GAIAM, INC
Form 10-Q
May 09, 2014

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the transition period from________to________

Commission File Number 000-27517

GAIAM, INC.

(Exact name of registrant as specified in its charter)

COLORADO	**84-1113527**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

833 WEST SOUTH BOULDER ROAD,

LOUISVILLE, COLORADO 80027

(Address of principal executive offices)

(303) 222-3600

(Registrant s telephone number, including area code)

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 and 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 ¨

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

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO 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 May 6, 2014**
Class A Common Stock ($.0001 par value)	18,662,761
Class B Common Stock ($.0001 par value)	5,400,000

GAIAM, INC.

FORM 10-Q

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements that involve risks and uncertainties. The words anticipate, believe, plan, estimate, expect, strive, future, intend and similar expressions are intended to identify such forward-looking statements. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures about Market Risk and elsewhere in this report. Risks and uncertainties that could cause actual results to differ include, without limitation, general economic conditions, competition, loss of key personnel, pricing, brand reputation, consumer trends, acquisitions, new initiatives undertaken by us, security and information systems, legal liability for website content, merchandise supply problems, failure of third parties to provide adequate service, our reliance on centralized customer service, overstocks and merchandise returns, our reliance on a centralized fulfillment center, increases in postage and shipping costs, E-commerce trends, future Internet related taxes, our founder s control of us, fluctuations in quarterly operating results, customer interest in our products, the effect of government regulation and other risks and uncertainties included in our filings with the Securities and Exchange Commission. We caution you that no forward-looking statement is a guarantee of future performance, and you should not place undue reliance on these forward-looking statements which reflect our view only as of the date of this report. We undertake no obligation to update any forward-looking information.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared our unaudited interim condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to these rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited interim condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, our consolidated financial position as of March 31, 2014, the interim results of operations for the three months ended March 31, 2014 and 2013, and cash flows for the three months ended March 31, 2014 and 2013. These interim statements have not been audited. The balance sheet as of December 31, 2013 was derived from our audited consolidated financial statements included in our annual report on Form 10-K. The interim condensed consolidated financial statements contained herein should be read in conjunction with our audited financial statements, including the notes thereto, for the year ended December 31, 2013.

GAIAM, INC.

Condensed consolidated balance sheets

(in thousands, except share and per share data)	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash	$ 29,545	$ 32,229
Accounts receivable, net	23,832	31,399
Inventory, less allowances	19,886	20,275
Deferred advertising costs	583	311
Advances	620	1,078
Other current assets	8,491	8,081
Current assets of discontinued operations	900	1,879
Total current assets	83,857	95,252
Property and equipment, net	22,648	22,540
Media library, net	5,578	5,211
Goodwill	13,999	13,999
Other intangibles, net	858	1,155
Other assets	2,240	1,835
Noncurrent assets of discontinued operations	10	10
Total assets	$ 129,190	$ 140,002
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 8,440	$ 11,697
Accrued liabilities	15,092	17,503
Participations payable	632	3,916
Current liabilities of discontinued operations	831	1,596
Total current liabilities	$ 24,995	34,712
Commitments and contingencies		
Equity:		
Gaiam, Inc. shareholders equity:		
Class A common stock, $.0001 par value, 150,000,000 shares authorized, 18,638,448 and 18,595,121 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	2	2
Class B common stock, $.0001 par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding at March 31, 2014 and December 31, 2013	1	1
Additional paid-in capital	168,609	167,875
Accumulated other comprehensive income (expense)	194	(33)
Accumulated deficit	(68,547)	(66,413)
Total Gaiam, Inc. shareholders equity	100,259	101,432

Noncontrolling interest	3,936	3,858
Total equity	104,195	105,290
Total liabilities and equity	$ 129,190	$ 140,002

See accompanying notes to the interim condensed consolidated financial statements.

GAIAM, INC.

Condensed consolidated statements of operations

(in thousands, except per share data)	For the Three Months Ended March 31, 2014	2013
	(unaudited)	
Net revenue	$ 37,611	$ 36,679
Cost of goods sold	20,591	20,929
Gross profit	17,020	15,750
Expenses:		
Selling and operating	16,408	15,382
Corporate, general and administration	3,090	2,921
Other general income and expense		603
Total expenses	19,498	18,906
Loss from operations	(2,478)	(3,156)
Interest and other income (expense)	38	(31)
Gain on sale of investment	438	
Loss before income taxes and noncontrolling interest	(2,002)	(3,187)
Income tax expense (benefit)	96	(984)
Net loss from continuing operations	(2,098)	(2,203)
Income from discontinued operations, net of tax	26	1,981
Net loss	(2,072)	(222)
Net (income) attributable to noncontrolling interest	(62)	(54)
Net loss attributable to Gaiam, Inc.	$ (2,134)	$ (276)
Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic:		
From continuing operations	$ (0.09)	$ (0.10)
From discontinued operations	$ 0.00	$ 0.09
Basic net income (loss) per share attributable to Gaiam, Inc.	$ (0.09)	$ (0.01)
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:		
From continuing operations	$ (0.09)	$ (0.10)
From discontinued operations	$ 0.00	$ 0.09
Diluted net income (loss) per share attributable to Gaiam, Inc.	$ (0.09)	$ (0.01)

Weighted-average shares outstanding:		
Basic	24,006	22,732
Diluted	24,006	22,732

See accompanying notes to the interim condensed consolidated financial statements.

GAIAM, INC.

Condensed consolidated statements of comprehensive loss

	For the Three Months Ended March 31,	
(in thousands, except per share data)	**2014**	**2013**
	(unaudited)	
Net loss	$ (2,072)	$ (222)
Accumulated other comprehensive income (loss):		
Foreign currency translation gain (loss), net of tax	27	2
Unrealized gain on equity security, net of tax	232	
Comprehensive loss	(1,813)	(220)
Less: comprehensive (income) loss attributable to the noncontrolling interest	(16)	(55)
Comprehensive loss attributable to Gaiam, Inc.	$ (1,829)	$ (275)

See accompanying notes to the interim condensed consolidated financial statements

GAIAM, INC.

Condensed consolidated statements of cash flows

(in thousands)	For the Three Months Ended March 31, 2014	2013
	(unaudited)	
Operating activities		
Net loss	$ (2,072)	$ (222)
Income from discontinued operations	(26)	(1,981)
Loss from continuing operations	(2,098)	(2,203)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	512	553
Amortization	518	386
Share-based compensation expense	583	194
Deferred and stock option income tax expense (benefit)	(43)	91
(Gain) loss on translation of foreign currency	(28)	42
Gain on investment	(438)	
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	7,598	3,074
Inventory, net	399	2,272
Deferred advertising costs	(272)	380
Advances	459	282
Other current assets	(647)	(1,060)
Accounts payable	(3,273)	(1,958)
Participations payable	(3,478)	312
Accrued liabilities	(2,237)	1,330
Net cash provided by (used in) operating activities continuing operations	(2,445)	3,695
Net cash provided by (used in) operating activities discontinued operations	239	2,501
Net cash provided by (used in) operating activities	(2,206)	6,196
Investing activities		
Proceeds from sale of investment	438	
Purchase of property, equipment and media rights	(1,208)	(652)
Purchase of businesses, net of acquired cash		(321)
Net cash used in investing activities continuing operations	(770)	(973)
Net cash used in investing activities discontinued operations		(26)
Net cash used in investing activities	(770)	(999)
Financing activities		
Proceeds from issuance of stock	193	

Net cash (used in) provided by financing activities continuing operations		193		
Net cash (used in) provided by financing activities discontinued operations				(7,903)
Net cash (used in) provided by financing activities		193		(7,903)
Effect of exchange rates on cash		99		(40)
Net change in cash		(2,684)		(2,746)
Cash at beginning of period		32,229		9,858
Cash at end of period		29,545		7,112
Supplemental cash flow information				
Income taxes paid	$	147	$	33
Interest paid	$	13	$	164

See accompanying notes to the interim condensed consolidated financial statements

Notes to interim condensed consolidated financial statements

1. Organization, Nature of Operations, and Principles of Consolidation

References in this report to we , us , our or Gaiam refer to Gaiam, Inc. and its consolidated subsidiaries, unless we indicate otherwise. We are a lifestyle media company providing a broad selection of information, media, products and services to customers who value personal development, wellness, ecological lifestyles, responsible media and conscious community. We were incorporated under the laws of the State of Colorado on July 7, 1988.

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States, or GAAP, and they include our accounts and those of our subsidiaries. Intercompany transactions and balances have been eliminated.

The unaudited condensed consolidated financial position, results of operations and cash flows for the interim periods disclosed in this report are not necessarily indicative of future financial results.

Discontinued Operations

During 2013, we sold our non-branded entertainment media distribution operation and discontinued our DRTV operations. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented as discontinued operations separate from our continuing operations, for all periods presented in these consolidated financial statements and footnotes, unless indicated otherwise.

2. Significant Accounting Policies

No changes were made to our significant accounting policies during the three months ended March 31, 2014.

Recent Accounting Pronouncements

In April of 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in the ASU change the criteria for reporting discontinued operations and expand the related disclosures. Under the new guidance, only disposals representing a strategic shift in operations are presented as discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. The Company has not determined the impact the new ASU will have on reported financial position or results of operations.

Use of Estimates and Reclassifications

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and disclosures. Although we base these estimates on our best knowledge of current events and actions that we may undertake in the future, actual results may be different from the estimates. We have made certain reclassifications to prior period amounts to conform to the current period presentations.

3. Related Party Transactions

During 2013, we sold the majority of our investment in Real Goods Solar, Inc. (RSOL) for total net proceeds of approximately $25 million. Following the sale of the first portion in May 2013, our voting ownership percentage declined to below 20% and our Chairman resigned as Chairman of RSOL s board and, thus, we no longer had significant influence over Real Goods Solar. Therefore, we changed our accounting for our investment in RSOL from the equity to cost method. Due to this accounting method change, we no longer report our portion of RSOL s net income or loss each period.

