	$1,065.9	$353.6	$2,008.3
Acquisition of equity affiliate (Note 4)	28.7	–	–	28.7
Effects of foreign currency exchange rates	–	(149.4)	–	(149.4)
Balance at June 27, 2010	$617.5	$916.5	$353.6	$1,887.6

Ball's policy is to perform its annual goodwill impairment testing in the fourth quarter of each year, as well as on an interim basis when circumstances dictate. As a result of the announced sale of the plastics packaging, Americas, segment Ball determined that an update of the goodwill impairment testing was necessary for that segment. Based on the agreed upon contractual sales price and the net book value of the segment it was determined that an impairment charge of $107.1 million ($75.2 million after tax) was necessary during the second quarter of 2010. The impairment charge included impairment of both plastics packaging goodwill ($106.5 million) and long-lived assets ($0.6 million). The impairment charge was included in the discontinued operations line item of the statement of earnings for the three and six months ended June 27, 2010.

11. Intangibles and Other Assets

($ in millions)	June 27, 2010	December 31,

		2009
Investments in affiliates	$97.4	$86.2
Intangible assets (net of accumulated amortization of $100.7 at June 27, 2010, and $105.8 at December 31, 2009)	105.1	94.6
Company-owned life insurance	110.9	111.0
Long-term deferred tax assets	80.9	29.0
Other	67.1	64.9
	$461.4	$385.7

Total amortization expense of intangible assets amounted to $2.7 million and $5.4 million for the three months and six months ended June 27, 2010, respectively, and $3.6 million and $6.9 million for the comparable periods in 2009, respectively.

Ball Corporation
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12. Debt

Long-term debt consisted of the following:

	June 27, 2010		December 31, 2009	
(in millions)	In Local Currency	In U.S. $	In Local Currency	In U.S. $
Notes Payable				
6.625% Senior Notes, due March 2018 (excluding discount of $0.6 in 2010 and $0.6 in 2009)	$ 450.0	$ 450.0	$ 450.0	$ 450.0
7.125% Senior Notes, due September 2016 (excluding discount of $6.7 in 2010 and $7.2 in 2009)	$ 375.0	375.0	$ 375.0	375.0
7.375% Senior Notes, due September 2019 (excluding discount of $7.7 in 2010 and $8.1 in 2009)	$ 325.0	325.0	$ 325.0	325.0
6.75% Senior Notes, due September 2020	$ 500.0	500.0	–	–
6.875% Senior Notes, due December 2012 (excluding premium of $1.3 in 2009)	$ –	–	$ 509.0	509.0
Senior Credit Facilities, due October 2011 (at variable rates)				
Term A Loan, British sterling denominated	59.5	89.0	63.8	101.5
Term B Loan, euro denominated	€ 227.5	280.4	€ 227.5	326.1
Term C Loan, Canadian dollar denominated	C$ 112.4	108.1	C$ 114.0	108.6
Term D Loan, U.S. dollar denominated	$ 300.0	300.0	$ 300.0	300.0
U.S. dollar multi-currency revolver borrowings	$ 62.3	62.3	$ 2.3	2.3
Euro multi-currency revolver borrowings	€ 19.4	23.9	€ –	–
British sterling multi-currency revolver borrowings	25.0	37.3	20.9	33.3
Industrial Development Revenue Bonds				
Floating rates due through 2015	$ 9.4	9.4	$ 9.4	9.4
Other (including discounts and premiums)	Various	8.7	Various	(7.5)
		2,569.1		2,532.7
Less: Current portion of long-term debt		(412.0)		(248.8)
		$ 2,157.1		$ 2,283.9

On March 22, 2010, Ball issued $500 million of new 6.75 percent senior notes due in September 2020. On that same date, the company issued a notice of redemption to call $509 million of 6.875 percent senior notes due December 2012 at a redemption price of 101.146 percent of the outstanding principal amount plus accrued interest. The redemption of these bonds occurred on April 21, 2010, and resulted in a charge of $8.1 million ($4.9 million after tax) for the call premium and the write off of unamortized financing costs and unamortized premiums. The charge is included as a component of interest expense in the consolidated financial statements.

As permitted, the company’s long-term debt is not carried in the company’s consolidated financial statements at fair value. The fair value of the long-term debt was estimated to be $2.61 billion at June 27, 2010, which approximated its carrying value of $2.57 billion. The fair value was $2.54 billion at December 31, 2009, which approximated its then carrying value of $2.53 billion. The fair value reflects the market rates at each period end for debt with credit ratings similar to the company’s ratings. Rates currently available to the company for loans with similar terms and maturities are used to estimate the fair value of long-term debt based on discounted cash flows.

At June 27, 2010, taking into account outstanding letters of credit, the company had approximately $575 million available for borrowing under the multi-currency revolving credit facilities that provide for up to $735 million in U.S. dollar equivalent borrowings. The company’s PRC operations also had approximately $30 million available under a committed credit facility of approximately $50 million. In addition to the long-term committed credit facilities, the company had short-term uncommitted credit facilities of up to $316 million at June 27, 2010, of which $78.7 million was outstanding and due on demand, as well as approximately $180 million of available borrowings under its accounts receivable securitization program.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

12. Debt (continued)

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.

