BALL CORP
Form 10-Q
August 01, 2007

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 **July 1, 2007**

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Large accelerated filer x Accelerated filer o Non-accelerated filer 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 July 1, 2007
Common Stock, without par value	102,412,828 shares

Ball Corporation and Subsidiaries
QUARTERLY REPORT ON FORM 10-Q
For the period ended July 1, 2007

INDEX

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
Ball Corporation and Subsidiaries

	Three Months Ended		Six Months Ended	
($ in millions, except per share amounts)	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Net sales	**$ 2,032.8**	**$ 1,842.5**	**$ 3,727.0**	**$ 3,207.4**
Costs and expenses				
Cost of sales (excluding depreciation and amortization) *(a)*	1,682.6	1,554.8	3,076.9	2,711.5
Depreciation and amortization (Notes 8 and 10)	69.9	64.9	134.9	119.5
Business consolidation (gains) costs (Note 5)	–	(0.4)	–	1.7
Property insurance gain (Note 5)	–	(74.1)	–	(74.1)
Selling, general and administrative (Note 1)	87.3	73.5	169.5	143.8
	1,839.8	1,618.7	3,381.3	2,902.4
Earnings before interest and taxes *(a)*	**193.0**	**223.8**	**345.7**	**305.0**
Interest expense	38.1	37.6	76.0	60.9
Earnings before taxes	154.9	186.2	269.7	244.1
Tax provision (Note 12) *(a)*	(52.3)	(61.1)	(89.0)	(77.6)
Minority interests	(0.1)	(0.2)	(0.2)	(0.4)
Equity results in affiliates	3.4	4.9	6.6	8.1
Net earnings *(a)*	**$ 105.9**	**$ 129.8**	**$ 187.1**	**$ 174.2**
Earnings per share (Note 15) *(a)*:				
Basic	$ 1.04	$ 1.25	$ 1.84	$ 1.68
Diluted	$ 1.03	$ 1.23	$ 1.81	$ 1.66
Weighted average common shares outstanding (in thousands) (Note 15):				
Basic	101,542	103,655	101,826	103,449
Diluted	103,165	105,205	103,374	105,133
Cash dividends declared and paid, per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.20

(a) The 2006 periods have been retrospectively adjusted for the company's change in the fourth quarter of 2006 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Note 7.

See accompanying notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
Ball Corporation and Subsidiaries

($ in millions)	July 1, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 91.9	$ 151.5
Receivables, net (Note 6)	772.4	579.5
Inventories, net (Note 7)	898.8	935.4
Deferred taxes and prepaid expenses	93.4	94.9
Total current assets	1,856.5	1,761.3
Property, plant and equipment, net (Note 8)	1,913.8	1,876.0
Goodwill (Notes 4 and 9)	1,783.8	1,773.7
Intangibles and other assets, net (Note 10)	371.0	429.9
Total Assets	$ 5,925.1	$ 5,840.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt (Note 11)	$ 162.1	$ 181.3
Accounts payable	748.9	732.4
Accrued employee costs	189.9	201.1
Income taxes payable (Note 12)	51.3	71.8
Other current liabilities	183.3	267.7
Total current liabilities	1,335.5	1,454.3
Long-term debt (Note 11)	2,233.0	2,270.4
Employee benefit obligations (Note 13)	849.6	847.7
Deferred taxes and other liabilities (Note 12)	160.2	102.1
Total liabilities	4,578.3	4,674.5
Contingencies (Note 16)		
Minority interests	1.2	1.0
Shareholders' equity (Note 14)		
Common stock (160,680,820 shares issued – 2007; 160,026,936 shares issued – 2006)	740.5	703.4
Retained earnings	1,690.2	1,535.3
Accumulated other comprehensive earnings (loss)	5.6	(29.5)
Treasury stock, at cost (58,267,992 shares – 2007; 55,889,948 shares – 2006)	(1,090.7)	(1,043.8)
Total shareholders' equity	1,345.6	1,165.4
Total Liabilities and Shareholders' Equity	$ 5,925.1	$ 5,840.9

See accompanying notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Ball Corporation and Subsidiaries

