BALL CORP
Form 10-Q
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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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
Ball Corporation and Subsidiaries

($ in millions, except per share amounts)	Three Months Ended July 1, 2007	Three Months Ended July 2, 2006	Six Months Ended July 1, 2007	Six Months Ended 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	Six Months Ended 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		Six Months Ended July 2, 2006	
	As Originally Reported	As Adjusted for Accounting Change	As Originally Reported	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				2,311.6
Less: Current portion of long-term debt				(93.7)				(41.2)
			$	2,233.0			$	2,270.4

At July 1, 2007, approximately $678 million was available under the multi-currency revolving credit facilities, which provide for up to $750 million in U.S. dollar equivalents. The company also had short-term uncommitted credit facilities of up to $335 million at July 1, 2007, of which $68.4 million was outstanding and due on demand.

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

The company was in compliance with all loan agreements at July 1, 2007, and has met all debt payment obligations. The U.S. note agreements, bank credit agreement and industrial development revenue bond agreements contain certain restrictions relating to dividend payments, share repurchases, investments, financial ratios, guarantees and the incurrence of additional indebtedness.

12. Income Taxes

Effective January 1, 2007, Ball adopted FIN 48, "Accounting for Uncertainty in Income Taxes." As of the date of adoption, the accrual for uncertain tax positions was $45.8 million and the cumulative effect of the adoption was an increase in the reserve for uncertain tax positions of $2.1 million. The accrual includes an $11.4 million charge to opening retained earnings and a $9.3 million reduction in goodwill. An additional adjustment was made to increase goodwill by $1.2 million in the opening balance sheet of the acquisition of U.S. Can. During the six months ended July 1, 2007, the accrual has been increased by $2.1 million, primarily related to interest on accrued uncertain tax positions.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

13. Employee Benefit Obligations

($ in millions)	July 1, 2007	December 31, 2006
Total defined benefit pension liability	$ 520.1	$ 510.6
Less current portion	(25.2)	(24.1)
Long-term defined benefit pension liability	494.9	486.5
Retiree medical and other postemployment benefits	200.8	191.1
Deferred compensation plans	143.5	144.0
Other	10.4	26.1
	$ 849.6	$ 847.7

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

	Three Months Ended					
	July 1, 2007			July 2, 2006		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Service cost	$ 10.3	$ 2.1	$ 12.4	$ 7.2	$ 2.2	$ 9.4
Interest cost	11.8	7.5	19.3	11.0	6.9	17.9
Expected return on plan assets	(13.6)	(4.5)	(18.1)	(12.1)	(4.0)	(16.1)
Amortization of prior service cost	0.3	(0.1)	0.2	1.2	–	1.2
Recognized net actuarial loss	3.4	1.1	4.5	4.9	0.8	5.7
Subtotal	12.2	6.1	18.3	12.2	5.9	18.1
Non-company sponsored plans	0.3	–	0.3	0.2	–	0.2
Net periodic benefit cost	$ 12.5	$ 6.1	$ 18.6	$ 12.4	$ 5.9	$ 18.3

	Six Months Ended					
	July 1, 2007			July 2, 2006		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Service cost	$ 20.4	$ 4.3	$ 24.7	$ 14.3	$ 4.4	$ 18.7
Interest cost	23.5	14.8	38.3	21.9	13.4	35.3
Expected return on plan assets	(27.2)	(8.9)	(36.1)	(24.1)	(7.8)	(31.9)
Amortization of prior service cost	0.4	(0.2)	0.2	2.5	(0.1)	2.4
Recognized net actuarial loss	6.8	2.3	9.1	9.8	1.6	11.4
Subtotal	23.9	12.3	36.2	24.4	11.5	35.9
Non-company sponsored plans	0.6	0.1	0.7	0.5	–	0.5
Net periodic benefit cost	$ 24.5	$ 12.4	$ 36.9	$ 24.9	$ 11.5	$ 36.4

Contributions to the company's defined benefit pension plans, not including the unfunded German plans, were $26.8 million in the first six months of 2007 ($37.3 million in 2006). The total required contributions to these funded plans are expected to be approximately $56 million in 2007. Additionally, as part of the company's overall debt reduction plan, we anticipate contributing up to an incremental $45 million ($27 million after tax) to our North American pension plans during the fourth quarter of 2007. Payments to participants in the unfunded German plans were €8.8 million ($11.8 million) in the first six months of 2007 and are expected to be approximately €19 million (approximately $25 million) for the full year.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

13. Employee Benefit Obligations *(continued)*

In accordance with new United Kingdom pension regulations, Ball has provided an £8 million guarantee to the plan for its defined benefit plan in the United Kingdom. If the company's credit rating falls below specified levels, Ball will be required to either: (1) contribute an additional £8 million to the plan, (2) provide a letter of credit to the plan in that amount or (3) provide a lien on company assets to the plan in that amount. The guarantee can be removed upon approval by both Ball and the pension plan trustees.