The company was in compliance with all loan agreements at June 27, 2010, and all prior periods presented and has met all debt payment obligations. The U.S. note agreements, bank credit agreements 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.

13. Employee Benefit Obligations

($ in millions)	June 27, 2010	December 31, 2009
Total defined benefit pension liability	$561.0	$603.7
Less current portion	(21.2)	(26.1)
Long-term defined benefit pension liability	539.8	577.6
Retiree medical and other postemployment benefits	194.4	193.0
Deferred compensation plans	202.5	199.9
Other	44.3	42.7
	$981.0	$1,013.2

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

	Three Months Ended					
	June 27, 2010			June 28, 2009		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Service cost	$11.1	$1.8	$12.9	$10.5	$1.3	$11.8
Interest cost	14.1	7.2	21.3	13.4	7.4	20.8
Expected return on plan assets	(17.0)	(3.7)	(20.7)	(15.9)	(3.4)	(19.3)
Amortization of prior service cost	0.4	(0.1)	0.3	0.2	(0.1)	0.1
Recognized net actuarial loss	4.3	1.2	5.5	3.1	0.9	4.0
Subtotal	12.9	6.4	19.3	11.3	6.1	17.4
Non-company sponsored plans	0.4	–	0.4	0.4	–	0.4
Net periodic benefit cost	$13.3	$6.4	$19.7	$11.7	$6.1	$17.8

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

13. Employee Benefit Obligations (continued)

	Six Months Ended					
	June 27, 2010			June 28, 2009		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Service cost	$22.2	$3.6	$25.8	$21.0	$2.7	$23.7
Interest cost	28.3	14.7	43.0	26.8	14.5	41.3
Expected return on plan assets	(34.0)	(7.4)	(41.4)	(31.9)	(6.6)	(38.5)
Amortization of prior service cost	0.7	(0.2)	0.5	0.4	(0.2)	0.2
Recognized net actuarial loss	8.6	2.4	11.0	6.2	1.7	7.9
Subtotal	25.8	13.1	38.9	22.5	12.1	34.6
Non-company sponsored plans	0.8	–	0.8	0.8	–	0.8
Net periodic benefit cost	$26.6	$13.1	$39.7	$23.3	$12.1	$35.4

Contributions to the company's defined global benefit pension plans, not including the unfunded German plans, were $7.9 million in the first six months of 2010 ($18.4 million in the same period of 2009). The total contributions to these funded plans are expected to be approximately $55 million in 2010. Payments to participants in the unfunded German plans were $11.6 million (€8.7 million) in the first six months of 2010 and are expected to be approximately $23 million (approximately €18 million) for the full year. Actual contributions to the plans may be adjusted based on changes in market conditions.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

14. Shareholders' Equity and Comprehensive Earnings

Accumulated Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) 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 Derivatives (net of tax)		Gain on Available for Sale Securities (net of tax)	Accumulated Other Comprehensive Earnings (Loss)
December 31, 2008	$173.6	$ (251.8)	$(104.3)		$–	$ (182.5)
Change	(18.9)	4.8	17.3	(a)	8.0	11.2
June 28, 2009	$154.7	$ (247.0)	$(87.0)		$8.0	$ (171.3)
December 31, 2009	$180.2	$ (274.4)	$23.4		$7.0	$ (63.8)
Change	(138.4)	6.8	1.3	(a)	1.4	(128.9)
June 27, 2010	$41.8	$ (267.6)	$24.7		$8.4	$ (192.7)

(a) The change in accumulated other comprehensive earnings (loss) for effective derivatives was as follows:

($ in millions)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Amounts reclassified into earnings (Note 17):				
Commodity contracts	$(2.9)	$29.5	$12.5	$42.5
Interest rate and foreign currency contracts	1.6	1.9	3.3	3.5
Change in fair value of cash flow hedges:				
Commodity contracts	(22.6)	6.2	0.2	(12.2)
Interest rate and foreign currency contracts	(5.8)	(4.5)	(7.0)	(6.7)
Foreign currency and tax impacts	6.1	(11.6)	(7.7)	(9.8)
	$(23.6)	$21.5	$1.3	$17.3

Comprehensive Earnings

($ in millions)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Net earnings attributable to Ball Corporation	$69.0	$133.3	$148.3	$202.8

Foreign currency translation adjustment	(80.9)	28.8	(138.4)	(18.9)
Pension and other postretirement items, net of tax	4.1	2.4	6.8	4.8
Effect of derivative instruments, net of tax	(23.6)	21.5	1.3	17.3
Gain on available for sale securities, net of tax	–	8.0	1.4	8.0
Comprehensive earnings	$(31.4)	$194.0	$19.4	$214.0

Stock Repurchases

On February 17, 2010, in a privately negotiated transaction, Ball entered into an accelerated share repurchase agreement to buy $125.0 million of its common shares using cash on hand and available borrowings. The company advanced the $125.0 million on February 22, 2010, and received 2,161,799 shares, which represented 90 percent of the total shares as calculated using the previous day’s closing price. The agreement was settled on May 20, 2010, and the company received an additional 199,103 shares.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

14. Shareholders' Equity and Comprehensive Earnings (continued)

In addition to the share repurchases made under the accelerated share repurchase agreement, the company repurchased a total of $37.9 million of Ball common stock during the six months ended June 27, 2010. From June 28, 2010, through July 30, 2010, Ball repurchased an additional $118.3 million.