($ in millions)	Six Months Ended July 1, 2007	July 2, 2006
Cash Flows from Operating Activities		
Net earnings *(a)*	$ 187.1	$ 174.2
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	134.9	119.5
Property insurance gain (Note 5)	–	(74.1)
Business consolidation costs (Note 5)	–	1.7
Deferred taxes *(a)*	3.7	12.2
Other, net	31.7	(29.3)
Changes in working capital components, excluding effects of acquisitions *(a)*	(106.3)	(270.4)
Cash provided by (used in) operating activities	251.1	(66.2)
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(166.3)	(127.5)
Business acquisitions, net of cash acquired (Note 4)	–	(785.4)
Property insurance proceeds (Note 5)	48.6	32.4
Other, net	0.7	8.6
Cash used in investing activities	(117.0)	(871.9)
Cash Flows from Financing Activities		
Long-term borrowings	9.6	1,049.1
Repayments of long-term borrowings	(21.2)	(66.8)
Change in short-term borrowings	(74.0)	2.7
Debt issuance costs	–	(8.3)
Proceeds from issuance of common stock	27.1	19.2
Acquisitions of treasury stock	(122.4)	(50.7)
Common dividends	(20.4)	(20.7)
Other, net	6.7	4.3
Cash provided by (used in) financing activities	(194.6)	928.8
Effect of exchange rate changes on cash	0.9	0.8
Change in cash and cash equivalents	(59.6)	(8.5)
Cash and cash equivalents - beginning of period	151.5	61.0
Cash and cash equivalents - end of period	$ 91.9	$ 52.5

(a) The six months ended July 2, 2006, have been retrospectively adjusted for the company's change in the fourth quarter of 2006 from the last-in, first-out method of inventory accounting to the first-in, first-out method. Additional details are available in Note 7.

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Principles of Consolidation and 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. 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 pursuant to Section 13 of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006 (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.

Ball adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 as of January 1, 2007, and has identified accounting for uncertain tax positions under this guidance as a critical accounting policy. Considering tax laws of the multiple jurisdictions in which we operate, both domestic and foreign, we assess whether it is more likely than not that a tax position will be sustained upon examination and through any litigation and measure the largest amount of the benefit that is likely to be realized upon ultimate settlement. Consistent with our practice prior to adoption of FIN 48, we record related interest expense and penalties, if any, as a tax provision expense. Actual results may differ substantially from our estimates.

During the fourth quarter of 2006, Ball's management changed the company's method of inventory accounting from last-in, first-out (LIFO) to first-in, first-out (FIFO) in the metal beverage packaging, Americas, and the metal food and household products packaging, Americas, segments. Results for the three months and six months ended July 2, 2006, have been retrospectively adjusted on a FIFO basis in accordance with Statement of Financial Accounting Standards (SFAS) No. 154 (see Note 7).

Subsequent to the issuance of its financial statements for the year ended December 31, 2005, the company determined that certain foreign currency exchange losses had been inadvertently deferred for the years 2005, 2004 and 2003. As a result, selling, general and administrative expenses were understated by $2.5 million, $2.3 million and $1 million in 2005, 2004 and 2003, respectively. Management assessed the impact of these adjustments and did not believe these amounts were material, individually or in the aggregate, to any previously issued financial statements or to our full year results of operations for 2006. A cumulative $5.8 million pretax out-of-period adjustment was included in selling, general and administrative expenses in the first quarter of 2006.

Certain prior-year amounts have been reclassified in order to conform to the current-year presentation. In addition, within the company's annual report, the consolidated statement of changes in shareholders' equity for the year ended December 31, 2006, included a transition adjustment of $47.9 million, net of tax, related to the adoption of

SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension Plans and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R),” as a component of 2006 comprehensive earnings rather than only as an adjustment to accumulated other comprehensive loss. Had the transition adjustment of $47.9 million been presented in accordance with SFAS No. 158, comprehensive earnings for the year ended December 31, 2006, would have been $448.7 million rather than the $400.8 million reported in the annual report.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

2. New Accounting Standards

Management has determined that the effect on the consolidated statement of changes in shareholders' equity for this change in presentation was not material to the 2006 consolidated financial statements taken as a whole. Comprehensive earnings for 2006 will be revised in future presentations of the consolidated statements of changes in shareholders' equity.

In April 2007 the FASB issued FASB Staff Position (FSP) FIN 39-1, "Amendment of FASB Interpretation No. 39," which amends the terms of FIN 39, paragraph 3, to replace the terms "conditional contracts" and "exchange contracts" with the term "derivative instruments" as defined in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." It also amends paragraph 10 of FIN 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with that paragraph. FSP FIN 39-1 will be effective for Ball as of January 1, 2008, and is currently under evaluation by the company.