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	Effective Financial Derivatives*(a)* (net of tax)	Pension and Other Postretirement Items (net of tax)	Accumulated Other Comprehensive Earnings (Loss)
December 31, 2006	$ 131.8	$ 0.6	$ (161.9)	$ (29.5)
Change	16.8	12.8	5.5	35.1
July 1, 2007	$ 148.6	$ 13.4	$ (156.4)	$ 5.6

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

Comprehensive Earnings

	Three Months Ended		Six Months Ended	
($ in millions)	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Net earnings	$ 105.9	$ 129.8	$ 187.1	$ 174.2
Foreign currency translation adjustment	9.0	21.7	16.8	30.7
Effect of derivative instruments	8.7	2.4	12.8	0.5
Pension and other postretirement items	2.8	11.5	5.5	11.5
Comprehensive earnings	$ 126.4	$ 165.4	$ 222.2	$ 216.9

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Shareholders' Equity and Comprehensive Earnings *(continued)*

Stock-Based Compensation Programs

The company has shareholder approved stock option plans under which options to purchase shares of Ball common stock have been granted to officers and employees at the market value of the stock at the date of grant. Payment must be made at the time of exercise in cash or with shares of stock owned by the option holder, which are valued at fair market value on the date exercised. In general, options are exercisable in four equal installments commencing one year from the date of grant and terminate 10 years from the date of grant. A summary of stock option activity for the six months ended July 1, 2007, follows:

	Outstanding Options		Nonvested Options	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant Date Fair Value
Beginning of year	4,852,978	$ 26.69	1,286,937	$ 10.27
Granted	949,200	49.32	949,200	11.22
Vested			(473,607)	10.12
Exercised	(702,746)	20.86		
Canceled/forfeited	(20,050)	41.99	(20,050)	10.40
End of period	5,079,382	31.67	1,742,480	10.83
Vested and exercisable, end of period	3,336,902	24.26		
Reserved for future grants	4,789,342			

The options granted in April 2007 included 402,168 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 July 1, 2007, was 6.6 years and the aggregate intrinsic value (difference in exercise price and closing price at that date) was $109.2 million. The weighted average remaining contractual term for options vested and exercisable at July 1, 2007, was 5.2 years and the aggregate intrinsic value was $96.5 million. The company received $10.2 million from options exercised during the three months ended July 1, 2007. The intrinsic value associated with these exercises was $12.1 million and the associated tax benefit of $3.8 million was reported as other financing activities in the condensed consolidated statement of cash flows. During the six months ended July 1, 2007, the company received $14.7 million from options exercised. The intrinsic value associated with exercises for that period was $20.2 million and the associated tax benefit reported as other financing activities was $6.7 million.

Based on the Black-Scholes option pricing model, adapted for use in valuing compensatory stock options in accordance with SFAS No. 123 (revised 2004), options granted in April 2007 have an estimated weighted average fair value at the date of grant of $11.22 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	0.81%
	17.94%

Expected stock price volatility	
Risk-free interest rate	4.55%
Expected life of options	4.75 years
Forfeiture rate	12.00%

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Shareholders' Equity and Comprehensive Earnings *(continued)*

In addition to stock options, the company issues to certain employees restricted shares which vest over various periods but generally in equal installments over five years. Compensation cost is recorded based upon the fair value of the shares at the grant date.

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

In April 2007 the company's board of directors granted 170,000 performance-contingent restricted stock units, which will cliff vest if the company's return on average invested capital during a 33-month performance period is equal to or exceeds the company's estimated cost of capital. If the performance goal is 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 fair value (closing market price) of the shares at the grant date. On a quarterly basis, the company will reassess the probability of the goal being met and will adjust compensation expense as appropriate.

For the three and six months ended July 1, 2007, the company recognized in selling, general and administrative expense pretax expense of $12.6 million ($7.6 million after tax) and $17.4 million ($10.5 after tax), respectively, for share-based compensation arrangements, which represented $0.07 per basic and diluted share for the second quarter of 2007 and $0.10 per basic and diluted share for the first six months. For the three and six months ended July 2, 2006, the company recognized pretax expense of $4.2 million ($2.5 million after tax) and $7.3 million ($4.4 million after tax) for such arrangements, which represented $0.02 per basic and diluted share and $0.04 per basic and diluted share, respectively, for those periods. At July 1, 2007, there was $38.2 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 2.9 years.

15. Earnings Per Share

	Three Months Ended		Six Months Ended	
($ in millions, except per share amounts; shares in thousands)	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Diluted Earnings per Share:				
Net earnings	$ 105.9	$ 129.8	$ 187.1	$ 174.2
Weighted average common shares	101,542	103,655	101,826	103,449
Effect of dilutive securities	1,623	1,550	1,548	1,684
Weighted average shares applicable to diluted earnings per share	103,165	105,205	103,374	105,133
Diluted earnings per share	$ 1.03	$ 1.23	$ 1.81	$ 1.66

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Earnings Per Share (continued)

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

	Three Months Ended		Six Months Ended	
Option Price:	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
$ 39.74	–	700,700	–	–
$ 43.69	–	905,000	867,025	905,000
$ 49.32	949,200	–	949,200	–
	949,200	1,605,700	1,816,225	905,000

16. Contingencies

The company is subject to various risks and uncertainties in the ordinary course of business due, in part, to the competitive nature of the industries in which the company participates. We do business in countries outside the U.S., have changing commodity prices for the materials used in the manufacture of our packaging products and participate in changing capital markets. Where management considers it warranted, we reduce these risks and uncertainties through the establishment of risk management policies and procedures, including, at times, the use of certain derivative financial instruments.

From time to time, the company is subject to routine litigation incident to its businesses. Additionally, the U.S. Environmental Protection Agency has designated Ball as a potentially responsible party, along with numerous other companies, for the cleanup of several hazardous waste sites.