15. 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 vest in four equal one-year 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 six months ended June 27, 2010, follows:

	Outstanding Options		Nonvested Options	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant Date Fair Value
Beginning of year	5,814,188	$37.92	2,470,267	$11.28
Granted	968,350	50.45	968,350	13.68
Vested	–		(365,666)	10.72
Exercised	562,830	25.76		
Canceled/forfeited	(86,502)	45.23	(86,502)	11.35
End of period	6,133,206	40.91	2,986,449	12.13
Vested and exercisable, end of period	3,146,757	35.29		
Reserved for future grants	4,444,357			

The options granted in January 2010 included 506,700 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 June 27, 2010, was 6.5 years and the aggregate intrinsic value (difference in exercise price and closing price at that date) was $80.3 million. The weighted average remaining contractual term for options vested and exercisable at June 27, 2010, was 4.7 years and the aggregate intrinsic value was $58.9 million.

The company received $7.5 million from options exercised during the three months ended June 27, 2010. The intrinsic value associated with these exercises was $9.3 million, and the associated tax benefit of $3.3 million was reported as other financing activities in the unaudited condensed consolidated statement of cash flows. During the six months ended June 27, 2010, the company received $14.5 million from options exercised. The intrinsic value associated with exercises for that period was $15.3 million, and the associated tax benefit of $5.0 million was reported as other financing activities in the unaudited condensed consolidated statement of cash flows.

Based on the Black-Scholes option pricing model, options granted in January 2010 have an estimated weighted average fair value at the date of grant of $13.68 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:

Expected dividend yield	0.79%
Expected stock price volatility	28.99%
Risk-free interest rate	2.47%
Expected life of options	4.9 years

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

15. Stock-Based Compensation Programs (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.

In January 2010 and 2009, the company's board of directors granted 181,150 and 193,450 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 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 first or second quarter of 2010 for either grant.

For the three and six months ended June 27, 2010, the company recognized in selling, general and administrative expenses pretax expense of $6.5 million ($4.0 million after tax) and $13.8 million ($8.4 million after tax) for share-based compensation arrangements, respectively. For the three and six months ended June 28, 2009, the company recognized pretax expense of $6.7 million ($4.0 million after tax) and $12.9 million ($7.8 million after tax) for such arrangements, respectively. At June 27, 2010, there was $46.6 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.

16. Earnings and Dividends Per Share

($ in millions, except per share amounts; shares in thousands)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Net earnings attributable to Ball Corporation	$69.0	$133.3	$148.3	$202.8
Basic weighted average common shares	92,100	93,763	92,566	93,655
Effect of dilutive securities	1,359	1,218	1,350	1,174
Weighted average shares applicable to diluted earnings per share	93,459	94,981	93,916	94,829
Basic earnings per share	$0.75	$1.42	$1.60	$2.17
Diluted earnings per share	$0.74	$1.40	$1.58	$2.14

Certain 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). The options excluded totaled 1,642,520 in both the three and six months ended June 27, 2010; and 2,167,874 and 2,521,749 in the three and six months ended June 28, 2009, respectively.

The company declared and paid dividends of $0.10 in the second quarters of both 2010 and 2009 and $0.20 in the first six months of each year.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

17. Financial Instruments and Risk Management

In the ordinary course of business, Ball employs established risk management policies and procedures, which seek to reduce the company's exposure to fluctuations in commodity prices, interest rates, foreign currencies and prices of Ball common stock in regard to common share repurchases, although there can be no assurance that these policies and procedures will be successful. Although the instruments utilized involve varying degrees of credit, market and interest risk, the counterparties to the agreements are expected to perform fully under the terms of the agreements. The company monitors counterparty credit risk, including lenders, on a regular basis, but Ball cannot be certain that all risks will be discerned or that its risk management policies and procedures will always be effective.

Commodity Price Risk

Ball's metal beverage container operations manage commodity price risk in connection with market price fluctuations of aluminum ingot through two different methods. First, the company enters into container sales contracts that include aluminum ingot-based pricing terms that generally reflect price fluctuations under our commercial supply contracts for aluminum sheet purchases. The terms include fixed, floating or pass-through aluminum ingot component pricing. This matched pricing affects the majority of Ball's North American metal beverage packaging net sales. Second, Ball uses certain derivative instruments such as option and forward contracts as cash flow hedges of commodity price risk where there is not a pass-through arrangement in the sales contract to match underlying purchase volumes and pricing with sales volumes and pricing.