4. Equity

During the first three months of 2014, we issued 4,827 shares of our Class A common stock under our 2009 Long-Term Incentive Plan to our independent directors, in lieu of cash compensation, for services rendered in 2014. We valued the shares issued to our independent directors at estimated fair value based on the closing price of our shares on the date the shares were issued, which by policy is the last trading day of each quarter in which the services were rendered.

The following is a reconciliation from December 31, 2013 to March 31, 2014 of the carrying amount of total equity, equity attributable to Gaiam, Inc., and equity attributable to the noncontrolling interest.

			Gaiam, Inc. Shareholders				
(in thousands)	Total	Comprehensive Loss	Accumulated Deficit	Accumulated Other Comprehensive Income	Class A and Class B Common Stock	Paid-in Capital	Noncontrolling Interest
Balance at December 31, 2013	$ 105,290		$ (66,413)	$ (33)	$ 3	$ 167,875	$ 3,858
Issuance of Gaiam, Inc. common stock and share-based compensation	734					734	
Comprehensive loss:							
Net income (loss)	(2,072)	(2,072)	(2,134)				62
Unrealized gains on investment, net of tax of $128	232	232		232			
Foreign currency translation adjustment, net of taxes of $4	11	11		(5)			16
Comprehensive loss	(1,829)	$ (1,829)					
Balance at March 31, 2014	$ 104,195		$ (68,547)	$ 194	$ 3	$ 168,609	$ 3,936

5. Comprehensive Loss

The tax effects allocated to our other comprehensive income component, foreign currency translation, were as follows:

	Three Months Ended March 31,	
(in thousands)	2014	2013
Before-tax amount	$ 15	$ 3
Tax benefit	(4)	(1)
Net-of-tax amount	$ 11	$ 2

6. Share-Based Payments

During the first quarter of 2014, we granted 100,000 new options under our 2009 Long-Term Incentive Plans and extended the term of certain options granted to a member of our executive team for an additional year. Total share-based compensation expense recognized was $0.6 million and $0.2 million for the three months ended March 31, 2014 and 2013, respectively, and is reported in corporate, general and administration expenses on our condensed consolidated statements of operations.

7. Net Loss Per Share Attributable To Gaiam, Inc. Common Shareholders

Basic net loss per share attributable to Gaiam, Inc. common shareholders excludes any dilutive effects of options. We compute basic net loss per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock outstanding during the period. We compute diluted net loss per share attributable to Gaiam, Inc. common shareholders using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. We excluded common stock equivalents of 888,000 and 1,518,000 from the computation of diluted net loss per share attributable to Gaiam, Inc. common shareholders for the three months ended March 31, 2014 and 2013, respectively, because their effect was antidilutive.

The following table sets forth the computation of basic and diluted net loss per share attributable to Gaiam, Inc. common shareholders:

(in thousands, except per share data)	Three Months Ended March 31, 2014	2013
Net loss attributable to Gaiam, Inc. common shareholders:		
Loss from continuing operations	$ (2,160)	$ (2,257)
Income from discontinued operations	26	1,981
Net loss attributable to Gaiam, Inc.	$ (2,134)	$ (276)
Weighted average shares for basic net loss per share	24,006	22,732
Effect of dilutive securities:		
Weighted average of common stock and stock options		
Weighted average shares for diluted net loss per share	24,006	22,732
Net income (loss) per share attributable to Gaiam, Inc. common shareholders basic:		
Income (loss) from continuing operations	$ (0.09)	$ (0.10)
Income from discontinued operations	0.00	0.09
Basic net income (loss) per share attributable to Gaiam, Inc.	$ (0.09)	$ (0.01)
Net income (loss) per share attributable to Gaiam, Inc. common shareholders diluted:		
Income (loss) from continuing operations	$ (0.09)	$ (0.10)
Income from discontinued operations	0.00	0.09
Diluted net income (loss) per share attributable to Gaiam, Inc.	$ (0.09)	$ (0.01)

8. Income Taxes

Periodically, we perform assessments of the realization of our net deferred tax assets considering all available evidence, both positive and negative. A significant piece of evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2013. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. On the basis of this assessment, we recorded a charge of $23.2 million to income tax expense to record a valuation allowance against our deferred tax assets as of December 31, 2013. For the quarter ended March 31, 2014, we continued to provide a valuation allowance against deferred tax assets generated during the quarter. As income is generated in future periods, the Company expects to reverse the valuation allowance as utilization of the deferred tax assets occurs.

9. Segment Information

We manage our company and aggregate our operational and financial information in accordance with two reportable segments. The direct to consumer segment contains direct response marketing program, catalog, Internet, retail store and subscription channels; and the business segment comprises retailer, media distribution, and corporate account channels.

Although we are able to track sales by channel, the management, allocation of resources, and analysis and reporting of expenses are presented on a combined basis, at the reportable segment level. Contribution margin is defined as net revenue less cost of goods sold and total operating expenses.

Financial information for our segments is as follows:

	Three Months Ended March 31,	
(in thousands)	**2014**	**2013**
Net revenue:		
Direct to consumer	$ 13,165	$ 11,271
Business	24,446	25,408
Consolidated net revenue	37,611	36,679
Contribution income (loss):		
Direct to consumer	(4,839)	(5,170)
Business	2,361	2,014
Consolidated contribution income (loss)	(2,478)	(3,156)
Reconciliation of contribution income (loss) to net loss attributable to Gaiam, Inc.:		
Interest and other income (expense)	38	(31)

(in thousands)	Three Months Ended March 31, 2014	2013
Gain on sale of investment	438	
Income tax expense (benefit)	96	(984)
Income from discontinued operations	26	1,981
Net income attributable to noncontrolling interest	(62)	(54)
Net loss attributable to Gaiam, Inc.	$ (2,134)	$ (276)

10. Discontinued Operations

During the fourth quarter of 2013, we consummated the sale of GVE Newco, LLC (GVE), a wholly-owned subsidiary of ours representing our non-branded entertainment media business and discontinued our DRTV operations. In connection with these discontinued operations, we recognized certain exit activity and asset impairment charges. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented as discontinued operations in our financial statements and footnotes presented herein.

The income from discontinued operations amounts as reported on our consolidated statements of operations were comprised of the following amounts:

	Three Months Ended March 31,	
(in thousands)	**2014**	**2013**
Net revenue	$ 2,254	$ 19,954
Income from operations before income taxes	26	3,307
Income tax expense		1,129
Income from operations of discontinued operations	$ 26	$ 1,981

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this document. This section is designed to provide information that will assist in understanding our condensed consolidated financial statements, changes in certain items in those statements from period to period, the primary factors that caused those changes and how certain accounting principles, policies and estimates affect the condensed consolidated financial statements.

Overview and Outlook

We are a leader in the design, creation, and marketing of products and media for consumers who are interested in yoga, fitness, and wellbeing. Additionally, we operate a subscription video on-demand service, Gaiam TV, which is dedicated to creating, acquiring, and delivering conscious media. Through our business activities, we seek to position our brand as a trusted source for information and products that are relevant to our consumers active lifestyles and transformational journeys. Our broad distribution network includes retail, online, and digital channels. At the end of 2013, our brands were carried by over 38,000 retail stores worldwide. Our business is vertically integrated from product design and content creation through product development and sourcing, to customer service and distribution. This efficient supply chain enables us to provide quality products at competitive prices for all of our brands.

We intend to build upon our authenticity and heritage in the yoga, fitness, wellbeing, and conscious media sectors. We believe that the size of our end markets is growing as a result of growth in yoga participation, greater awareness of health and wellness, and the success of our retail and online partners. We intend to leverage our product development, supply chain, and retail relationships to continue to expand and innovate our brand s offerings enabling us to capitalize on the growth in our end markets.

On October 21, 2013, we sold GVE Newco LLC (GVE), a wholly-owned subsidiary of ours comprised of our non-branded entertainment media business, to Cinedigm Corp. (CIDM), for $51.7 million, plus a post-closing adjustment for GVE s closing net working capital that is currently being negotiated by the parties. Going forward, we intend to focus on and invest in growing our branded yoga, fitness and wellbeing, and video subscription streaming businesses, both organically and through acquisitions.

We market our products and services across two segments: business and direct to consumer. GVE was part of our business segment and DRTV was part of our direct to consumer segment, and now both are reported as discontinued operations.

Our business segment sells directly to retailers, digital partners, and corporate accounts. Following the sale of GVE, our products were available in over 38,000 retail doors worldwide. Our business segment has also successfully expanded our brands with strategic store-within-store placements in all Sports Authority stores, bringing the total of our branded store-within-store presentations to over 15,000 locations worldwide.

Our direct to consumer segment gives us the ability to test, launch, and support new products, and through direct relationships with our customers, allows us to promote our products, grow out digital subscription and steaming customer base, and gather customer feedback on Gaiam and the LOHAS industry.

In our direct to consumer segment, we continue to work on the category and channel expansion of the Gaiam brand by moving our e-commerce and catalog offerings towards more proprietary yoga and fitness, health and wellness, and apparel products. This year, we completed updates for our e-commerce platform that deliver more engaging, focused, and simplified shopping experiences to our customers. Our re-designed website has allowed us to stay even more connected with and accessible to our customers, including through user friendly mobile designs for Apple and Android devices. We continue to expand our e-commerce offerings with unique products that are only available online and that complement our core Gaiam product lines. We plan to continue to grow our offerings for video, interactive, and mobile devices as these initiatives enable us to better leverage our e-commerce and catalog products.

We are also continuing to invest in and actively market our subscription video streaming business, Gaiam TV (GaiamTV.com). In late 2013, we acquired My Yoga Online (My Yoga), Canada s largest online yoga video streaming subscription business, to merge it with Gaiam TV. With a subscription price the same as Gaiam TV, $9.95 per month, My Yoga is a perfect complement to Gaiam TV s offerings and well aligned with the Gaiam brand. Now with over 6,000 video titles, Gaiam TV offers subscribers access to the world s largest online library of yoga, wellness, personal growth and conscious media videos.