During the second quarter of 2007, Miller Brewing Company (customer) asserted various claims against Ball Metal Beverage Container Corp. (BMBCC), a wholly owned subsidiary of the company, alleging that BMBCC has breached its contract with the customer for the supply of aluminum beverage containers. The customer alleges, among other things, that Ball breached contract provisions relating to the pricing of the aluminum components of container costs and claims sizeable damages for breach of contract. BMBCC disputes the claims and asserts that it has performed in accordance with the supply contract. The parties are engaging in non-binding mediation under the supply contract and, if the dispute is not settled through mediation scheduled for the fourth quarter of 2007, the contract provides for the matter to be finally settled by arbitration. BMBCC and the customer are continuing to perform under the supply contract during the pendency of this matter. The company believes that BMBCC has meritorious defenses against the customer’s claims, although, because of the uncertainties inherent in the mediation or arbitration process, it is unable to predict the outcome. The outcome is uncertain, and the company’s view is that under SFAS No. 5, “Accounting for Contingencies,” a loss is not probable and the amount of the loss, if any, cannot be reasonably estimated.

The IRS has proposed to disallow Ball’s deductions of interest expense for the tax years 2000 through 2004 incurred on loans under a company-owned life insurance plan that was established in 1986. Ball has disputed the IRS’s claims, and the company believes the interest deductions will be sustained as filed.

Our information at this time does not indicate that the above matters will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

Notes to Unaudited Condensed Consolidated Financial Statements
Ball Corporation and Subsidiaries

17. Indemnifications and 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; 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.

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 agreement 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.

Ball Capital Corp. II is a separate, wholly owned corporate entity created for the purchase of receivables 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 provided an undertaking to Ball Capital Corp. II in support of the sale of receivables to a commercial lender or lenders which would require performance upon certain events of default referred to in the undertaking. The maximum potential amount which could be paid is equal to the outstanding amounts due under the accounts receivable financing (see Note 6). The company, the relevant subsidiaries and Ball Capital Corp. II are not in default under the above credit arrangement.

From time to time, the company is subject to claims arising in the ordinary course of business. In the opinion of management, no such matter, individually or in the aggregate, exists which is expected to have a material adverse effect on the company's consolidated results of operations, financial position or cash flows.

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 unaudited condensed consolidated financial statements and the accompanying notes. 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

Ball Corporation is one of the world's leading suppliers of metal and plastic 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 supply aerospace and other technologies and services to governmental and commercial customers.

We sell our packaging products primarily to major beverage and food producers and producers of household products 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 diversified our customer base, we do 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 of a major customer or supplier or a change in a supply agreement with a major customer or supplier, although our long-term relationships and contracts mitigate these risks.

In the rigid packaging industry, sales and earnings can be improved by reducing costs, developing new products, expanding volume and increasing pricing. In 2008 we expect to complete a project to upgrade and streamline our North American beverage can end manufacturing capabilities, a project that is expected to result in productivity gains and cost reductions beginning this year. While the U.S. and Canadian beverage container manufacturing industry is relatively mature, the European, PRC and Brazilian beverage can markets are growing and are expected to continue to grow. We are capitalizing on this growth by increasing capacity in some of our European can manufacturing facilities. To better position the company in the European market, the capacity from the fire-damaged Hassloch, Germany, plant was replaced with a mix of steel beverage can manufacturing capacity in the Hassloch plant and aluminum beverage can manufacturing capacity in the company's Hermsdorf, Germany, plant. All three lines were in commercial production by the end of the second quarter of 2007. The company regularly evaluates expansion opportunities in growing international markets, including Europe and the PRC.

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

Ball's consolidated earnings are exposed to foreign exchange rate fluctuations. 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 3 of this report.

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 one-third fixed price contracts. We include time and material contracts in the fixed price category because such contracts 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 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 uses various measures to evaluate company performance. The primary financial metric we use is economic value added (tax-effected operating earnings, as defined by the company, less a charge for net operating assets employed). Our goal is to increase economic value added on an annual basis. Other financial metrics we use are earnings before interest and taxes (EBIT); earnings before interest, taxes, depreciation and amortization (EBITDA); diluted earnings per share; operating cash flow and free cash flow (generally defined by the company as cash flow from operating activities less capital expenditures). These financial measures may be adjusted at times for items that affect comparability between periods. Nonfinancial measures in the packaging segments include production efficiency and spoilage rates, quality control figures, safety statistics and production and shipment volumes. Additional measures used to evaluate 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 and retaining quality employees is essential to the success of Ball and, because of this, 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 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

The company has five reportable segments organized along a combination of product lines and geographic areas: (1) metal beverage packaging, Americas; (2) metal beverage packaging, Europe/Asia; (3) metal food and household products packaging, Americas; (4) plastic packaging, Americas; and (5) 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.

During the fourth quarter of 2006, the company changed its method of inventory accounting for certain inventories in the metal beverage, Americas, and the metal food and household products packaging, Americas, segments from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. 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. 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.

Metal Beverage Packaging, Americas

The metal beverage packaging, Americas, segment consists of operations located in the U.S., Canada and Puerto Rico, which manufacture metal container products used in beverage packaging. This segment accounted for 40 percent of consolidated net sales in the second quarter of 2007 (40 percent in 2006) and 39 percent in the first six months (42 percent in 2006). Sales were 9 percent higher in the first six months of 2007 than in 2006 as a result of higher sales prices, which were primarily due to rising aluminum prices and the pass through of various cost increases to customers.