Most metal food and household products packaging, Americas, sales contracts either include provisions permitting Ball to pass through some or all steel cost changes incurred, or they incorporate annually negotiated steel costs.

The company had aluminum contracts limiting its aluminum exposure with notional amounts of approximately $0.9 billion and $1.1 billion at June 27, 2010, and December 31, 2009, respectively. The aluminum contracts include derivative instruments that are undesignated and receive mark-to-market accounting treatment, as well as cash flow hedges that offset sales contracts of various terms and lengths. Cash flow hedges relate to forecasted purchase and sales transactions that expire within the next four years. Included in shareholders' equity at June 27, 2010, within accumulated other comprehensive earnings (loss) is a net after-tax gain of $30.6 million associated with these contracts. A net gain of $12.9 million is expected to be recognized in the consolidated statement of earnings during the next 12 months, the majority of which will be offset by pricing changes in sales and purchase contracts, thus resulting in little or no earnings impact to Ball.

Interest Rate Risk

Ball's objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, Ball uses a variety of interest rate swaps, collars and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at June 27, 2010, included pay-fixed interest rate swaps. Pay-fixed swaps effectively convert variable rate obligations to fixed rate instruments.

At June 27, 2010, the company had outstanding interest rate swap agreements in Europe with notional amounts of $166 million (€135 million) paying fixed rates expiring within the next 12 months. An approximate $2.7 million net after-tax loss associated with these contracts is included in accumulated other comprehensive earnings at June 27, 2010, the majority of which is expected to be recognized in the consolidated statement of earnings during the next 12 months. Approximately $1.2 million of net gain related to the termination or dedesignation of hedges is included in accumulated other comprehensive earnings at June 27, 2010. The amount recognized in earnings in the second quarter and first six months of both 2010 and 2009 related to the dedesignation of hedges was insignificant.

The fair value of derivatives generally reflects the estimated amounts that we would pay or receive upon termination of the contracts at the period end, taking into account any unrealized gains and losses on open contracts. The unrealized pretax loss on interest rate derivative contracts was $3.8 million at June 27, 2010, and $7.3 million at December 31, 2009.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

17. Financial Instruments and Risk Management (continued)

Inflation Risk

Ball also uses inflation option contracts in Europe to limit the impacts from spikes in inflation against certain multi-year contracts. At June 27, 2010, the company had inflation options in Europe with notional amounts of $142 million (€115 million). These options are undesignated for hedge accounting purposes and receive mark-to-market accounting. The fair value at June 27, 2010, was $0.9 million (€0.7 million) and the option contracts expire within the next three years.

Foreign Currency Exchange Rate Risk

Ball's objective in managing exposure to foreign currency fluctuations is to protect foreign cash flows and earnings from changes associated with foreign currency exchange rate changes through the use of various derivative contracts. In addition, at times Ball manages foreign earnings translation volatility through the use of foreign currency option strategies, and the change in the fair value of those options is recorded in the company's net earnings. Ball's foreign currency translation risk results from the European euro, British pound, Canadian dollar, Polish zloty, Chinese renminbi, Hong Kong dollar, Brazilian real, Argentine peso and Serbian dinar. Ball faces currency exposures in our global operations as a result of purchasing raw materials in U.S. dollars and, to a lesser extent, in other currencies. Sales contracts are negotiated with customers to reflect cost changes and, where there is not a foreign exchange pass-through arrangement, the company uses forward and option contracts to manage foreign currency exposures. At June 27, 2010, the company had outstanding foreign exchange forward contracts and option collar contracts with notional amounts totaling $410.5 million. Approximately $4.3 million of net loss related to these contracts is included in accumulated other comprehensive earnings at June 27, 2010, of which a net after-tax loss of $2.0 million is expected to be recognized in the consolidated statement of earnings during the next 12 months. The contracts outstanding at June 27, 2010, expire within the next 36 months.

Collateral Calls

The company's agreements with its financial counterparties require Ball to post collateral in certain circumstances when the negative mark-to-market value of the contracts exceeds specified levels. Additionally, Ball has collateral posting arrangements with certain customers on these derivative contracts. The cash flows of the margin calls are shown within the investing section of the company's unaudited condensed consolidated statements of cash flows. As of June 27, 2010, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $83.4 million collateralized by $11.3 million, which was offset by cash collateral receipts from customers of $11.5 million. As of December 31, 2009, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $98.8 million collateralized by $14.2 million, which was offset by cash collateral receipts from customers of $14.2 million. If the company's public credit rating was downgraded, there would be a net increase of $16.4 million to our net cash collateral postings as of June 27, 2010.