During the first quarter of 2014, the decrease in our business segment was primarily driven by the conversion of our media category management business from a licensed model to a distribution model in order to improve margins, simplify our business model and improve working capital and cash flow. This change reduces revenue without impacting gross profit. This segment also continues to benefit from growth in Gaiam Restore products, our at-home rehabilitative and restorative products, and our SPRI Dynamic Recovery brands along with the recent introduction of our SPRI Cross Train line of high-intensity fitness accessories, have broadened our offerings and will enable us to continue growing our brand this year. Due to our compliment of branded and non-branded products and our leading offering for fitness media, we have achieved category management and media aggregator roles and effectively manage the yoga and fitness offerings at some of the largest retailers in the nation.

During the first quarter of 2014, we continued the repositioning of our ecommerce and catalog product offerings towards more apparel and fitness. We are also continuing to invest in and market our digital platform, Gaiam TV.com, which will allow us to further leverage our existing subscriber base and catalog and Internet consumer relationships to grow our digital sales through the delivery of primarily exclusive media content.

On March 17, 2014, Gaiam announced that its Board of Directors agreed to pursue the separation of the Company s subscription unit from the Gaiam-branded business into two separate publicly traded companies. The Company currently expects the separation to take the form of a tax-free spin-off to shareholders. If approved and consummated, the separation of the subscription unit could materially change the operations, results and liquidity needs of the Company subsequent to the spin-off transaction.

Results of Operations

The table below summarizes certain of our results for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31,	
(in millions, except per share data)	**2014**	**2013**
Net revenues	$ 37.6	$ 36.7
Gross profit	17.0	15.7
Selling and operating corporate, general and administration	19.5	18.9
Operating loss	(2.5)	(3.2)
Interest and other income (expense)		
Gain on sale of investment	0.4	
Loss before taxes	(2.1)	(3.2)
Income tax expense (benefit)		(1.0)
Income (loss) from continuing operations	2.1	(2.2)
Income from discontinued operations		2.0
Net loss	(2.1)	(0.2)
Net (income) loss attributable to noncontrolling interest		(0.1)
Net loss attributable to Gaiam, Inc.	(2.1)	(0.3)

The following table sets forth certain financial data as a percentage of revenue for the periods indicated:

	Three Months Ended March 31,	
	2014	**2013**
Net revenue	100.0%	100.0%
Cost of goods sold	54.7%	57.1%
Gross profit	45.3%	42.9%
Expenses:		
Selling and operating	43.6%	41.9%
Corporate, general and administration	8.2%	8.0%
Other general income and expense	%	1.6 %

Total expenses	51.8%	51.5%
Income (loss) from operations	-6.5%	-8.6%
Interest and other income (expense)	0.1%	-0.1%
Gain on sale on investment	1.2%	%
Income (loss) before taxes	-5.2%	-8.7%
Income tax expense (benefit)	0.3%	-2.7%
Income (loss) from continuing operations	-5.5%	-6.0%
Income (loss) from discontinued operations	-0.1%	5.4%
Net (income) loss attributable to noncontrolling interest	-0.2%	-0.1%
Net loss attributable to Gaiam, Inc.	-5.6%	-0.7%

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net revenue. Net revenue increased $1 million, or 2.5%, to $37.6 million during the first quarter of 2014 from $36.7 million during the first quarter of 2013. Net revenue in our business segment decreased $1 million, or 3.8%, to $24.4 million during the first quarter of 2014 from $25.4 million during the first quarter of 2013, due primarily to the conversion of our media category management business from a licensed model to a distribution model in order to improve margin, simplify our business model and improve working capital and cash flow. This change reduces revenue without impacting gross profit. Net revenue in our direct to consumer segment increased $1.9 million, or 16.8%, to $13.2 million during the first quarter of 2014 from $11.3 million during the first quarter of 2013, primarily attributable to increased sales in our travel business and Gaiam TV s global digital subscription service.

Cost of goods sold. Cost of goods sold decreased $0.3 million, or 1.6%, to $20.6 million during the first quarter of 2014 from $20.9 million during the first quarter of 2013. Cost of goods sold in our business segment decreased $0.7 million, or 4.7%, to $14.4 million during the first quarter of 2014 from $15.1 million during the first quarter of 2013 and, as a percentage of net revenue, decreased to 58.8% during the first quarter of 2014 from 59.2% during the first quarter of 2013, primarily due to the conversion of our media category management business from a licensed model to a distribution model. Cost of goods sold in our direct to consumer segment increased $0.3 million, or 5.7%, to $6.2 million during the first quarter of 2014 from $5.9 million during the first quarter of 2013 and, as a percentage of net revenue, decreased to 47.2% during the first quarter of 2014 from 52.1% during the first quarter of 2013, primarily reflecting the increase in sales in Gaiam TV.

Selling and operating expenses. Selling and operating expenses increased $1 million, or 6.7%, to $16.4 million during the first quarter of 2014 from $15.4 million during the first quarter of 2013 and, as a percentage of net revenue, increased to 43.6% during the first quarter of 2014 from 41.9% during the first quarter of 2013, primarily due to additional investments in our digital subscription businesses.

Corporate, general and administration expenses. Corporate, general and administration expenses increased $0.2 million, or 5.8%, to $3.1 million during the first quarter of 2014 from $2.9 million during the first quarter of 2013 and, as a percentage of net revenue, increased to 8.2% during the first quarter of 2014 from 8.0% during the first quarter of 2013.

Gain on sale of investment. Gain on sale of investment was $0.4 million during the first quarter of 2014 and represented our gain on the sale of 100,000 shares of Real Goods Solar s stock during the quarter.

Interest and other income (expense). Interest and other income (expense) was income of $38,000 during the first quarter of 2014 compared to expense of $31,000 during the first quarter of 2013 as a result of a gain of our investment on foreign currency.

Income tax expense (benefit). Income tax expense during the first quarter of 2014 was $0.1 million vs. a benefit of $1.0 million for the first quarter of 2013. This increase in income taxes was due to a valuation allowance recorded against deferred tax assets in the quarter. Although the book value of these assets has been impaired, they remain available to offset future income.

Net loss attributable to Gaiam, Inc. As a result of the above factors, net loss attributable to Gaiam, Inc. was $2.1 million, or $0.09 per share, during the first quarter of 2014 compared to $0.3 million, or $0.01 per share, during the first quarter of 2013.

Seasonality

Our sales are affected by seasonal influences. On an aggregate basis, we generate our strongest revenues and net income in the fourth quarter due to increased holiday spending and retailer fitness purchases.

Liquidity and Capital Resources

Our capital needs arise from working capital required to fund operations, capital expenditures related to acquisition and development of media content, development and marketing of our ecommerce and digital platforms and new products, acquisitions of new businesses, replacements, expansions and improvements to our infrastructure, and future growth. These capital requirements depend on numerous factors, including the rate of market acceptance of our product offerings, our ability to expand our customer base, the cost of ongoing upgrades to our product offerings, the level of expenditures for sales and marketing, the level of investment in distribution systems and facilities and other factors. The timing and amount of these capital requirements are variable and we cannot accurately predict them. Additionally, we will continue to pursue opportunities to expand our media libraries, evaluate possible investments in businesses, products and technologies, and increase our sales and marketing programs and brand promotions as needed. At March 31, 2014, our cash balance was $29.5 million. Including our investment in Gaiam TV, we estimate that our capital expenditures will total approximately $6.0 million for 2014.

Cash Flows

The following table summarizes our primary sources (uses) of cash during the periods presented:

(in thousands)	For the three Months ended March 31, 2014	2013
Net cash provided by (used in):		
Operating activities continuing operations	$ (2,445)	$ 3,695
Operating activities discontinued operations	239	2,501
Operating activities	(2,206)	6,196
Investing activities continuing operations	(770)	(973)
Investing activities discontinued operations		(26)
Investing activities	(770)	(999)
Financing activities continuing operations	193	
Financing activities discontinued operations		(7,903)
Financing activities	193	(7,903)
Effects of exchange rates on cash	99	(40)
Net increase (decrease) in cash	$ (2,684)	$ (2,746)

<u>Continuing Operations</u>

Operating activities. Our continuing operating activities had a net cash usage of $2.4 million and provided net cash of $3.7 million during the first quarters of 2014 and 2013, respectively. Our net cash used by continuing operating activities during the first quarter of 2014 was primarily attributable to decreased accounts payable of $3.3 million, decreased participations payable of $3.5 million, decreased other current liabilities of $2.2 million offset by decreased accounts receivable of $7.6 million. Our net cash provided in continuing operating activities during the first quarter of 2013 was primarily attributable to decreased accounts receivable of $3.1 million, decreased inventory of $2.3 million, increased other current liabilities of $1.3 million offset by decreased accounts payable of $2.0 million and increased other current assets of $1.1 million.

Investing activities. Our investing activities used net cash of $0.8 million and $1.0 million during the first quarters of 2014 and 2013, respectively. The net cash used in investing activities during the first quarter of 2014 was used primarily to for leasehold improvements for $0.2 million, media content for $0.3 million, and $0.3 million for software development. The net cash used in investing activities during the first quarter of 2013 was used primarily to acquire property and equipment to maintain normal operations for $0.4 million, media content for $0.3 million, and to purchase partial ownerships of businesses for $0.3 million, net of cash acquired

Financing activities. Our financing activities provided net cash of $0.2 million for the first quarter of 2014. There were no financing activities in the first quarter of 2013. The net cash provided in financing activities during the first quarter of 2014 due to the issuance of Gaiam Common Stock from stock option exercises.