Segment earnings of $82.6 million in the second quarter of 2007 were 23 percent higher than the second quarter 2006 earnings of $67 million while earnings of $176.4 million in the first six months of 2007 were 46 percent higher than the prior year earnings of $120.5 million for the same period. Contributing to the higher earnings in 2007 were gains from purchases of raw materials in advance of scheduled price increases combined with the positive cost impacts from new end technology projects and improved production efficiencies in our manufacturing facilities. Reductions in energy costs also contributed to the improved earnings performance.

We continue to focus efforts on the growing custom beverage can business, which includes cans of different shapes, diameters and fill volumes, and cans with added functional attributes for new products and product line extensions. As part of this focus, we plan to invest in additional custom can capacity in the second half of 2007.

Metal Beverage Packaging, Europe/Asia

The metal beverage packaging, Europe/Asia, segment includes metal beverage packaging products manufactured and sold in Europe and Asia, as well as plastic containers manufactured and sold in Asia. This segment accounted for 26 percent of consolidated net sales in the second quarter of 2007 and 25 percent in the first six months (23 percent in both periods of 2006). Segment sales in the second quarter and first six months of 2007 were 24 percent and 26 percent higher, respectively, compared to the same periods of the prior year due largely to strong demand, market growth, higher volumes, price recovery initiatives and the strength of the euro. Higher segment volumes were aided by overall market dynamics in Europe and the PRC that favor beverage cans, as well as growth in Europe of custom can volumes. While the return of the metal beverage can to the German market, following the mandatory deposit legislation previously reported on, has been slow, demand in southern and eastern Europe experienced double-digit percentage growth in the first six months of 2007.

Segment earnings were $92.6 million in the second quarter of 2007 and $137.5 million in the first six months compared to $141.6 million and $169.7 million for the same periods in 2006, respectively. The second quarter of 2006 included a $74.1 million property insurance gain related to a fire at the company’s Hassloch, Germany, metal beverage can plant (further details are provided below). Earnings in 2007 were favorably impacted by increased sales volumes; price recovery initiatives; a stronger euro; and manufacturing and selling, general and administrative cost control programs. These improvements were partially offset by higher raw material, freight and energy costs.

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. A total of €5.9 million of additional business interruption recoveries has 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

The metal food and household products packaging, Americas, segment consists of operations located in the U.S., Canada and Argentina. The company acquired U.S. Can Corporation (U.S. Can) on March 27, 2006, and with that acquisition, added to its metal food can manufacturing the production of aerosol cans, paint cans and custom and specialty cans. Effective January 1, 2007, responsibility for a plastic pail product line was transferred to the plastic packaging, Americas, segment. Accordingly, 2006 segment amounts have been retrospectively adjusted to reflect the transfer.

Segment sales, which comprised 14 percent of consolidated net sales in the second quarter of 2007 (16 percent in 2006) and 15 percent in the first six months (15 percent in 2006), were 4 percent below the second quarter of 2006 and 16 percent above the first six months. The decrease in the second quarter was due to lower sales volumes in the quarter compared to a year ago, while the increase in the first six months was due to the inclusion of sales from the acquisition of U.S. Can, partially offset by lower food can volumes.

Segment earnings were $11.1 million in the second quarter of 2007 compared to $4.8 million in the second quarter of 2006, and $10.9 million in the first six months of 2007 compared to $5.8 million in 2006. The first quarter of 2006 included a pretax charge of $2.1 million ($1.4 million after tax) related to the shut down of a food can manufacturing line in Canada. The second quarter of 2006 included earnings of $0.4 million related to the 2005 closure of a Canadian plant. The improvement in earnings in the second quarter of 2007 was due to improved manufacturing performance in 2007 and higher cost of sales in the second quarter of 2006 due to inventory step-up costs relating to the U.S. Can acquisition, partially offset by higher material costs and lower sales volumes in 2007. The improvement in earnings in the first six months of 2007 was due to the favorable factors discussed above, partially offset by higher costs in the first quarter of 2007 as a result of poor manufacturing performance in late 2006 carried into 2007 and higher manufacturing costs and inefficiencies attributable to ongoing integration efforts related to the closure of our Burlington, Ontario, manufacturing facility in the fourth quarter of 2006.

Additional details regarding business consolidation activities are available in Note 5 accompanying the unaudited condensed consolidated financial statements included within Item 1 of this report.

Plastic Packaging, Americas

The plastic packaging, Americas, segment consists of operations located in the U.S. and Canada, which manufacture polyethylene terephthalate (PET) and polypropylene plastic container products used mainly in beverage and food packaging, as well as high density polyethylene and polypropylene containers for industrial and household product applications. On March 28, 2006, Ball acquired certain North American plastic bottle container assets from Alcan Packaging (Alcan), including two plastic container manufacturing plants in the U.S. and one in Canada, as well as certain manufacturing equipment and other assets from other Alcan facilities. Effective January 1, 2007, the plastic packaging, Americas, segment assumed responsibility for the plastic pail assets acquired as part of the U.S. Can acquisition. Accordingly, 2006 segment amounts have been retrospectively adjusted to reflect the transfer.