In February 2007 the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115," which permits companies to choose, at specified election dates, to measure certain financial instruments and other eligible items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are subsequently reported in earnings. The decision to elect the fair value option is generally irrevocable, is applied instrument by instrument and can only be applied to an entire instrument. The standard, which will be effective for Ball as of January 1, 2008, is currently under evaluation by Ball's management. At this time, we do not expect to elect the fair value option for any eligible items and did not early adopt the standard in the first quarter of 2007 as permitted.

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements," which 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. The standard will be effective for Ball as of January 1, 2008.

In June 2006 the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 became effective for Ball beginning on January 1, 2007. The adoption of FIN 48 included a net increase in uncertain tax liabilities of $2.1 million to a total of $45.8 million, excluding $1.2 million accrued in the opening balance sheet of the acquisition of U.S. Can Corporation (see Note 4). Additional details about the adoption of FIN 48 are provided in Note 12. In May 2007 the FASB amended FIN 48 by issuing FSP FIN 48-1, which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The adoption of FSP FIN 48-1 did not result in any changes to the amounts recorded upon the initial adoption of FIN 48 or during the six months ended July 1, 2007.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

3. Business Segment Information

Ball's operations are organized and reviewed by management along its product lines in five reportable segments:

Metal beverage packaging, Americas: Consists of operations in the U.S., Canada and Puerto Rico, which manufacture and sell metal containers, primarily for use in beverage packaging.

Metal beverage packaging, Europe/Asia: Consists of operations in several countries in Europe and the People's Republic of China (PRC), which manufacture and sell metal beverage containers in Europe and Asia, as well as plastic containers in Asia.

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 custom and specialty cans.

Plastic packaging, Americas: Consists of operations in the U.S. and Canada, which manufacture and sell polyethylene terephthalate (PET) and polypropylene containers, primarily for use in beverage and food packaging. Effective January 1, 2007, this segment also includes the manufacture and sale of plastic containers used for industrial and household products, which were previously reported within the metal food and household products packaging, Americas, segment.

Aerospace & 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.

In the third quarter of 2006, the company changed its expense allocation method by allocating to each of the packaging segments stock-based compensation expense previously included in corporate undistributed expenses. The change did not have a significant impact on any segment for the current or prior years. In the fourth quarter of 2006, the company changed its method of inventory accounting in the metal beverage, Americas, and the metal food and household products packaging, Americas, segments from LIFO to FIFO (see Note 1). Effective January 1, 2007, a plastic pail product line with expected annual net sales of $59 million was transferred from the metal food and household products packaging, Americas, segment to the plastic packaging, Americas, segment. The three months and six months ended July 2, 2006, have been retrospectively adjusted to conform to the current presentation for the changes in expense allocation and inventory accounting method, as well as the transfer of the plastic pail product line.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

3. Business Segment Information ***(continued)***

($ in millions)	Three Months Ended July 1, 2007	Three Months Ended July 2, 2006	Six Months Ended July 1, 2007	Six Months Ended July 2, 2006
Net Sales				
Metal beverage packaging, Americas	$ 816.7	$ 740.6	$ 1,454.2	$ 1,333.0
Metal beverage packaging, Europe/Asia	539.3	433.8	924.3	734.7
Metal food & household products packaging, Americas	284.0	295.2	562.8	484.5
Plastic packaging, Americas	198.7	197.5	385.3	319.9
Aerospace & technologies	194.1	175.4	400.4	335.3
Net sales	**$ 2,032.8**	**$ 1,842.5**	**$ 3,727.0**	**$ 3,207.4**
Net Earnings				
Metal beverage packaging, Americas	$ 82.6	$ 67.0	$ 176.4	$ 120.5
Metal beverage packaging, Europe/Asia	92.6	67.5	137.5	95.6
Property insurance gain (Note 5)	–	74.1	–	74.1
Total metal beverage packaging, Europe/Asia	92.6	141.6	137.5	169.7
Metal food & household products packaging, Americas	11.1	4.4	10.9	7.5
Business consolidation gains (costs) (Note 5)	–	0.4	–	(1.7)
Total metal food & household products packaging, Americas	11.1	4.8	10.9	5.8
Plastic packaging, Americas	7.1	8.8	9.4	10.4
Aerospace & technologies	15.6	8.3	35.2	17.8
Segment earnings before interest and taxes	209.0	230.5	369.4	324.2
Corporate undistributed expenses, net	(16.0)	(6.7)	(23.7)	(19.2)
Earnings before interest and taxes	193.0	223.8	345.7	305.0
Interest expense	(38.1)	(37.6)	(76.0)	(60.9)
Tax provision	(52.3)	(61.1)	(89.0)	(77.6)
Minority interests	(0.1)	(0.2)	(0.2)	(0.4)
Equity in results of affiliates	3.4	4.9	6.6	8.1
Net earnings	**$ 105.9**	**$ 129.8**	**$ 187.1**	**$ 174.2**