Discontinued Operations:

Operating activities. Our operating activities for discontinued operations provided net cash of $0.2 million and $2.5 million during the first quarters of 2014 and 2013, respectively. Our net cash provided by operating activities during the first quarter of 2014 was primarily attributable to decreased accounts receivable and inventory of $1.0 million, and decreased accounts payable and accrued liabilities of $0.8 million. Our net cash provided in operating activities during the first quarter of 2013 was primarily attributable to operating income of $1.9 million, decreased accounts receivable of $10.8 million, increased accounts payable and accrued liabilities of $4.5 million, decreased other assets of $0.3 million, offset by increased inventory of $1 million, increased advances of $2.3 million and decreased participations payable of $11.7 million.

Investing activities. There were no investing activities for the first quarter of 2014 for our discontinued operations. For the first quarter of 2013 our investing activities for discontinued operations used $26,000.

Financing activities. There were no financing activities for the first quarter of 2014 for our discontinued operations. For the first quarter of 2013, our financing activities used net cash of $7.9 million. The net cash used in financing activities during the first quarter of 2013 was for the repayment of borrowings on our line of credit for $7.9 million.

We currently have an effective shelf registration statement on file with the Securities and Exchange Commission for 5,000,000 shares of our Class A common stock and to date no shares have been issued under this shelf registration statement.

In the normal course of our business, we investigate, evaluate and discuss acquisition, joint venture, minority investment, strategic relationship and other business combination opportunities in our market. For any future investment, acquisition or joint venture opportunities, we may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

While there can be no assurances, we believe our cash on hand, cash expected to be generated from operations, cash that could be raised by the sale of our shelf registration stock, Real Goods Solar s Class A common stock, Cinedigm s common stock, tax savings from available carried forward tax net operating losses, and borrowing capabilities should be sufficient to fund our operations on both a short-term and long-term basis. In addition, we own our corporate headquarters and could enter into a financing or sale/lease back transaction to provide additional funds. However, our projected cash needs may change as a result of acquisitions, product development, unforeseen operational difficulties or other factors.

Contractual Obligations

We have commitments pursuant to operating lease and media distribution agreements. The following table shows our commitments to make future payments or advances under these agreements as of March 31, 2014:

(in thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Operating lease payments	$ 2,826	$ 1,855	$ 971	$	$
Media distribution advances	8,000	3,750	4,250		
Total contractual obligations	$ 10,826	$ 5,605	$ 5,221	$	$

Risk Factors

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications as well as oral forward looking statements made from time to time by our representatives. These risks and uncertainties include those risks listed in our Annual Report on Form 10-K for the year ended December 31, 2013. Historical results are not necessarily an indication of the future results. Except for the historical information contained herein, the matters discussed in this analysis are forward-looking statements that involve risk and uncertainties, including, but not limited to, general economic and business conditions, competition, pricing, brand reputation, consumer trends, and other factors which are often beyond our control. We do not undertake any obligation to update forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes, but do have on occasion forward contracts for foreign currency transactions and hold foreign currency, the gains and losses from which have been immaterial. In 2010, we acquired controlling financial interest in and, therefore, consolidated Gaiam PTY, an Australian based joint venture. Since Gaiam PTY s functional currency is the Australian dollar, this subsidiary exposes us to risk associated with foreign currency exchange rate fluctuations. However, we have determined that no material market risk exposure to our consolidated financial position, results from operations or cash flows existed as of March 31, 2014.

We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are primarily U.S. dollar denominated transactions. A decline in the relative value of the U.S. dollar to other foreign currencies has and may continue to lead to increased purchasing costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based upon its evaluation as of March 31, 2014, our management has concluded that those disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No changes in our inttely 31 percent of total U.S. and Canadian shipments in 2007. 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.

Including the effect of the legal settlement, earnings in the segment were $213.6 million in 2007 compared to $269.4 million in 2006 and $234.8 million in 2005. Contributing to the higher segment earnings in 2007, before the legal settlement, compared to 2006 were gains from sourcing of raw materials that totaled approximately $30 million. Also contributing were approximately $9 million of lower manufacturing costs related to the new end technology project and improved production efficiencies. These gains were offset by increased repairs and maintenance costs and higher labor and other conversion costs, a portion of which could not be passed through to our customers.

The third quarter of 2005 included a pretax charge of $19.3 million ($11.7 million after tax) related to a project to significantly upgrade and streamline our North American beverage can end manufacturing capabilities. The project is expected to be largely completed in 2009. Segment earnings growth in 2006 compared to 2005 (before the end project charge), although aided by 9 percent higher sales in 2006, was constrained by product mix and continued year-over-year cost growth, particularly higher energy, other direct material and freight costs, which, combined, were approximately $20 million higher than in 2005.

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 2007 (23 percent in 2006). Ball Packaging Europe, which represents an estimated 29 percent of total European metal beverage container manufacturing capacity, has manufacturing plants located in Germany, the United Kingdom, France, the Netherlands, Poland and Serbia.

Segment sales in 2007 were 26 percent higher than in 2006, due to over 9 percent sales volume growth, higher pricing and a 9 percent year-over-year impact from the increase in the euro. Higher segment volumes were aided by overall market dynamics in Europe that favor beverage cans, as well as growth in Europe of custom can volumes. Offsetting these favorable volume trends were the impacts of the colder and wetter than normal summer weather in many parts of Europe.

Segment can shipments were more than 9 percent higher in 2006 than in 2005. Higher segment sales volumes were aided by strong European demand, favorable European weather, Germany hosting the World Cup soccer championship during June and July 2006 and continued growth in the PRC market. Segment sales, which grew 12 percent in 2006, also benefited slightly from the strength of the euro. The new beverage can plant in Belgrade, Serbia, built to serve the growing demand for beverage cans in southern and eastern Europe, became fully operational during the third quarter of 2005. The Serbian plant was constructed to accommodate a second can production line and a can end manufacturing module for future growth. Ball has announced its intention to increase capacity in this segment through the construction of a beverage can manufacturing plant in India, as well as a second beverage can plant in Poland.

Earnings in the segment were $256.1 million in 2007, $268.7 million in 2006 and $180.5 million in 2005. Segment earnings in 2006 included a $75.5 million property insurance gain related to a fire at the company's Hassloch, Germany, metal beverage can plant (further details are provided below). The fourth quarter of 2005 included a $9.3 million gain primarily resulting from the final settlement of all tax obligations related to liquidating PRC operations for amounts less than originally estimated. First quarter 2005 segment earnings included a $3.4 million expense for the write off of the remaining carrying value of an equity investment in the PRC.

Segment earnings in 2007 compared to 2006, excluding the $75.5 million property insurance gain, increased due to a combination of $76 million in net margin increases from higher sales volumes and price recovery initiatives, $16 million from cost control programs and $13 million due to a stronger euro. These earnings improvements were partially offset by $15.9 million of lower business interruption insurance recognition in 2007 and $26 million of other higher costs. Segment earnings in 2006 were higher than in 2005 due largely to 9 percent sales higher volumes, certain price recovery initiatives and effective manufacturing and selling, general and administrative cost controls. These gains were partially offset by higher raw material, freight and energy costs, and price/cost compression in the PRC.

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. The property insurance proceeds recorded for the year ended December 31, 2006, which were based on replacement cost, were €86.3 million ($109.3 million), of which €26 million ($32.4 million) was received in April 2006, €22.7 million ($28.9 million) was received in October 2006 and the remainder of €37.6 million ($48.6 million), which was recorded in other long-term assets at December 31, 2006, was received in January 2007. A €26.7 million ($33.8 million) fixed asset write down was recorded to reflect the estimated impairment of the assets damaged as a result of the fire. As a result, a pretax gain of €59.6 million ($75.5 million) was recorded in the 2006 consolidated statement of earnings to reflect the difference between the net book value of the impaired assets and the property insurance proceeds. An additional €27.2 million ($35.1 million) and €40 million ($51 million) were recorded in cost of sales in 2007 and 2006, respectively, for insurance recoveries related to business interruption costs, as well as €11.3 million ($14.3 million) in 2006 to offset clean-up costs.

Metal Food and 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 business the production and sale of aerosol cans, paint cans, plastic pails and decorative specialty cans. Effective January 1, 2007, responsibility for the plastic pail product line with 2007 net sales of $52.1 million was transferred to the plastic packaging, Americas, segment. Accordingly, 2006 segment amounts have been retrospectively adjusted to reflect the transfer.

Segment sales in 2007 constituted 16 percent of consolidated net sales (17 percent in 2006) and were 4 percent higher than 2006 sales. The higher 2007 sales were impacted by 10 percent for the inclusion of a full year's sales from the acquisition of U.S. Can, partially offset by lost business that resulted in a 2007 sales decline of 3 percent, as well as customer operating issues in food cans, including a fire in a customer's factory, and unfavorable weather conditions in the Midwest.

Segment sales in 2006 were 38 percent higher than 2005 sales. The primary reason for the increase was 45 percent higher sales due to the acquisition of U.S. Can, combined with the pass through of higher raw material costs, partially offset by 12 percent lower third quarter food can volumes. During 2007, 2006 and 2005, we were not able to pass through all of the steel price increases and surcharges levied by steel producers and this resulted in margin compression. Based on publicly available trade information, we estimate our 2007 shipments of 5.6 billion steel food containers and 1.6 billion aerosol containers to be approximately 18 percent and 51 percent of total U.S. and Canadian metal food container and steel aerosol container shipments, respectively.

A segment loss of $8 million was incurred in 2007 compared to earnings of $2.4 million in 2006 and $19.1 million in 2005. These amounts included pretax charges of $44.2 million in 2007, $35.5 million in 2006 and $11.2 million in 2005, respectively, for business consolidation activities. The 4 percent lower earnings in 2007 compared to 2006 (before the business consolidation activity charges) were due to increased steel and coating material costs, partially offset by improved manufacturing performance in 2007 and higher cost of sales in the second quarter of 2006 related to $6.1 million of purchase accounting adjustments for inventory valuations associated with the acquired U.S. Can finished goods inventory. Higher sales volumes related to the U.S. Can acquisition helped improve segment earnings in the last nine months of 2006, despite the negative impact of lower food can volumes attributable to the loss of a customer in late 2005 and a poor salmon harvest in 2006. Additionally, segment earnings in 2006 were reduced by the $6.1 million of purchase accounting adjustments discussed previously, partially offset by lower freight and other direct material costs of $4 million. While pricing pressures continue on all of our raw materials, other direct materials and freight and utility costs, we continue to seek price increases in the market place to improve our margins.