Segment sales, which accounted for 10 percent of consolidated net sales in both the second quarter and first six months of 2007 (11 percent and 10 percent for the comparable periods in 2006), were up 1 percent compared to the second quarter of 2006, and 20 percent higher than the first six months of 2006. The segment sales increase in the first six months of 2007 was related to the Alcan and U.S. Can acquisitions in March 2006, as well as higher PET sales volumes and prices compared to 2006. The segment sales increase in the second quarter of 2007 was attributable to higher bottle volumes and prices on existing business lines. We continue to focus our PET development efforts in the custom hot-fill, beer, wine, flavored alcoholic beverage and specialty container markets, and we have added specialty container production capacity in these areas to accommodate anticipated new demand. In the polypropylene plastic container area, development efforts are primarily focused on custom packaging markets.

Segment earnings of $7.1 million in the second quarter of 2007 and $9.4 million in the first six months were lower than 2006 earnings of $8.8 million and $10.4 million for the same periods, respectively. The lower earnings were largely due to lower margins related to the temporary idling of PET bottle production capacity attributable to lower-than-expected custom PET sales volumes and higher labor and depreciation costs.

Aerospace & Technologies

Aerospace and technologies segment sales, which represented 10 percent of consolidated net sales in the second quarter of 2007 (10 percent in 2006) and 11 percent in the first six months (10 percent in 2006), were 11 percent higher in the second quarter of 2007 than in 2006 and 19 percent higher in the first six months. The higher sales were due to new programs, increased scope on previously awarded contracts and cost overruns. Segment earnings were $15.6 million in the second quarter of 2007 compared to $8.3 million in 2006 and $35.2 million in the first six months compared to $17.8 million in 2006. Earnings improvement through the second quarter of 2007 was due to an improved contract mix as a consequence of newer, more profitable programs.

Contracted backlog in the aerospace and technologies segment at July 1, 2007, was $753 million compared to a backlog of $886 million at December 31, 2006. The backlog at the end of the second quarter does not include the award to Ball in July 2007 of a contract valued at more than $120 million to build the Operational Land Imager for the eighth Landsat Data Continuity Mission. Comparisons of backlog are not necessarily indicative of the trend of future operations.

For additional information on our segment operations, see the Summary of Business by Segment in Note 3 accompanying the unaudited condensed consolidated financial statements included within Item 1 of this report.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses were $87.3 million in the second quarter of 2007 compared to $73.5 million for the same period in 2006 and $169.5 million in the first six months of 2007 compared to $143.8 million in the first six months of 2006. Contributing to higher expenses in 2007 compared to 2006 were $4.5 million of additional SG&A from the U.S. Can acquisition, expense of $9.2 million associated with the mark-to-market adjustment of a deferred stock incentive compensation plan and normal compensation and benefit increases, including incentive compensation. Also, a $5.8 million out-of-period adjustment was included in SG&A expenses in the first quarter of 2006.

Interest and Taxes

Consolidated interest expense was $38.1 million for the second quarter of 2007 compared to $37.6 million in the same period of 2006 and $76 million for the first six months of 2007 compared to $60.9 million for the same period in 2006. The higher expense in 2007 was primarily due to higher average borrowings in connection with the company's acquisitions in March 2006, as well as higher foreign exchange rates and interest rates on foreign currency borrowings in Europe, partially offset by the reduced debt levels in second quarter 2007 versus second quarter 2006.

The consolidated effective income tax rate was 33 percent for the first six months of 2007 compared to 32 percent for the same period in 2006. The tax rate was higher in 2007 primarily due to the current impact of Financial Interpretation No. (FIN) 48, which the company adopted as of January 1, 2007; slightly lower projected tax credits in 2007; the expiration, on December 31, 2006, of the extraterritorial income exclusion for exporters, which was partially offset by an increase in the 2007 manufacturing deduction percentage; and a shift in the pretax income mix to higher tax jurisdictions. In addition, the 2006 effective tax rate included a discrete period $1.4 million tax benefit recorded upon the settlement of certain tax matters, as well as the tax benefit for some non-recurring deductions, including a Canadian rationalization charge. Details regarding the adoption of FIN 48 are included in Note 12 to the unaudited condensed consolidated financial statements within Item 1 of this report.

NEW ACCOUNTING PRONOUNCEMENTS

For information regarding recent accounting pronouncements, see Note 2 to the unaudited condensed consolidated financial statements within Item 1 of this report.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash flows provided by operations were $251.1 million in the first six months of 2007 compared to cash flows used of $66.2 million in the first six months of 2006. The improvement over 2006 was primarily due to higher net earnings, lower receivables and inventories and lower income tax payments.

Based on information currently available, we estimate 2007 capital spending to be approximately $300 million, net of property insurance recoveries, compared to 2006 net capital spending of $218.3 million.

Interest-bearing debt decreased to $2,395.1 million at July 1, 2007, compared to $2,451.7 million at December 31, 2006, primarily due to lower receivables and inventories, partially offset by higher common stock repurchases and a higher euro. We intend to allocate our operating cash flow in the balance of 2007 to debt reduction, dividends and common stock repurchases. Our stock repurchase program, net of issuances, is expected to be around $200 million in 2007 compared to $45.7 million in 2006. Through the first six months of 2007, we repurchased $95.3 million of our

common stock, net of issuances, including the $51.9 million settlement in January 2007 of a forward contract commenced in December 2006.

Total required contributions to the company's defined benefit plans, not including the unfunded German plans, are expected to be approximately $56 million in 2007. As part of the company's overall debt reduction plan, we anticipate contributing up to an incremental $45 million ($27 million after tax) to our North American pension plans during the fourth quarter of 2007. We expect these incremental contributions to bring the North American pension plans' funding to the 95 percent level. This estimate may change based on plan asset performance, the revaluation of the plans' liabilities later in 2007 and revised estimates of 2007 full-year cash flows. Payments to participants in the unfunded German plans are expected to be approximately €19 million for the full year (approximately $25 million).