($ in millions)	As of July 1, 2007	As of December 31, 2006
Total Assets		
Metal beverage packaging, Americas	$ 1,170.6	$ 1,147.2
Metal beverage packaging, Europe/Asia	2,507.4	2,412.7
Metal food & household products packaging, Americas *(a)*	1,168.3	1,094.9
Plastic packaging, Americas *(a)*	580.6	609.0
Aerospace & technologies	269.4	268.2

Segment assets		5,696.3		5,532.0
Corporate assets, net of eliminations		228.8		308.9
Total assets	$	5,925.1	$	5,840.9

(a) *Amounts in 2006 have been retrospectively adjusted for the transfer of a plastic pail product line with assets of approximately $65 million from the metal food and household products packaging, Americas, segment to the plastic packaging, Americas, segment, which occurred as of January 1, 2007.*

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

4. Acquisitions

U.S. Can Corporation

On March 27, 2006, Ball acquired all of the issued and outstanding shares of U.S. Can Corporation (U.S. Can) for 444,756 common shares of Ball Corporation (valued at $44.28 per share for a total of $19.7 million) pursuant to the provisions of a merger agreement dated February 14, 2006, among Ball, U.S. Can and the shareholders of U.S. Can (merger agreement). Contemporaneously with the acquisition, Ball refinanced $598.2 million of U.S. Can debt, including $26.8 million of bond redemption premiums and fees and $42 million of acquired net operating tax loss carryforwards expected to be realized over the next several years. The acquired operations are included in the metal food and household products packaging, Americas, segment, except for a plastic pail product line that was transferred to the company's plastic packaging, Americas, segment effective January 1, 2007, for which 2006 amounts have been retrospectively adjusted. The acquisition has been accounted for as a purchase and, accordingly, its results have been included in the consolidated financial statements since March 27, 2006.

Pursuant to the merger agreement, a certain portion of the common share consideration issued for the acquisition of U.S. Can was placed in escrow and was subsequently converted into cash, which remains in escrow. During the second quarter of 2007, Ball asserted claims against the former shareholders of U.S. Can, and the escrowed cash will be used to satisfy such claims to the extent they are agreed to or sustained.

Alcan Packaging

On March 28, 2006, Ball acquired North American plastic bottle container assets from Alcan Packaging (Alcan) for $184.7 million cash. The acquired business primarily manufactures and sells barrier polypropylene plastic bottles used in food packaging and, to a lesser extent, barrier PET plastic bottles used for beverages and food. The operations acquired form part of Ball's plastic packaging, Americas, segment. The acquisition has been accounted for as a purchase and, accordingly, its results have been included in the consolidated financial statements since March 28, 2006.

Following is a summary of the net assets acquired in the U.S. Can and Alcan transactions. The valuations were performed by management, including identification and valuation of acquired intangible assets and of liabilities, including development and assessment of associated costs of consolidation and integration plans. The company also engaged third party experts to assist management in valuing certain assets and liabilities including inventory; property, plant and equipment; intangible assets and pension and other post-retirement obligations. During the first quarter of 2007, the company completed its valuation of the acquired assets and liabilities and revised the purchase price allocations accordingly. The final purchase price allocations resulted primarily in an increase in identifiable intangible assets for both acquisitions.

($ in millions)	U.S. Can (Metal Food & Household Products Packaging, Americas)	Alcan (Plastic Packaging, Americas)	Total
Cash	$ 0.2	$ –	$ 0.2

Property, plant and equipment		164.6		73.6		238.2
Goodwill		353.2		48.6		401.8
Intangibles		63.9		33.7		97.6
Other assets, primarily inventories and receivables		220.1		40.1		260.2
Liabilities assumed (excluding refinanced debt), primarily current		(184.1)		(11.3)		(195.4)
Net assets acquired	$	617.9	$	184.7	$	802.6

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

4. Acquisitions *(continued)*

With the assistance of an independent valuation firm, the customer relationships and acquired technologies of both acquisitions were identified as valuable intangible assets, and the company assigned them an estimated life of 20 years based on the valuation firm's estimates. Because the acquisition of U.S. Can was a stock purchase, neither the goodwill nor the intangible assets are deductible for U.S. income tax purposes only if, and until such time as, the stock is sold. However, because the Alcan acquisition was an asset purchase, the amortization of goodwill and intangible assets is deductible for U.S. tax purposes.