On October 24, 2007, Ball announced plans to close two manufacturing facilities and to exit the custom and decorative tinplate can business located in Baltimore, Maryland. Ball will close its food and household products packaging facilities in Tallapoosa, Georgia, and Commerce, California, both of which manufacture aerosol and general line cans. The two plant closures will result in a net reduction in manufacturing capacity of 10 production lines, including the relocation of two high-speed aerosol lines into existing Ball facilities, and will allow us to supply customers from a consolidated asset base. When completed throughout 2008, the actions are expected to yield annualized pretax cost savings in excess of $15 million and improve the aerosol plant utilization rate to more than 85 percent from about 70 percent. The cash costs of these actions are expected to be offset by proceeds on asset dispositions and tax recoveries. A pretax charge of $41.9 million ($25.4 million after tax) was recorded in the fourth quarter of 2007 related to these closures. We also recorded a $2.3 million ($1.4 million after tax) pension annuity expense related to a previously closed plant.

In October 2006 the company announced plans to close two manufacturing facilities in North America by the end of that year as part of the realignment of the metal food and household products packaging, Americas, segment following the acquisition of U.S. Can earlier in the year. The company closed a leased facility in Alliance, Ohio, which was one of 10 manufacturing locations acquired from U.S. Can, and a plant in Burlington, Ontario, which was part of the metal food can operations prior to the U.S. Can acquisition. The closure of the Ohio plant was treated as an opening balance sheet item. A pretax charge of $35.5 million ($28.7 million after tax) was recorded in 2006, primarily related to the Burlington closure, for employee termination and pension costs, plant decommissioning costs and fixed asset impairment, as well as the shut down of a metal food can manufacturing line in the Whitby, Ontario, plant. When the Burlington building is sold, the estimated costs of the closures will be cash flow neutral after tax benefits and anticipated proceeds.

The year ended December 31, 2005, included a net pretax charge of $11.2 million ($7.5 million after tax) for pension, severance and other employee benefit costs related to a reduction in force in the Burlington plant combined with the closure of a three-piece food can manufacturing plant in Quebec.

The company continues to evaluate the segment's manufacturing structure and expects to identify other opportunities to improve efficiencies. Additional details regarding business consolidation activities are available in Note 5 accompanying the consolidated financial statements included within Item 8 of this Annual Report.

Plastic Packaging, Americas

The plastic packaging, Americas, segment consists of operations located in the U.S. and Canada that 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 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 in 2007 comprised 10 percent of consolidated net sales (10 percent in 2006) and increased 8 percent compared to 2006 primarily due to an increase of 7 percent related to the March 2006 acquisition of Alcan and the inclusion of the acquired U.S. Can plastic pail business, as well as an increase of 3 percent for higher sales volumes. Segment sales in 2006 increased 42 percent compared to 2005, including 34 percent related to plant and other asset acquisitions from Alcan and U.S. Can and 6 percent related to higher sales volumes. In view of the substandard performance related to our PET soft drink margins, we continue to focus on price recovery initiatives, as well as our PET development efforts in the custom hot-fill, beer, wine, flavored alcoholic beverage, and specialty container markets. In the polypropylene plastic container arena, development efforts are primarily focused on custom packaging markets.

Segment earnings were $25.9 million in 2007, $28.3 million in 2006 and $16.7 million in 2005. Earnings were lower in 2007 than in 2006 primarily due to lower sales margins related to approximately $5 million of customer pricing concessions and $2 million of higher labor and overhead costs. The earnings inhibitors were partially offset by approximately $2 million from volume growth in specialty PET sales combined with the incremental margin impact of sales in the first quarter of 2007 related to the acquired Alcan and U.S. Can plants.

Segment earnings in 2006 were higher than in 2005 largely due to the margin impact of the incremental sales related to the Alcan and U.S. Can acquisitions, partially offset by $9 million of higher energy and labor costs and approximately $2 million incurred for a litigation claim that was favorably resolved in July 2006. Earnings in the second quarter of 2006 also included purchase accounting adjustments of $1.2 million, which increased cost of sales due to the valuation of inventories associated with the acquired Alcan finished goods inventory.

We estimate our 2007 shipments of 6 billion PET plastic bottles to be approximately 9 percent of total U.S. and Canadian PET container shipments. In addition, the plastic packaging, Americas, segment produced approximately 900 million food and specialty containers during 2007.

Aerospace and Technologies

Aerospace and technologies segment sales represented 11 percent of 2007 consolidated net sales (10 percent in 2006) and were 17 percent higher than in 2006. Sales in 2006 were 3 percent lower than in 2005. The higher sales in 2007 were due to new programs, cost overruns and increased scope on previously awarded contracts, with $58 million attributable to the WorldView and other commercial space operations contracts. Lower sales in 2006 compared to 2005 were largely due to contracts being completed during the period, as well as the impact of government funding reductions and program delays. The aerospace and technologies business won a number of large, strategic contracts and delivered a considerable amount of sophisticated space and defense instrumentation throughout the three-year period.

Segment earnings were $64.6 million in 2007, $50 million in 2006 and $54.7 million in 2005. Earnings improvement in 2007 was primarily due to higher net sales, particularly $12 million related to the WorldView and other commercial space contracts, an improved contract mix and better program execution. Earnings in 2006 were negatively affected by lower sales due to program delays and unfavorable contract mix. The first quarter of 2005 included expense of $3.8 million for the write down to net realizable value of an equity investment in an aerospace company. This investment was sold in October 2005 for approximately its carrying value.

Some of the segment's high-profile contracts include: the WorldView 1 and WorldView 2 advanced commercial remote sensing satellites; the James Webb Space Telescope, a successor to the Hubble Space Telescope; the Space-Based Space Surveillance System, which will detect and track space objects such as satellites and orbital debris; NPOESS, the next-generation satellite weather monitoring system; and a number of antennas for the Joint Strike Fighter.

Sales to the U.S. government, either directly as a prime contractor or indirectly as a subcontractor, represented 84 percent of segment sales in 2007, 90 percent of segment sales in 2006 and 87 percent in 2005. Contracted backlog for the aerospace and technologies segment at December 31, 2007 and 2006, was $774 million and $886 million, respectively. Year-to-year comparisons of backlog are not necessarily indicative of the trend of future operations.

Additional Segment Information

For additional information regarding the company's segments, see the summary of business segment information in Note 2 accompanying the consolidated financial statements within Item 8 of this report. The charges recorded for business consolidation activities were based on estimates by Ball management, actuaries and others and were developed from information available at the time. If actual outcomes vary from the estimates, the differences will be reflected in current period earnings in the consolidated statement of earnings and identified as business consolidation gains and losses. Additional details about our business consolidation activities and associated costs are provided in Note 5 accompanying the consolidated financial statements within Item 8 of this report.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $323.7 million, $287.2 million and $233.8 million for 2007, 2006 and 2005, respectively. Contributing to higher expenses in 2007 compared to 2006 were $4.5 million of additional SG&A from the U.S. Can acquisition, higher research and development costs and aerospace bid and proposal costs of $9.4 million, increased sales and marketing efforts of $5.4 million and $15.8 million of compensation and benefit increases, including year-over-year incentive compensation costs. Also, a $5.8 million out-of-period foreign currency adjustment was included in SG&A expenses in the first quarter of 2006 (discussed in further detail in Note 19 accompanying the consolidated financial statements included within Item 8 of this report).

The increase in SG&A expenses in 2006 compared to 2005 was primarily the result of $20 million of incremental SG&A (after realized synergies) from the acquired U.S. Can operations, the $5.8 million out-of-period foreign currency adjustment, higher expense of $6.3 million associated with the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), $2 million for higher rates associated with the company's receivables sales agreement, $5 million of increased legal fees related to patent litigation, $6.7 million for an initial mark-to-market adjustment to one of the company's deferred compensation stock plans due to a plan amendment, as well as compensation and benefit increases.

Interest and Taxes

Consolidated interest expense was $149.4 million in 2007; $134.4 million in 2006 and $116.4 million, including debt refinancing costs of $19.3 million, in 2005. The higher expense for each successive year was primarily due to the additional borrowings used to finance the acquisitions of U.S. Can and the Alcan assets, combined with higher interest rates in 2007. The debt refinancing costs in 2005 of $19.3 million were costs associated with the refinancing of the company's senior credit facilities and the redemption in the last half of 2005 of the company's 7.75% senior notes, which were due in August 2006.

Ball's consolidated effective income tax rate for 2007 was 26.3 percent compared to 29.4 percent in 2006 and 29.2 percent in 2005. The lower effective rate in 2007 was the result of earnings mix (higher foreign earnings taxed at lower rates) and net tax benefit adjustments of $17.2 million recorded in the third quarter of 2007, as compared to $6.4 million in 2006. These net tax benefit adjustments were the result of enacted income tax rate reductions in Germany and the United Kingdom and a tax loss related to the company's Canadian operations. These benefits were offset by a tax provision to adjust for the final settlement negotiations concluded in the quarter with the Internal Revenue Service (IRS) related to a company-owned life insurance plan (discussed below). Based on current estimates, the 2008 effective income tax rate is expected to be around 33 percent.

During 2007 the company concluded final settlement negotiations with the IRS on the deductibility of interest expense on incurred loans from a company-owned life insurance plan. An additional accrual of $7 million was made in the third quarter to adjust the accrued liability to the final settlement of $18.4 million, including interest, for the years 2000-2004, which were under examination, and for the unaudited years 2005-2007. This settlement included agreement on the prospective treatment of interest deductibility on the policy loans, which will not have a significant impact on earnings per share, cash flow or liquidity in future periods. Further details are available in Note 14 to the consolidated financial statements within Item 8 of this report.