At July 1, 2007, approximately $678 million was available under the company's multi-currency revolving credit facilities. In addition, the company had short-term uncommitted credit facilities of up to $335 million at the end of the second quarter, of which $68.4 million was outstanding and due on demand.

The company has a receivables sales agreement that 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 Statement of Financial Accounting Standards (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.

The company was in compliance with all loan agreements at July 1, 2007, and has met all debt payment obligations. Additional details about the company's debt and receivables sales agreement are available in Notes 11 and 6, respectively, accompanying the unaudited condensed consolidated financial statements included within Item 1 of this report.

In accordance with new United Kingdom pension regulations, Ball has provided an £8 million guarantee to the plan for its defined benefit plan in the United Kingdom. If the company's credit rating falls below specified levels, Ball will be required to either: (1) contribute an additional £8 million to the plan, (2) provide a letter of credit to the plan in that amount or (3) provide a lien on company assets to the plan in that amount. The guarantee can be removed upon approval by both Ball and the pension plan trustees.

CONTINGENCIES, INDEMNIFICATIONS AND GUARANTEES

Details about the company's contingencies, indemnifications and guarantees are available in Notes 16 and 17 accompanying the unaudited condensed consolidated financial statements included within Item 1 of this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we employ established risk management policies and procedures to reduce our exposure to fluctuations in commodity prices, interest rates, foreign currencies and prices of the company's common stock in regard to common share repurchases. 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.

We have estimated our market risk exposure using sensitivity analysis. Market risk exposure has been defined as the changes in fair value of derivative instruments, financial instruments and commodity positions. To test the sensitivity of our market risk exposure, we have estimated the changes in fair value of market risk sensitive instruments assuming a hypothetical 10 percent adverse change in market prices or rates. The results of the sensitivity analysis are summarized below.

Commodity Price Risk

We manage our North American commodity price risk in connection with market price fluctuations of aluminum primarily by entering into can and can end sales contracts, which generally include aluminum-based pricing terms that consider price fluctuations under our commercial supply contracts for aluminum purchases. Such terms may include a fixed price or an upper limit to the aluminum component of pricing. This matched pricing affects substantially all of our metal beverage packaging, Americas, net sales. We also, at times, use certain derivative instruments such as option and forward contracts as cash flow hedges to match commodity price risk with sales contracts.

Most of the plastic packaging, Americas, sales contracts negotiated through the end of the second quarter include provisions to pass through resin cost changes. As a result, we believe we have minimal exposure related to changes in the cost of plastic resin. Many of our metal food and household products packaging, Americas, sales contracts negotiated through the end of the second quarter either include provisions permitting us to pass through some or all steel cost changes we incur or incorporate annually negotiated steel costs. We anticipate that we will be able to pass through the majority of the steel price increases that occur through the end of 2007.

In Europe and Asia, the company manages aluminum and steel raw material commodity price risks through annual and long-term contracts for the purchase of the materials, as well as certain sales contracts, that reduce the company's exposure to fluctuations in commodity prices within the current year. These purchase and sales contracts include fixed price, floating and pass-through pricing arrangements. To minimize Ball's exposure to significant price changes, the company also uses forward and option contracts as cash flow hedges to manage future aluminum price risk and foreign exchange exposures for those sales contracts where there is not a pass-through arrangement.

Outstanding derivative contracts at the end of the second quarter of 2007 expire within five years. Included in shareholders' equity at July 1, 2007, within accumulated other comprehensive earnings, is approximately $6.9 million of net gain associated with these contracts, of which $1.6 million of net gain is expected to be recognized in the consolidated statement of earnings during the next 12 months. Gains and/or losses on these derivative contracts will be offset by higher and/or lower costs on metal purchases.

Considering the effects of derivative instruments, the market's ability to accept price increases and the company's commodity price exposures, a hypothetical 10 percent adverse change in the company's steel, aluminum and resin prices could result in an estimated $16.8 million after-tax reduction of net earnings over a one-year period. Additionally, if foreign currency exchange rates were to change adversely by 10 percent, we estimate there could be a $15.8 million after-tax reduction of net earnings over a one-year period for foreign currency exposures on metal. Actual results may vary based on actual changes in market prices and rates.

The company is also exposed to fluctuations in prices for energy such as natural gas and electricity, as well as the cost of diesel fuel as a component of freight cost. A hypothetical 10 percent increase in our utility prices could result in an estimated $8.9 million after-tax reduction of net earnings over a one-year period. A hypothetical 10 percent increase in our diesel fuel surcharge could result in an estimated $2 million after-tax reduction of net earnings over the same period. Actual results may vary based on actual changes in market prices and rates.

Interest Rate Risk

Our objectives in managing exposure to interest rate changes are to limit the effect of such changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we use a variety of interest rate swaps and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at July 1, 2007, included pay-fixed interest rate swaps. Pay-fixed swaps effectively convert variable rate obligations to fixed rate instruments. Swap agreements expire at various times within the next four years. Included in shareholders' equity at July 1, 2007, within accumulated other comprehensive earnings, is approximately $6.5 million of net gain

associated with these contracts, of which $1.5 million of net earnings is expected to be recognized in the consolidated statement of earnings during the next 12 months. Approximately $1.5 million of net gain related to the termination or deselection of hedges is included in the above accumulated other comprehensive earnings at July 1, 2007. The amount recognized in 2007 earnings related to terminated hedges is insignificant.