Fair Value Measurements

The company has classified all applicable financial derivative assets and liabilities as Level 2 within the fair value hierarchy as of June 27, 2010, and presented those values in the table below. The company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

17. Financial Instruments and Risk Management (continued)

Fair Value of Derivative Instruments as of June 27, 2010

($ in millions)	Derivatives Designated As Hedging Instruments	Derivatives Not Designated As Hedging Instruments	Total
Assets:			
Commodity contracts	$ 14.5	$ 56.9	$71.4
Other derivative contracts	0.1	0.9	1.0
Total current derivative contracts	$ 14.6	$ 57.8	$72.4
Noncurrent commodity contracts	$ 38.0	$ 24.2	$62.2
Other noncurrent contracts	–	0.9	0.9
Total noncurrent derivative contracts	$ 38.0	$ 25.1	$63.1
Liabilities:			
Commodity contracts	$ 11.0	$ 57.3	$68.3
Other derivative contracts	7.6	0.7	8.3
Total current derivative contracts	$ 18.6	$ 58.0	$76.6
Noncurrent commodity contracts	$ 6.0	$ 24.2	$30.2
Other noncurrent contracts	2.2	–	2.2
Total noncurrent derivative contracts	$ 8.2	$ 24.2	$32.4

Fair Value of Derivative Instruments as of December 31, 2009

($ in millions)	Derivatives Designated As Hedging Instruments	Derivatives Not Designated As Hedging Instruments	Total
Assets:			
Commodity contracts	$ 36.2	$ 51.7	$87.9
Other derivative contracts	0.1	12.1	12.2
Total current derivative contracts	$ 36.3	$ 63.8	$100.1
Noncurrent commodity contracts	$ 40.1	$ 39.1	$79.2
Other noncurrent contracts	–	1.4	1.4
Total noncurrent derivative contracts	$ 40.1	$ 40.5	$80.6

Liabilities:			
Commodity contracts	$ 27.5	$ 51.9	$79.4
Other derivative contracts	0.6	3.2	3.8
Total current derivative contracts	$ 28.1	$ 55.1	$83.2
Noncurrent commodity contracts	$ 1.9	$ 38.9	$40.8
Other noncurrent contracts	7.2	–	7.2
Total noncurrent derivative contracts	$ 9.1	$ 38.9	$48.0

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

17. Financial Instruments and Risk Management (continued)

The company uses closing spot and forward market prices as published by the London Metal Exchange, the New York Mercantile Exchange, Reuters and Bloomberg to determine the fair value of its aluminum, currency, energy, inflation and interest rate spot and forward contracts. Option contracts are valued using a Black-Scholes model with observable market inputs for aluminum, currency and interest rates. We do not obtain multiple quotes to determine the value for our financial instruments, as we value each of our financial instruments either internally using a single valuation technique or from a reliable observable market source. The company also does not adjust the value of its financial instruments except in determining the fair value of a trade that settles in the future by discounting the value to its present value using 12-month LIBOR as the discount factor. Ball performs validations of our internally derived fair values reported for our financial instruments on a quarterly basis utilizing counterparty valuation statements. The company additionally evaluates counterparty creditworthiness and, as of June 27, 2010, has not identified any circumstances requiring that the reported values of our financial instruments be adjusted.

The company’s investment in shares of DigitalGlobe was measured using Level 1 inputs and amounted to $19.3 million at June 27, 2010, and $16.9 million at December 31, 2009. Additionally, net receivables related to the European scrap metal program totaling $14.0 million at June 27, 2010, and $11.2 million at December 31, 2009, were classified as Level 2 within the fair value hierarchy.

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17. Financial Instruments and Risk Management (continued)

Impact on Earnings from Derivative Instruments

($ in millions)	Three Months Ended June 27, 2010 Cash Flow Hedge – Reclassified Amount From Other Comprehensive Earnings (Loss) – Gain (Loss)	Three Months Ended June 27, 2010 Gain (Loss) on Derivatives Not Designated As Hedge Instruments	Three Months Ended June 28, 2009 Cash Flow Hedge – Reclassified Amount From Other Comprehensive Earnings (Loss) – Gain (Loss)	Three Months Ended June 28, 2009 Gain (Loss) on Derivatives Not Designated As Hedge Instruments
Commodity contracts (a)	$ 2.9	$ 1.2	$ (29.5)	$ (0.2)
Interest rate contracts (b)	(1.2)	–	(1.9)	–
Inflation option contracts (c)	–	(0.3)	–	(0.3)
Equity contracts (d)	–	–	–	1.0
Other contracts (d)	(0.4)	1.1	–	(3.9)
Total	$ 1.3	$ 2.0	$ (31.4)	$ (3.4)

($ in millions)	Six Months Ended June 27, 2010 Cash Flow Hedge – Reclassified Amount From Other Comprehensive Earnings (Loss) – Gain (Loss)	Six Months Ended June 27, 2010 Gain (Loss) on Derivatives Not Designated As Hedge Instruments	Six Months Ended June 28, 2009 Cash Flow Hedge – Reclassified Amount From Other Comprehensive Earnings (Loss) – Gain (Loss)	Six Months Ended June 28, 2009 Gain (Loss) on Derivatives Not Designated As Hedge Instruments
Commodity contracts (a)	$ (12.5)	$ 1.5	$ (42.5)	$ (0.9)
Interest rate contracts (b)	(2.6)	–	(3.5)	–
Inflation option contracts (c)	–	(0.4)	–	0.7
Equity contracts (d)	–	–	–	2.6
Other contracts (d)	(0.7)	2.9	–	0.4
Total	$ (15.8)	$ 4.0	$ (46.0)	$ 2.8

(a) Gains and losses on commodity contracts are recorded in sales and cost of sales in the statement of earnings. Virtually all these expenses were passed through to our customers, resulting in no significant impact to earnings.