While the effective tax rates for 2006 and 2005 are similar, the 2006 rate was impacted by a tax benefit of $8.1 million associated with a foreign exchange loss as a result of the change in the functional currency of a European subsidiary in the local statutory accounts. The one-time benefit was somewhat offset by a higher foreign tax rate differential due to taxation of the German property insurance gain at the marginal rate of 39 percent and a valuation allowance on a Canadian net operating loss resulting from the 2006 business consolidation costs. The 2005 rate was impacted by the tax benefit recorded on the repatriation of foreign earnings at legislated reduced rates plus the tax benefit on business consolidation costs applied at the higher marginal rate.

Results of Equity Affiliates

Equity in the earnings of affiliates is primarily attributable to our 50 percent ownership in packaging investments in the U.S. and Brazil. Earnings were $12.9 million in 2007, $14.7 million in 2006 and $15.5 million in 2005.

CRITICAL AND SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

For information regarding the company’s critical and significant accounting policies, as well as recent accounting pronouncements, see Note 1 to the consolidated financial statements within Item 8 of this report.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Capital Expenditures

Our primary sources of liquidity are cash provided by operating activities and external borrowings. We believe that cash flows from operations and cash provided by short-term and revolver borrowings, when necessary, will be sufficient to meet our ongoing operating requirements, scheduled principal and interest payments on debt, dividend payments and anticipated capital expenditures. However, our liquidity could be impacted significantly by a decrease in demand for our products, which could arise from competitive circumstances, or any of the other factors we describe in Item 1A, “Risk Factors.”

Cash flows from operating activities were $673 million in 2007 compared to $401.4 million in 2006 and $558.8 million in 2005. The improvement over 2006 was primarily due to higher net earnings before the legal settlement in 2007 and the insurance gain in 2006 related to the Hassloch fire. The improvement in 2007 was also the result of reduced changes in working capital components and lower income tax payments, partially offset by higher pension contributions.

Cash flows from operating activities in 2006 were negatively affected by higher cash pension funding and higher working capital levels compared to the prior year. The higher working capital was a combination of higher than planned raw material inventory levels, higher income tax payments and higher accounts receivable balances, the latter resulting primarily from the repayment of a portion of the accounts receivable securitization program and late payments from customers in Europe.

Management internally uses a free cash flow measure: (1) to evaluate the company’s operating results, (2) to plan stock-buy back levels, (3) to evaluate strategic investments and (4) to evaluate the company’s ability to incur and service debt. Free cash flow is not a defined term under U.S. generally accepted accounting principles, and it should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company defines free cash flow as cash flow from operating activities less additions to property, plant and equipment (capital spending). Free cash flow is typically derived directly from the company’s cash flow statements; however, it may be adjusted for items that affect comparability between periods. An example of such an item included in 2006 is the property insurance proceeds for the replacement of the fire-damaged assets in our Hassloch, Germany, plant, which are included in capital spending amounts. Another example is the company's decision in 2007 to contribute an additional $44.5 million ($27.3 million) to its pension plans as part of its overall debt reduction plan.

Based on this, our consolidated free cash flow is summarized as follows:

($ in millions)	2007	2006	2005
Cash flows from operating activities	$ 673.0	$ 401.4	$ 558.8
Incremental pension funding, net of tax	27.3	–	–
Capital spending	(308.5)	(279.6)	(291.7)
Proceeds for replacement of fire-damaged assets	48.6	61.3	–
Free cash flow	$ 440.4	$ 183.1	$ 267.1

Based on information currently available, we estimate cash flows from operating activities for 2008 to be approximately $650 million, capital spending to be approximately $350 million and free cash flow to be in the $300 million range. Capital spending of $259.9 million (net of $48.6 million in insurance recoveries) in 2007 was below depreciation and amortization expense of $281 million. We continue to invest capital in our best performing operations, including projects to increase custom can capabilities, improve beverage can and end making productivity and add more beverage can capacity in Europe, as well as expenditures in the aerospace and technologies segment. Of the $350 million of planned capital spending for 2008, approximately $180 million will be spent on top-line sales growth projects.

Debt Facilities and Refinancing

Interest-bearing debt at December 31, 2007, decreased $93.1 million to $2,358.6 million from $2,451.7 million at December 31, 2006. The 2007 debt decrease from 2006 was primarily attributed to debt payments offset by higher foreign exchange rates.

At December 31, 2007, $705 million was available under the company's multi-currency revolving credit facilities. The company also had $345 million of short-term uncommitted credit facilities available at the end of the year, of which $49.7 million was outstanding.

On October 13, 2005, Ball refinanced its senior secured credit facilities and during the third and fourth quarters of 2005, Ball redeemed its 7.75% senior notes due August 2006 primarily through the drawdown of funds under the new credit facilities. The refinancing and redemption resulted in a pretax debt refinancing charge of $19.3 million ($12.3 million after tax) to reflect the call premium associated with the senior notes and the write off of unamortized debt issuance costs.

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 $250 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 $170 million and $201.3 million at December 31, 2007 and 2006, respectively, and are reflected as a reduction of accounts receivable in the consolidated balance sheets.

The company was not in default of any loan agreement at December 31, 2007, and has met all payment obligations. The U.S. note agreements, bank credit agreement and industrial development revenue bond agreements contain certain restrictions relating to dividends, investments, financial ratios, guarantees and the incurrence of additional indebtedness.

Additional details about the company’s receivables sales agreement and debt are available in Notes 7 and 13, respectively, accompanying the consolidated financial statements within Item 8 of this report.

Other Liquidity Items

Cash payments required for long-term debt maturities, rental payments under noncancellable operating leases, purchase obligations and other commitments in effect at December 31, 2007, are summarized in the following table:

($ in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
		Payments Due By Period (a)			
Long-term debt	$ 2,302.6	$ 126.1	$ 547.6	$ 1,174.9	$ 454.0
Capital lease obligations	4.4	1.0	0.8	0.5	2.1
Interest payments on long-term debt (b)	698.6	142.9	246.3	152.5	156.9
Operating leases	218.5	49.9	71.7	42.5	54.4
Purchase obligations (c)	6,092.6	2,397.2	3,118.8	576.6	–
Common stock repurchase agreements	131.0	131.0	–	–	–
Legal settlement	70.0	70.0	–	–	–
Total payments on contractual obligations	$ 9,517.7	$ 2,918.1	$ 3,985.2	$ 1,947.0	$ 667.4

(a) Amounts reported in local currencies have been translated at the year-end exchange rates.
(b) For variable rate facilities, amounts are based on interest rates in effect at year end and do not contemplate the effects of hedging instruments.
(c) The company's purchase obligations include contracted amounts for aluminum, steel, plastic resin and other direct materials. Also included are commitments for purchases of natural gas and electricity, aerospace and technologies contracts and other less significant items. In cases where variable prices and/or usage are involved, management's best estimates have been used. Depending on the circumstances, early termination of the contracts may not result in penalties and, therefore, actual payments could vary significantly.

Contributions to the company's defined benefit pension plans, not including the unfunded German plans, are expected to be $49 million in 2008. This estimate may change based on plan asset performance. Benefit payments related to these plans are expected to be $66 million, $70 million, $74 million, $77 million and $82 million for the years ending December 31, 2008 through 2012, respectively, and a total of $473 million for the years 2013 through 2017. Payments to participants in the unfunded German plans are expected to be approximately $26 million in each of the years 2008 through 2012 and a total of $136 million for the years 2013 through 2017.

In accordance with 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) if imposed by the appropriate regulatory agency, provide a lien on company assets in that amount for the benefit of the plan. The guarantee can be removed upon approval by both Ball and the pension plan trustees.

Our share repurchase program in 2007 was $211.3 million, net of issuances, compared to $45.7 million net repurchases in 2006 and $358.1 million in 2005. The net repurchases included the $51.9 million settlement on January 5, 2007, of a forward contract entered into in December 2006 for the repurchase of 1,200,000 shares. However, the 2007 net repurchases did not include a forward contract entered into in December 2007 for the repurchase of 675,000 shares. The contract was settled on January 7, 2008, for $31 million in cash.

On December 12, 2007, in a privately negotiated transaction, Ball entered into an accelerated share repurchase agreement to buy $100 million of its common shares using cash on hand and available borrowings. The company advanced the $100 million on January 7, 2008, and received approximately 2 million shares, which represented 90 percent of the total shares as calculated using the previous day's closing price. The exact number of shares to be repurchased under the agreement, which will be determined on the settlement date (no later than June 5, 2008), is subject to an adjustment based on a weighted average price calculation for the period between the initial purchase date and the settlement date. The company has the option to settle the contract in either cash or shares. Including the settlements of the forward share purchase contract and the accelerated share repurchase agreement, we expect to repurchase approximately $300 million of our common shares, net of issuances, in 2008.

Annual cash dividends paid on common stock were 40 cents per share in 2007, 2006 and 2005. Total dividends paid were $40.6 million in 2007, $41 million in 2006 and $42.5 million in 2005.

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 we participate, our operations in developing markets outside the U.S., changing commodity prices for the materials used in the manufacture of our products and changing capital markets. Where practicable, we attempt to reduce these risks and uncertainties through the establishment of risk management policies and procedures, including, at times, the use of derivative financial instruments as explained in Item 7A of this report.

From time to time, the company is subject to routine litigation incident to its business. 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. Our information at this time does not indicate that these matters will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events could affect these estimates. See Note 1 to the consolidated financial statements within Item 8 of this report for a summary of the company's critical and significant accounting policies.

The U.S. and European economies have experienced minor general inflation during the past several years. Management believes that evaluation of Ball's performance during the periods covered by these consolidated financial statements should be based upon historical financial statements.