Based on our interest rate exposure at July 1, 2007, assumed floating rate debt levels through the second quarter of 2008 and the effects of derivative instruments, a 100 basis point increase in interest rates could result in an estimated $6.9 million after-tax reduction of net earnings over a one-year period. Actual results may vary based on actual changes in market prices and rates and the timing of these changes.

Foreign Currency Exchange Rate Risk

Our objective in managing exposure to foreign currency fluctuations is to protect foreign cash flows and earnings associated with foreign exchange rate changes through the use of cash flow hedges. In addition, we manage foreign earnings translation volatility through the use of foreign currency options. Our foreign currency translation risk results from the European euro, British pound, Canadian dollar, Polish zloty, Chinese renminbi, Brazilian real, Argentine peso and Serbian dinar. We face 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. Contracts outstanding at the end of the second quarter 2007 expire within five years. At July 1, 2007, there were no amounts included in accumulated other comprehensive earnings for these items.

Considering the company’s derivative financial instruments outstanding at July 1, 2007, and the currency exposures, a hypothetical 10 percent reduction in foreign currency exchange rates compared to the U.S. dollar could result in an estimated $25.1 million after-tax reduction of net earnings over a one-year period. This amount includes the $15.8 million currency exposure discussed above in the “Commodity Price Risk” section. This hypothetical adverse change in foreign currency exchange rates would also reduce our forecasted average debt balance by $85.3 million. Actual changes in market prices or rates may differ from hypothetical changes.

Item 4. CONTROLS AND PROCEDURES

Our chief executive officer and chief financial officer participated in management’s evaluation of our disclosure controls and procedures, as defined by the Securities and Exchange Commission (SEC), as of the end of the period covered by this report and concluded that our controls and procedures were effective.

During the quarter, there were no changes in the company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the company’s internal control over financial reporting. The company acquired certain operations of U.S. Can on March 27, 2006, and certain assets of Alcan on March 28, 2006. (Additional details are available in Note 4 to the condensed consolidated financial statements within Item 1 of this report.) The company is integrating the acquired U.S. Can and Alcan operations within its system of internal controls over financial reporting. Pursuant to rules promulgated under Section 404 of the Sarbanes-Oxley Act of 2002, the controls for these acquired operations are required to be evaluated and tested by the end of 2007.

FORWARD-LOOKING STATEMENT

The company has made or implied certain forward-looking statements in this report which are made as of the end of the time frame covered by this report. These forward-looking statements represent the company's goals, and results could vary materially from those expressed or implied. From time to time we also provide oral or written forward-looking statements in other materials we release to the public. As time passes, the relevance and accuracy of forward-looking statements may change. Some factors that could cause the company's actual results or outcomes to differ materially from those discussed in the forward-looking statements include, but are not limited to: fluctuation in customer and consumer growth, demand and preferences; loss of one or more major customers or changes to contracts with one or more customers; insufficient production capacity; overcapacity in foreign and domestic metal and plastic container industry production facilities and its impact on pricing; failure to achieve anticipated productivity improvements or production cost reductions, including those associated with capital expenditures such as our beverage can end project; changes in climate and weather; fruit, vegetable and fishing yields; power and natural resource costs; difficulty in obtaining supplies and energy, such as gas and electric power; availability and cost of raw materials, as well as the recent significant increases in resin, steel, aluminum and energy costs, and the ability or inability to include or pass on to customers changes in raw material costs; changes in the pricing of the company's products and services; competition in pricing and the possible decrease in, or loss of, sales resulting therefrom; insufficient or reduced cash flow; transportation costs; the number and timing of the purchases of the company's common shares; regulatory action or federal and state legislation including mandated corporate governance and financial reporting laws; the effects of the German mandatory deposit or other restrictive packaging legislation such as recycling laws; interest rates affecting our debt; labor strikes; increases and trends in various employee benefits and labor costs, including pension, medical and health care costs; rates of return projected and earned on assets and discount rates used to measure future obligations and expenses of the company's defined benefit retirement plans; boycotts; antitrust, intellectual property, consumer and other litigation; maintenance and capital expenditures; goodwill impairment; changes in generally accepted accounting principles or their interpretation; accounting changes; local economic conditions; the authorization, funding, availability and returns of contracts for the aerospace and technologies segment and the nature and continuation of those contracts and related services provided thereunder; delays, extensions and technical uncertainties, as well as schedules of performance associated with such segment contracts; international business and market risks such as the devaluation or revaluation of certain currencies and the activities of foreign subsidiaries; international business risks (including foreign exchange rates and activities of foreign subsidiaries) in Europe and particularly in developing countries such as the PRC and Brazil; changes in the foreign exchange rates of the U.S. dollar against the European euro, British pound, Polish zloty, Serbian dinar, Hong Kong dollar, Canadian dollar, Chinese renminbi, Brazilian real and Argentine peso, and in the foreign exchange rate of the European euro against the British pound, Polish zloty and Serbian dinar; terrorist activity or war that disrupts the company's production or supply; regulatory action or laws including tax, environmental and workplace safety; technological developments and innovations; successful or unsuccessful acquisitions, joint ventures or divestitures and the integration activities associated therewith; changes to unaudited results due to statutory audits of our financial statements or management's evaluation of the company's internal controls over financial reporting; and loss contingencies related to income and other tax matters, including those arising from audits performed by U.S. and foreign tax authorities. If the company is unable to achieve its goals, then the company's actual performance could vary materially from those goals expressed or implied in the forward-looking statements. The company currently does not intend to publicly update forward-looking statements except as it deems necessary in quarterly or annual earnings reports. You are advised, however, to consult any further disclosures we make on related subjects in our 10-K, 10-Q and 8-K reports to the Securities and Exchange Commission.