5. Business Consolidation Activities and Property Insurance Gain

2006

Metal Beverage Packaging, Europe/Asia

On April 1, 2006, a fire in the metal beverage can plant in Hassloch, Germany, damaged a significant portion of the building and machinery and equipment. A €26.7 million ($33.8 million) fixed asset write down was recorded in 2006 to reflect the estimated impairment of the assets damaged as a result of the fire. As a result, a pretax gain of €58.4 million ($74.1 million) was recorded in the consolidated statement of earnings in the second quarter of 2006. This pretax gain was revised to €59.6 million ($75.5 million) by the end of 2006. In accordance with the final agreement reached with the insurance company in November 2006, the final property insurance proceeds of €37.6 million ($48.6 million) were received in January 2007. Additionally, €12.8 million ($17.2 million) and €21.1 million ($28.1 million) were recognized in cost of sales during the second quarter and first six months of 2007, respectively, for insurance recoveries related to business interruption costs. Approximately €5.9 million of additional business interruption recoveries have been agreed upon with the insurance carrier and will be recognized during the third and fourth quarters of 2007.

Metal Food & Household Products Packaging, Americas

In the second quarter of 2006, earnings of $0.4 million ($0.2 million after tax) were recorded to reflect the net proceeds on the disposition of fixed assets previously written down in a 2005 business consolidation charge.

In the first quarter of 2006, a pretax charge of $2.1 million ($1.4 million after tax) was recorded to shut down a metal food can production line in Canada. The charge was subsequently reduced by $0.7 million in the fourth quarter of 2006 to reflect a gain on the disposition of the plant's fixed assets on the completion of the shut down activities.

In October 2006 the company announced plans to close two manufacturing facilities in North America as part of the realignment of the metal food and household products packaging, Americas, segment following the acquisition earlier in the year of U.S. Can. A pretax charge of $33.6 million ($27.4 million after tax) was recorded in the fourth quarter related to the Burlington, Ontario, plant closure, including $7.8 million of severance costs, $16.8 million of pension costs and $9 million of other costs. The closure of the Alliance, Ohio, plant, estimated to cost approximately $1 million for employee and other costs, was treated as an opening balance sheet item related to the acquisition. Operations have ceased at both plants and payments of $8.6 million were made in the first six months of 2007 against the reserves.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

5. Business Consolidation Activities and Property Insurance Gain *(continued)*

Summary

The following table summarizes the 2007 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, 2006	$ 6.7	$ 14.1	$ 4.3	$ 25.1
Payments	–	(8.1)	(2.8)	(10.9)
Disposal of spare parts	(1.5)	–	–	(1.5)
Balance at July 1, 2007	$ 5.2	$ 6.0	$ 1.5	$ 12.7

The remaining reserves are expected to be utilized during 2007 and 2008. The carrying value of fixed assets remaining for sale in connection with business consolidation activities was $14.3 million at July 1, 2007.

6. 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 $225 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 $225 million at July 1, 2007, and $201.3 million at December 31, 2006, and are reflected as a reduction of accounts receivable in the condensed consolidated balance sheets.

7. Inventories

($ in millions)	July 1, 2007	December 31, 2006
Raw materials and supplies	$ 386.2	$ 445.6
Work in process and finished goods	512.6	489.8
	$ 898.8	$ 935.4

Historically the cost of the majority of metal beverage packaging, Americas, and metal food and household products packaging, Americas, inventories were determined using the LIFO method of accounting. During the fourth quarter of 2006, the company determined that the FIFO method of inventory accounting better matches revenues and expenses in accordance with sales contract terms. Therefore, in the fourth quarter of 2006, the accounting policy was changed to record all inventories using the FIFO method of accounting. For comparative purposes, the 2006 statements of earnings and cash flows have been retrospectively adjusted on a FIFO basis in accordance with SFAS No. 154, “Accounting Changes and Error Corrections – a Replacement of APB Opinion No. 20 and FASB Statement No. 3.”