Forward-Looking Statements

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; mandatory deposit or 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 in senior management; 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments and Risk Management

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 container sales contracts that include aluminum-based pricing terms that generally reflect price fluctuations under our commercial supply contracts for aluminum purchases. The terms include fixed, floating or pass-through aluminum component 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 and fair value hedges of commodity price risk where there is not a pass-through arrangement in the sales contract.

Most of the plastic packaging, Americas, sales contracts include provisions to fully pass-through resin cost changes. As a result, we believe we have minimal exposure related to changes in the cost of plastic resin. Most metal food and household products packaging, Americas, sales contracts either include provisions permitting us to pass through some or all steel cost changes we incur, or they incorporate annually negotiated steel costs. In 2007 and 2006, we were able to pass through to our customers the majority of steel cost increases. We anticipate that we will be able to pass through the majority of the steel price increases that occur through the end of 2008.

In Europe and Asia, the company manages the 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 of containers, 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. We also use 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 to minimize the company's exposure to significant price changes. We also use option contracts to limit the impacts of European inflation in certain multi-year contracts.

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 $6 million after-tax reduction in 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 $12 million after-tax reduction in net earnings over a one-year period for foreign currency exposures on raw materials. Actual results may vary based on actual changes in market prices and rates. Sensitivity to foreign currency exposures related to metal increased over prior years due to an increase in metal purchases and related payables at our foreign operations, which are subject to foreign currency fluctuations.

The company is also exposed to fluctuations in prices for utilities 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 $10 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 objective in managing our exposure to interest rate changes is to manage the impact of interest rate 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, collars and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at December 31, 2007, included pay-fixed interest rate swaps and interest rate collars. Pay-fixed swaps effectively convert variable rate obligations to fixed rate instruments. Collars create an upper and lower threshold within which interest rates will fluctuate.

Based on our interest rate exposure at December 31, 2007, assumed floating rate debt levels throughout 2008 and the effects of derivative instruments, a 100 basis point increase in interest rates could result in an estimated $8 million after-tax reduction in 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 from changes associated with foreign currency 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.

Considering the company’s derivative financial instruments outstanding at December 31, 2007, and the currency exposures, a hypothetical 10 percent reduction (U.S. dollar strengthening) in foreign currency exchange rates compared to the U.S. dollar could result in an estimated $23 million after-tax reduction in net earnings over a one-year period. This amount includes the $12 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 $84 million. Actual changes in market prices or rates may differ from hypothetical changes.

Common Share Repurchases

In connection with the company’s ongoing share repurchases, the company periodically sells put options, which give the purchasers of those options the right to sell shares of the company’s common stock to the company on specified dates at specified prices upon the exercise of those options. Our objective in selling put options is to lower the average purchase price of acquired shares. There were no put option contracts outstanding at the end of 2007.

On December 3, 2007, Ball entered into a forward repurchase agreement for the purchase of 675,000 shares of its common stock. This agreement was settled for $31 million on January 7, 2008, and the shares were delivered that day. On December 12, 2007, we also entered into an accelerated share repurchase agreement for approximately $100 million. The agreement provided for the delivery of approximately 2 million shares, which represented 90 percent of the total estimated shares to ultimately be delivered. The $100 million was paid on January 7, 2008, at the time the shares were delivered. The remaining shares and average price per share will be determined at the conclusion of the contract, which is expected to occur no later than June 5, 2008.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ball Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Ball Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Denver, Colorado

February 25, 2008

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Consolidated Statements of Earnings
Ball Corporation and Subsidiaries

($ in millions, except per share amounts)	Years ended December 31, 2007	2006	2005
Net sales	$ 7,475.3	$ 6,621.5	$ 5,751.2
Legal settlement (Note 4)	(85.6)	–	–
Total net sales	7,389.7	6,621.5	5,751.2
Costs and expenses			
Cost of sales (excluding depreciation)	6,226.5	5,540.4	4,802.7
Depreciation and amortization (Notes 2, 9 and 11)	281.0	252.6	213.5
Business consolidation costs (Note 5)	44.6	35.5	21.2
Property insurance gain (Note 6)	–	(75.5)	–
Selling, general and administrative	323.7	287.2	233.8
	6,875.8	6,040.2	5,271.2
Earnings before interest and taxes	513.9	581.3	480.0
Interest expense (Note 13)			
Interest expense before debt refinancing costs	(149.4)	(134.4)	(97.1)
Debt refinancing costs	–	–	(19.3)
Total interest expense	(149.4)	(134.4)	(116.4)
Earnings before taxes	364.5	446.9	363.6
Tax provision (Note 14)	(95.7)	(131.6)	(106.2)
Minority interests	(0.4)	(0.4)	(0.8)
Equity in results of affiliates	12.9	14.7	15.5
Net earnings	$ 281.3	$ 329.6	$ 272.1
Earnings per share (Notes 16 and 17):			
Basic	$ 2.78	$ 3.19	$ 2.52
Diluted	$ 2.74	$ 3.14	$ 2.48
Weighted average shares outstanding (000s) (Note 17):			
Basic	101,186	103,338	107,758
Diluted	102,760	104,951	109,732
Cash dividends declared and paid, per share	$ 0.40	$ 0.40	$ 0.40

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets
Ball Corporation and Subsidiaries

($ in millions)	December 31, 2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 151.6	$ 151.5
Receivables, net (Note 7)	582.7	579.5
Inventories, net (Note 8)	998.1	935.4
Deferred taxes and prepaid expenses (Note 14)	110.5	94.9
Total current assets	1,842.9	1,761.3
Property, plant and equipment, net (Notes 6 and 9)	1,941.2	1,876.0
Goodwill (Notes 3 and 10)	1,863.1	1,773.7
Intangibles and other assets, net (Notes 11 and 14)	373.4	429.9
Total Assets	$ 6,020.6	$ 5,840.9
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt and current portion of long-term debt (Note 13)	$ 176.8	$ 181.3
Accounts payable	763.6	732.4
Accrued employee costs	238.0	201.1
Income taxes payable (Note 14)	15.7	71.8
Other current liabilities (Note 4)	319.0	267.7
Total current liabilities	1,513.1	1,454.3
Long-term debt (Note 13)	2,181.8	2,270.4
Employee benefit obligations (Note 15)	799.0	847.7
Deferred taxes and other liabilities (Note 14)	183.1	102.1
Total liabilities	4,677.0	4,674.5
Contingencies (Note 23)		
Minority interests	1.1	1.0
Shareholders' equity (Note 16)		
Common stock (160,678,695 shares issued – 2007; 160,026,936 shares issued – 2006)	760.3	703.4
Retained earnings	1,765.0	1,535.3
Accumulated other comprehensive earnings (loss)	106.9	(29.5)
Treasury stock, at cost (60,454,245 shares – 2007; 55,889,948 shares – 2006)	(1,289.7)	(1,043.8)
Total shareholders' equity	1,342.5	1,165.4
Total Liabilities and Shareholders' Equity	$ 6,020.6	$ 5,840.9

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows
Ball Corporation and Subsidiaries

($ in millions)	Years ended December 31, 2007	2006	2005
Cash Flows from Operating Activities			
Net earnings	$ 281.3	$ 329.6	$ 272.1
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation and amortization	281.0	252.6	213.5
Legal settlement (Note 4)	85.6	–	–
Property insurance gain (Note 6)	–	(75.5)	–
Business consolidation costs (Note 5)	42.3	34.2	19.0
Deferred taxes	(21.0)	38.2	(51.6)
Other, net	(30.9)	(40.4)	17.7
Working capital changes, excluding effects of acquisitions:			
Receivables	26.9	(57.0)	(32.8)
Inventories	(41.0)	(132.2)	(71.7)
Accounts payable	27.4	121.6	113.2
Accrued employee costs	32.7	53.1	(17.2)
Income taxes payable and current deferred tax assets, net	32.2	(62.4)	51.2
Other, net	(43.5)	(60.4)	45.4
Cash provided by operating activities	673.0	401.4	558.8
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(308.5)	(279.6)	(291.7)
Business acquisitions, net of cash acquired (Note 3)	–	(791.1)	–
Property insurance proceeds (Note 6)	48.6	61.3	–
Other, net	(5.9)	16.0	1.7
Cash used in investing activities	(265.8)	(993.4)	(290.0)
Cash Flows from Financing Activities			
Long-term borrowings	0.3	949.4	882.8
Repayments of long-term borrowings	(74.5)	(205.0)	(949.7)
Change in short-term borrowings	(95.8)	23.0	68.4
Debt prepayment costs	–	–	(6.6)
Debt issuance costs	–	(8.1)	(4.8)
Proceeds from issuances of common stock	46.5	38.4	35.6
Acquisitions of treasury stock	(257.8)	(84.1)	(393.7)
Common dividends	(40.6)	(41.0)	(42.5)
Other, net	9.5	7.6	(0.2)
Cash provided by (used in) financing activities	(412.4)	680.2	(410.7)
Effect of exchange rate changes on cash	5.3	2.3	4.2
Change in cash and cash equivalents	0.1	90.5	(137.7)
Cash and Cash Equivalents – Beginning of Year	151.5	61.0	198.7
Cash and Cash Equivalents – End of Year	$ 151.6	$ 151.5	$ 61.0

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Shareholders’ Equity and Comprehensive Earnings
Ball Corporation and Subsidiaries