(b) Losses on interest contracts are recorded in interest expense in the statement of earnings.
(c) Gains and losses on inflation options are recorded in cost of sales in the statement of earnings.
(d) Gains and losses on foreign currency contracts to hedge sales of product are recorded in cost of sales. Gains and losses on foreign currency hedges used for translation between segments are reflected in selling, general and administrative expenses in the consolidated statement of earnings.

Ball Corporation
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18. Contingencies

From time to time, the company is subject to routine litigation incident to its businesses. Additionally, the U.S. Environmental Protection Agency and equivalent agencies in other countries have designated Ball as a potentially responsible party, along with numerous other companies, for the cleanup of several hazardous waste sites. Our information at this time does not indicate that the matters identified will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

On or about February 19, 2010, the company's Canadian subsidiary, Ball Packaging Products Canada Corp. (Ball Canada), was advised by the Ontario Ministry of the Environment (the Ministry) that the Ministry would post, for public comment, a proposed Order under the Environmental Protection Act. The proposed Order would require Ball Canada to remediate areas which were allegedly contaminated by its predecessor company, Marathon Paper Mills of Canada Limited. That company operated a pulp mill on the north shore of Lake Superior for many years until it was sold to James River Company in 1983. Ball Canada is investigating whether the allegations in the proposed Order are correct and, if so, whether or not it has any liability or any recourse against other parties, including any former or subsequent owners or other parties associated with the pulp mill. Ball Canada is also engaged in discussions with the Ministry and two successor owners and/or operators of the pulp mill with a view to Ball Canada and such owners and/or operators settling all potential outstanding claims of the Ministry and any claims against one another. Subject to the results of such discussions, the company does not believe this matter will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

19. Indemnifications and Guarantees

General Guarantees

During the normal course of business, the company or its appropriate consolidated direct or indirect subsidiaries have made certain indemnities, commitments and guarantees under which the specified entity may be required to make payments in relation to certain transactions. These indemnities, commitments and guarantees include indemnities to the customers of the subsidiaries in connection with the sales of their packaging and aerospace products and services; guarantees to suppliers of direct or indirect subsidiaries of the company guaranteeing the performance of the respective entity under a purchase agreement, construction contract or other commitment; guarantees in respect of certain foreign subsidiaries' pension plans; indemnities for liabilities associated with the infringement of third party patents, trademarks or copyrights under various types of agreements; indemnities to various lessors in connection with facility, equipment, furniture and other personal property leases for certain claims arising from such leases; indemnities to governmental agencies in connection with the issuance of a permit or license to the company or a subsidiary; indemnities pursuant to agreements relating to certain joint ventures; indemnities in connection with the sale of businesses or substantially all of the assets and specified liabilities of businesses; and indemnities to directors, officers and employees of the company to the extent permitted under the laws of the State of Indiana and the United States of America. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. In addition the majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum potential future payments the company could be obligated to make. As such, the company is unable to reasonably estimate its potential exposure under these items.

The company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying condensed consolidated balance sheets. The company does, however, accrue for payments under promissory notes and other evidences of incurred indebtedness and for losses for any known contingent liability, including those that may arise from indemnifications, commitments and guarantees, when future payment is both reasonably determinable and probable. Finally, the company carries specific and general liability insurance policies and has obtained indemnities, commitments and guarantees from third party purchasers, sellers and other contracting parties, which the company believes would, in certain circumstances, provide recourse to any claims arising from these indemnifications, commitments and guarantees.

Ball Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

19. Indemnifications and Guarantees (continued)

Debt Guarantees

The company's senior notes and senior credit facilities are guaranteed on a full, unconditional and joint and several basis by certain of the company's wholly owned domestic subsidiaries. Foreign tranches of the senior credit facilities are similarly guaranteed by certain of the company's wholly owned foreign subsidiaries. These guarantees are required in support of the notes and credit facilities referred to above, are co-terminous with the terms of the respective note indentures and credit agreements and would require performance upon certain events of default referred to in the respective guarantees. The maximum potential amounts which could be required to be paid under the guarantees are essentially equal to the then outstanding principal and interest under the respective notes and credit agreement, or under the applicable tranche. The company is not in default under the above notes or credit facilities. Exhibit 20 of this Form 10-Q, contains the 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.