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

7. Inventories *(continued)*

The following table summarizes the effect of the accounting change on the company's consolidated financial statements:

($ in millions, except per share amounts)	Three Months Ended July 2, 2006 As Originally Reported	Three Months Ended July 2, 2006 As Adjusted for Accounting Change	Six Months Ended July 2, 2006 As Originally Reported	Six Months Ended July 2, 2006 As Adjusted for Accounting Change
Consolidated statements of earnings:				
Cost of sales	$ 1,550.0	$ 1,554.8	$ 2,706.3	$ 2,711.5
Tax provision	(63.0)	(61.1)	(79.7)	(77.6)
Net earnings	132.7	129.8	177.3	174.2
Basic earnings per share	1.28	1.25	1.71	1.68
Diluted earnings per share	1.26	1.23	1.69	1.66
Consolidated statements of cash flows:				
Deferred taxes			14.3	12.2
Change in working capital			(275.6)	(270.4)

8. Property, Plant and Equipment

($ in millions)	July 1, 2007	December 31, 2006
Land	$ 89.8	$ 88.5
Buildings	796.8	764.1
Machinery and equipment	2,816.6	2,618.6
Construction in progress	128.3	215.1
	3,831.5	3,686.3
Accumulated depreciation	(1,917.7)	(1,810.3)
	$ 1,913.8	$ 1,876.0

Property, plant and equipment are stated at historical cost. Depreciation expense amounted to $65.5 million and $126.7 million for the three months and six months ended July 1, 2007, respectively, and $60.7 million and $112.5 million for the three months and six months ended July 2, 2006, respectively.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

9. Goodwill

($ in millions)	Metal Beverage Packaging, Americas	Metal Beverage Packaging, Europe/Asia	Metal Food & Household Products Packaging, Americas	Plastic Packaging, Americas	Total
Balance at December 31, 2006	$ 279.4	$ 1,020.6	$ 389.0	$ 84.7	$ 1,773.7
Purchase accounting adjustments *(a)*	–	–	(4.7)	(1.0)	(5.7)
Transfer of plastic pail product line	–	–	(30.0)	30.0	–
FIN 48 adoption adjustments (Notes 2 and 12)	–	(9.3)	–	–	(9.3)
Effects of foreign currency exchange rates	–	24.9	–	0.2	25.1
Balance at July 1, 2007	$ 279.4	$ 1,036.2	$ 354.3	$ 113.9	$ 1,783.8

(a) Related to the final purchase price allocations for the U.S. Can and Alcan acquisitions discussed in Note 4.

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.

10. Intangibles and Other Assets

($ in millions)	July 1, 2007	December 31, 2006
Investments in affiliates	$ 78.3	$ 76.5
Intangibles (net of accumulated amortization of $80 at July 1, 2007, and $70.7 at December 31, 2006)	126.8	116.2
Company-owned life insurance	83.4	77.5
Deferred tax asset	23.2	34.9
Property insurance receivable (Note 5)	–	49.7
Other	59.3	75.1
	$ 371.0	$ 429.9

Total amortization expense of intangible assets amounted to $4.4 million and $8.2 million for the three months and six months ended July 1, 2007, respectively, and $4.2 million and $7 million for the comparable periods in 2006, respectively.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

11. Debt and Interest Costs

Long-term debt consisted of the following:

	July 1, 2007				December 31, 2006			
(in millions)		In Local Currency		In U.S. $		In Local Currency		In U.S. $
Notes Payable								
6.875% Senior Notes, due December 2012 (excluding premium of $2.9 in 2007 and $3.2 in 2006)	$	550.0	$	550.0	$	550.0	$	550.0
6.625% Senior Notes, due March 2018 (excluding discount of $0.8 in 2007 and $0.9 in 2006)	$	450.0		450.0	$	450.0		450.0
Senior Credit Facilities, due October 2011 (at variable rates)								
Term A Loan, British sterling denominated		85.0		170.7		85.0		166.4
Term B Loan, euro denominated	€	350.0		473.7	€	350.0		462.0
Term C Loan, Canadian dollar denominated	C$	129.0		121.1	C$	134.0		114.9
Term D Loan, U.S. dollar denominated	$	500.0		500.0	$	500.0		500.0
U.S. dollar multi-currency revolver borrowings	$	10.0		10.0	$	15.0		15.0
British sterling multi-currency revolver borrowings		4.0		8.0		4.0		7.8
Canadian dollar multi-currency revolver borrowings	C$	10.0		9.4		–		–
Industrial Development Revenue Bonds								
Floating rates due through 2015	$	13.0		13.0	$	20.0		20.0
Other		Various		20.8		Various		25.5
				2,326.7				