PART II. OTHER INFORMATION

**ItemLegal Proceedings
1.**

During the second quarter of 2007, Miller Brewing Company (customer) asserted various claims against Ball Metal Beverage Container Corp. (BMBCC), a wholly owned subsidiary of the company, alleging that BMBCC has breached its contract with the customer for the supply of aluminum beverage containers. The customer alleges, among other things, that Ball breached contract provisions relating to the pricing of the aluminum components of container costs and claims sizeable damages for breach of contract. BMBCC disputes the claims and asserts that it has performed in accordance with the supply contract. The parties are engaging in non-binding mediation under the supply contract and, if the dispute is not settled through mediation scheduled for the fourth quarter of 2007, the contract provides for the matter to be finally settled by arbitration. BMBCC and the customer are continuing to perform under the supply contract during the pendency of this matter. The company believes that BMBCC has meritorious defenses against the customer's claims, although, because of the uncertainties inherent in the mediation or arbitration process, it is unable to predict the outcome.

As previously reported, on October 6, 2005, Ball Metal Beverage Container Corp. (BMBCC), a wholly owned subsidiary of the company, was served with an amended complaint filed by Crown Packaging Technology, Inc. et. al. (Crown), in the U.S. District Court for the Southern District of Ohio, Western Division at Dayton, Ohio. The complaint alleges that the manufacture, sale and use of certain ends by BMBCC and its customers infringes upon certain claims of Crown's U.S. patents. The complaint seeks unspecified monetary damages, fees and declaratory and injunctive relief. BMBCC has formally denied the allegations of the complaint. A new trial date has been set for December 4, 2007.

Based on the information available to the company at the present time, the company does not believe that the above matters will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

**ItemRisk Factors
1A.**

Risk factors affecting the company can be found within Item 1A of the company's annual report on Form 10-K.

Item 2. Changes in Securities

The following table summarizes the company's repurchases of its common stock during the quarter ended July 1, 2007.

Purchases of Securities

($ in millions)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs *(b)*

April 2 to April 29, 2007	326,499	$	48.27	326,499	7,282,144
April 30 to May 27, 2007	58,411	$	51.71	58,411	7,223,733
May 28 to July 1, 2007	7,011	$	53.54	7,011	7,216,722
Total	391,921*(a)*	$	48.88	391,921	

(a) Includes open market purchases and/or shares retained by the company to settle employee withholding tax liabilities.

(b) The company has an ongoing repurchase program for which shares are authorized from time to time by Ball's board of directors.

Item 3. Defaults Upon Senior Securities

There were no events required to be reported under Item 3 for the quarter ended July 1, 2007.

Item 4. Submission of Matters to a Vote of Security Holders

The company held the Annual Meeting of Shareholders on April 25, 2007. Matters voted upon by proxy, and the results of the votes, were as follows:

	For	Against/ Withheld	Abstained/ Broker Non-Vote
Election of directors for terms expiring in 2010:			
Hanno C. Fiedler	70,648,409	16,757,922	–
John F. Lehman	69,728,287	17,678,044	–
Georgia R. Nelson	85,120,128	2,286,203	–
Erik H. Van der Kaay	70,734,789	16,671,542	–
Appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for 2007	85,954,147	781,477	670,707

Item 5. Other Information

There were no events required to be reported under Item 5 for the quarter ended July 1, 2007.

Item 6. Exhibits

20 Subsidiary Guarantees of Debt

31 Certifications pursuant to Rule 13a-14(a) or Rule 15d-14(a), by R. David Hoover, Chairman of the Board, President and Chief Executive Officer of Ball Corporation and by Raymond J. Seabrook, Executive Vice President and Chief Financial Officer of Ball Corporation

32 Certifications pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, by R. David Hoover, Chairman of the Board, President and Chief Executive Officer of Ball Corporation and by Raymond J. Seabrook, Executive Vice President and Chief Financial Officer of Ball Corporation

99 Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995, as amended

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ball Corporation
(Registrant)

By:	/s/ Raymond J. Seabrook Raymond J. Seabrook Executive Vice President and Chief Financial Officer
Date:	August 1, 2007

Ball Corporation and Subsidiaries
QUARTERLY REPORT ON FORM 10-Q
July 1, 2007

EXHIBIT INDEX

Description	Exhibit
Subsidiary Guarantees of Debt (Filed herewith.)	EX-20
Certifications pursuant to Rule 13a-14(a) or Rule 15d-14(a), by R. David Hoover, Chairman of the Board, President and Chief Executive Officer of Ball Corporation and by Raymond J. Seabrook, Executive Vice President and Chief Financial Officer of Ball Corporation (Filed herewith.)	EX-31
Certifications pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, by R. David Hoover, Chairman of the Board, President and Chief Executive Officer of Ball Corporation and by Raymond J. Seabrook, Executive Vice President and Chief Financial Officer of Ball Corporation (Furnished herewith.)	EX-32
Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995, as amended (Filed herewith.)	EX-99