Accounts Receivable Securitization

Ball Capital Corp. II is a separate, wholly owned corporate entity created for the purchase of accounts receivable from certain of the company's wholly owned subsidiaries. Ball Capital Corp. II's assets will be available first to satisfy the claims of its creditors. The company has been designated as the servicer pursuant to an agreement whereby Ball Capital Corp. II may sell and assign the accounts receivable to a commercial lender or lenders. As the servicer, the company is responsible for the servicing, administration and collection of the receivables and is primarily liable for the performance of such obligations. The company, the relevant subsidiaries and Ball Capital Corp. II are not in default under the above credit arrangement.

20. Subsequent Events

On July 26, 2010, the company acquired Neuman Aluminum (Neuman) for approximately $60 million in cash. Neuman had sales of approximately $128 million in 2009 and is the leading North American manufacturer of aluminum slugs used to make extruded aerosol cans, beverage bottles, aluminum collapsible tubes and technical impact extrusions. The two plants, which employ approximately 180 people, will become part of Ball's metal food and household products packaging, Americas, segment.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 1 of this report, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and the accompanying notes including various claims and contingencies related to lawsuits, taxes, environmental and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and actions that we may undertake in the future in determining the estimates that affect our consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates. Ball Corporation and its subsidiaries are referred to collectively as "Ball" or "the company" or "we" or "our" in the following discussion and analysis.

BUSINESS OVERVIEW

Business Overview

Ball Corporation is one of the world's leading suppliers of metal packaging to the beverage, food and household products industries. Our packaging products are produced for a variety of end uses and are manufactured in plants around the world. We also provide aerospace and other technologies and services to governmental and commercial customers.

We sell our packaging products primarily to major beverage, food and household products companies with which we have developed long-term customer relationships. This is evidenced by our high customer retention and our large number of long-term supply contracts. While we have a diversified customer base, we sell a majority of our packaging products to relatively few major companies in North America, Europe, the People's Republic of China (PRC) and Argentina, as do our equity joint ventures in Brazil, the U.S. and the PRC. We also purchase raw materials from relatively few suppliers. Because of our customer and supplier concentration, our business, financial condition and results of operations could be adversely affected by the loss, insolvency or bankruptcy of a major customer or supplier or a change in a supply agreement with a major customer or supplier, although our contracts and long-term relationships generally mitigate the risk of customer loss. We are also subject to exposure from inflation and the rising costs of raw materials, as well as other inputs into our direct costs. We reduce our risk to these exposures either by fixing our material costs through derivative contracts or by including provisions in our sales contracts to recover the increases from our customers.

Industry Trends and Corporate Strategy

In the rigid packaging industry, sales and earnings can be improved by reducing costs, increasing prices, developing new products, expanding volumes and making strategic acquisitions. Over the past two years, we have closed a number of packaging facilities in support of our ongoing objective of matching our supply with market demand. We have also identified and implemented plans to improve our return on invested capital through the redeployment of assets within our operations.

As part of our packaging strategy, we are focused on developing and marketing new and existing products that meet the needs of our customers and the ultimate consumer. These innovations include new shapes, sizes, opening features and other functional benefits. This ongoing packaging development activity helps us maintain and expand our supply positions with major beverage, food and household products customers.

While the North American beverage container manufacturing industry is relatively mature, the beverage can markets in other parts of the world are growing and are expected to continue to grow in the medium to long term. Our Brazilian joint venture completed the construction of a metal beverage can plant near Rio de Janeiro in November 2009 and added further can capacity in the existing Jacarei can plant. On March 30, 2010, Ball announced that a second can production line will be added to the Rio de Janeiro plant. The second line will be completed in the first quarter of 2011. These Brazilian expansion efforts are owned by Ball's unconsolidated 50-percent-owned joint venture, Latapack-Ball Embalagens, Ltda., and were funded by the joint venture without financial support from its shareholders. In Europe, we have been able to capitalize on growth by increasing capacity in some of our European can manufacturing facilities by speeding up certain lines and by expansion.

Ball's consolidated earnings are exposed to foreign exchange rate fluctuations and we attempt to mitigate this exposure through the use of derivative financial instruments, as discussed in "Quantitative and Qualitative Disclosures About Market Risk" within Item 7A of our annual report on Form 10-K filed on February 25, 2010.

The primary customers for the products and services provided by our aerospace and technologies segment are U.S. government agencies or their prime contractors. It is possible that federal budget reductions and priorities, or changes in agency budgets, could limit future funding and new contract awards or delay or prolong contract performance.

We recognize sales under long-term contracts in the aerospace and technologies segment using the cost-to-cost, percentage of completion method of accounting. Our present contract mix consists of approximately two-thirds cost-type contracts, which are billed at our costs plus an agreed upon and/or earned profit component, and approximately 20 percent fixed-price contracts. The remainder represents time and material contracts, which typically provide for the sale of engineering labor at fixed hourly rates.

Throughout the period of contract performance, we regularly reevaluate and, if necessary, revise our estimates of Ball Aerospace and Technologies Corp.'s total contract revenue, total contract cost and progress toward completion. Because of contract payment schedules, limitations on funding and other contract terms, our sales and accounts receivable for this segment include amounts that have been earned but not yet billed.

Management Performance Measures

Management uses various measures to evaluate company performance such as earnings before interest and taxes (EBIT); earnings before interest, taxes, depreciation and amortization (EBITDA); diluted earnings per share; cash flow from operating activities; free cash flow (generally defined by the company as cash flow from operating activities less additions to property, plant and equipment); and economic value added (net operating earnings after tax, as defined by the company, less a capital charge on net operating assets employed). These financial measures may be adjusted at times for items that affect comparability between periods such as business consolidation costs and gains or losses on dispositions. Nonfinancial measures in the packaging segments include production efficiency and spoilage rates; quality control figures; environmental, health and safety statistics; production and sales volumes; asset utilization rates; and measures of sustainability. Additional measures used to evaluate financial performance in the aerospace and technologies segment include contract revenue realization, award and incentive fees realized, proposal win rates and backlog (including awarded, contracted and funded backlog).

We recognize that attracting, developing and retaining highly talented employees are essential to the success of Ball and, because of that, we strive to pay employees competitively and encourage their ownership of the company's common stock as part of a diversified portfolio. For most management employees, a meaningful portion of compensation is at risk as an incentive, dependent upon economic value added operating performance. For more senior positions, more compensation is at risk through economic value added performance and various long-term cash and stock compensation plans. Through our employee stock purchase plan and 401(k) plan, which matches employee contributions with Ball common stock, employees, regardless of organizational level, have opportunities to own Ball stock.

CONSOLIDATED SALES AND EARNINGS

For the second quarter of 2010, we reported net earnings from continuing operations of $144.6 million on sales of $2.0 billion, compared to $134.9 million on sales of $1.7 billion in the second quarter of 2009. Net earnings from continuing operations for the first six months of 2010 were $227.0 million on sales of $3.6 billion, compared to $201.5 million on sales of $3.2 billion in the first six months of 2009. Higher sales in 2010 were due largely to increasing volumes in all of our packaging business and the impact of the acquisition late last year of four U.S. metal beverage packaging plants.

Net earnings from continuing operations improved as a result of the packaging sales volume increases, efficient plant operating performance and disciplined cost controls. These positive factors were partially offset by a weaker euro, higher interest costs and a higher effective tax rate, as expected.

Effective June 15, 2010, with the announced sale of the company's plastics packaging, Americas, business, the company has four reportable segments. After aggregating the metal beverage packaging, Americas and Asia, operations based on similar economic characteristics, the four reportable segments are: (1) metal beverage packaging, Americas and Asia; (2) metal beverage packaging, Europe; (3) metal food and household products packaging, Americas; and (4) aerospace and technologies. We also have investments in companies in the U.S., the PRC and Brazil, which are accounted for using the equity method of accounting and, accordingly, those results are not included in segment sales or earnings.

Metal Beverage Packaging, Americas and Asia

($ in millions)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009
Net sales	$1,036.0	$749.1	$1,810.4	$1,369.5
Segment earnings	$114.5	$74.8	$188.5	$121.0
Business consolidation activities (a)	0.8	(3.3)	1.3	(8.3)
Total segment earnings	$115.3	$71.5	$189.8	$112.7

(a) Further details of these items are included in Note 6 to the consolidated financial statements within Item 1 of this report.

The metal beverage packaging, Americas and Asia, segment consists of operations located in the U.S., Canada and the PRC, which manufacture metal container products used in beverage packaging, as well as non-beverage plastic containers manufactured and sold mainly in the PRC. Ball's acquisition of the remaining 65-percent interest in a joint venture metal beverage can and end plant in Sanshui, PRC, was completed on June 15, 2010.

Segment sales in the second quarter and first six months of 2010, as compared to the same periods in the prior year, were $286.9 million and $440.9 million higher, respectively, primarily due to the additional sales associated with the four plants acquired from Anheuser-Busch InBev n.v./s.a. on October 1, 2009, as well as increased promotional activity in carbonated soft drinks, strong demand for specialty cans and continued increased volumes in Asia.

Segment earnings in the second quarter and first six months of 2010 were $39.7 million and $67.5 million higher, respectively, than in the same periods of 2009. For the second quarter of 2010 the increase in earnings was primarily due to a net $23 million impact related to the higher sales volumes, a net margin increase of $19 million due primarily to favorable metal costs in both regions, lower costs as a result of past business consolidation activities and inventory holding losses experienced in the second quarter of 2009. For the first six months of 2010, the increase in earnings was primarily due to a net $44 million impact related to the higher volumes, a net margin increase of $27 million due to favorable metal costs in Asia and inventory holding losses experienced in the second quarter of 2009.

Metal Beverage Packaging, Europe

($ in millions)	Three Months Ended June 27, 2010	Three Months Ended June 28, 2009	Six Months Ended June 27, 2010	Six Months Ended June 28, 2009

Net sales	$479.3	$490.6