($ in millions, except share amounts)	Years ended December 31, 2007	2006	2005
Number of Common Shares Outstanding (000s)			
Balance, beginning of year	160,027	158,383	157,506
Shares issued for stock options, other stock plans and business acquisitions, net of shares exchanged (a)	652	1,644	877
Balance, end of year	160,679	160,027	158,383
Number of Treasury Shares Outstanding (000s)			
Balance, beginning of year	(55,890)	(54,183)	(44,815)
Shares purchased, net of shares reissued (a)(c)(d)	(4,564)	(1,707)	(9,368)
Balance, end of year	(60,454)	(55,890)	(54,183)
Common Stock			
Balance, beginning of year	$ 703.4	$ 633.6	$ 610.8
Shares issued for stock options and other stock plans, net of shares exchanged (cash and noncash)	47.4	28.7	15.5
Shares issued for business acquisitions (a)	–	33.6	–
Tax benefit from option exercises	9.5	7.5	7.3
Balance, end of year	$ 760.3	$ 703.4	$ 633.6
Retained Earnings			
Balance, beginning of year	$ 1,535.3	$ 1,246.0	$ 1,015.0
Net earnings	281.3	329.6	272.1
Common dividends, net of tax benefits	(40.2)	(40.3)	(41.1)
Adoption of new accounting standard (Note 14)	(11.4)	–	–
Balance, end of year	$ 1,765.0	$ 1,535.3	$ 1,246.0
Accumulated Other Comprehensive Earnings (Loss) (Note 16)			
Balance, beginning of year	$ (29.5)	$ (100.7)	$ 33.2
Foreign currency translation adjustment	90.0	57.2	(74.3)
Pension and other postretirement items, net of tax (b)	57.9	55.9	(43.6)
Effective financial derivatives, net of tax	(11.5)	6.0	(16.0)
Net other comprehensive earnings (loss) adjustments	136.4	119.1	(133.9)
Adoption of new accounting standard (b)	–	(47.9)	–
Accumulated other comprehensive earnings (loss)	$ 106.9	$ (29.5)	$ (100.7)
Treasury Stock			
Balance, beginning of year	$ (1,043.8)	$ (925.5)	$ (564.9)
Shares purchased, net of shares reissued (c)(d)	(214.9)	(104.4)	(360.6)
Diversification of deferred compensation stock plan	(31.0)	–	–
Shares returned in business acquisitions (a)	–	(13.9)	–
Balance, end of year	$ (1,289.7)	$ (1,043.8)	$ (925.5)
Comprehensive Earnings			
Net earnings	$ 281.3	$ 329.6	$ 272.1
Net other comprehensive earnings adjustments (see details above) (b)	136.4	119.1	(133.9)
Comprehensive earnings (b)	$ 417.7	$ 448.7	$ 138.2

(a) In connection with the acquisition of U.S. Can (discussed in Note 3), 758,981 shares were originally issued at $44.28 per share. As a result of a purchase price adjustment, 314,225 shares were subsequently returned to Ball and recorded as treasury stock.

(b)

Within the company's 2006 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. The 2006 amounts have been revised to correct the previous reporting.

(c) Amounts in 2007 and 2006 included 675,000 and 1,200,000 shares, respectively, for amounts repurchased under forward contracts not settled until after December 31. The contracts were settled for $31 million in January 2008 and $51.9 million in January 2007, respectively.

(d) Includes 588,662 shares, 716,420 and 939,139 shares reissued in 2007, 2006 and 2005, respectively. The total amounts related to these share reissuances were $26.5 million, $27.2 million and $36.1 million in each of these three years, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Critical and Significant Accounting Policies

In the application of accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingencies and reported amounts of revenues and expenses. These estimates are based on historical experience and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

Critical Accounting Policies

The company considers certain accounting policies to be critical, as their application requires management's best judgment in making estimates about the effect of matters that are inherently uncertain. Following is a discussion of the accounting policies we consider critical to our consolidated financial statements.

Revenue Recognition in the Aerospace and Technologies Segment

Sales under long-term contracts in the aerospace and technologies segment are primarily recognized under the cost-to-cost, percentage-of-completion method. This business segment sells using two types of long-term sales contracts – cost-type sales contracts, which represent approximately 70 percent of sales, and fixed price sales contracts, which account for the remainder. A cost-type sales contract is an agreement to perform the contract for cost plus an agreed upon profit component, whereas fixed price sales contracts are completed for a fixed price or involve the sale of engineering labor at fixed rates per hour. Cost-type sales contracts can have different types of fee arrangements, including fixed fee, cost, milestone and performance incentive fees, award fees or a combination thereof.

During initial periods of sales contract performance, our estimates of base, incentive and other fees are established at a conservative estimate of profit over the period of contract performance. Throughout the period of contract performance, we regularly reevaluate and, if necessary, revise our estimates of total contract revenue, total contract cost and extent of progress toward completion. Provision for estimated contract losses, if any, is made in the period that such losses are determined to be probable. Because of sales contract payment schedules, limitations on funding and contract terms, our sales and accounts receivable generally include amounts that have been earned but not yet billed. As a prime U.S. government contractor or subcontractor, the aerospace and technologies segment is subject to a high degree of regulation, financial review and oversight by the U.S. government.

Acquisitions

The company accounts for acquisitions using the purchase method as required by Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." Under SFAS No. 141, the acquiring company allocates the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition, including intangible assets that can be identified and named. The purchase price in excess of the fair value of the net assets and liabilities is recorded as goodwill. Among other sources of relevant information, the company uses independent appraisals and actuarial or other valuations to assist in determining the estimated fair values of the assets and liabilities.

Goodwill and Other Intangible Assets

We evaluate the carrying value of goodwill annually, and we evaluate our other intangible assets whenever there is evidence that certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Goodwill is tested for impairment using a fair value approach, using discounted cash flows to establish fair values. We recognize an impairment charge for any amount by which the carrying amount of goodwill exceeds its fair value. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. When a business within a reporting unit is disposed of, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Critical and Significant Accounting Policies (continued)

We amortize the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required.

Defined Benefit Pension Plans and Other Employee Benefits

The company has defined benefit plans that cover the majority of its employees. We also have postretirement plans that provide certain medical benefits and life insurance for retirees and eligible dependents. The accounting for these plans is subject to the guidance provided in SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R);" SFAS No. 87, "Employers' Accounting for Pensions;" SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 112, "Employers' Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43." These statements require that management make certain assumptions relating to the long-term rate of return on plan assets, discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. We believe that the accounting estimates related to our pension and postretirement plans are critical accounting estimates, because they are highly susceptible to change from period to period based on the performance of plan assets, actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions.

Pension plan liabilities are revalued annually based on updated assumptions and information about the individuals covered by the plan. For pension plans, accumulated gains and losses in excess of a 10 percent corridor, the prior service cost and the transition asset are amortized on a straight-line basis from the date recognized over the average remaining service period of active participants. For other postemployment benefits, the 10 percent corridor is not used.

Effective with its December 31, 2006, year-end reporting, Ball adopted 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)," which requires the recognition of the funded status of each defined benefit pension plan and other postretirement benefit plan on the consolidated balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability.

In addition to defined benefit and postretirement plans, the company maintains reserves for employee medical claims, up to our insurance stop-loss limit, and workers' compensation claims. These are regularly evaluated and revised, as needed, based on a variety of information, including historical experience, actuarial estimates and current employee statistics.

Taxes on Income

Deferred tax assets, including operating loss, capital loss and tax credit carry forwards, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that any portion of these tax attributes will not be realized. In addition, from time to time, management must assess the need to accrue or disclose a possible loss contingency for proposed adjustments from various federal, state and foreign tax authorities that regularly audit the company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Critical and Significant Accounting Policies (continued)

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each balance sheet date, based upon enacted income tax laws and tax rates. Income tax expense or benefit is provided based on earnings reported in the financial statements. The provision for income tax expense or benefit differs from the amounts of income taxes currently payable, because certain items of income and expense included in the consolidated financial statements are recognized in different time periods by taxing authorities.

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. The company records the related interest expense and penalties, if any, as a tax expense, consistent with the practice prior to adoption. Additional details about the adoption of FIN 48 are provided in Note 14. 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 year ended December 31, 2007.

Business Consolidation Costs

The company estimates its liabilities for business consolidation activities by accumulating detailed estimates of costs and asset sales proceeds, if any, for each business consolidation initiative. This includes the estimated costs of employee severance, pension and related benefits; impairment of property and equipment and other assets, including estimates of net realizable value; contract termination payments for contracts and leases; contractual obligations and any other qualifying costs related to the exit plan. These estimated costs are grouped by specific projects within the overall exit plan and are then monitored on a monthly basis. Such disclosures represent management's best estimates, but require assumptions about the plans that may change over time. Changes in estimates for individual locations and other matters are evaluated periodically to determine if a change in estimate is required for the overall restructuring plan. Subsequent changes to the original estimates are included in current period earnings and identified as business consolidation gains or losses.

Derivative Financial Instruments

The company uses derivative financial instruments for the purpose of hedging exposures to fluctuations in interest rates, foreign currency exchange rates, product sales, raw materials purchasing, inflation rates and common share repurchases. The company’s derivative instruments are recorded in the consolidated balance sheets at fair value. For a derivative designated as a fair value hedge of a recognized asset or liability, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. For a derivative designated as a cash flow hedge, or a derivative designated as a fair value hedge of a firm commitment not yet recorded on the balance sheet, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive earnings and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss associated with all hedges is reported in earnings immediately. In the statements of cash flows, hedge activities are classified in the same category as the items being hedged. Derivatives that do not qualify for hedge accounting are marked to market with gains and losses reported immediately in earnings.

Realized gains and losses from hedges are classified in the consolidated statements of earnings consistent with the accounting treatment of the items being hedged. Gains and losses upon the early termination of effective derivative contracts are deferred in accumulated other comprehensive earnings and amortized to earnings in the same period as the originally hedged items affect earnings.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Critical and Significant Accounting Policies (continued)

Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Ball Corporation and its controlled subsidiaries (collectively, Ball, the company, we or our). Equity investments in which we exercise significant influence, but do not control and are not the primary beneficiary, are accounted for using the equity method of accounting. Investments in which we do not exercise significant influence over the investee are accounted for using the cost method of accounting. Intercompany transactions are eliminated.

Cash Equivalents

Cash equivalents have original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting.

Depreciation and Amortization

Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Depreciation and amortization are provided using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives (buildings and improvements – 10 to 40 years; machinery and equipment – 3 to 15 years; other intangible assets – 13 years, weighted average).

Deferred financing costs are amortized over the life of the related loan facility and are reported as part of interest expense. When debt is repaid prior to its maturity date, the write-off of the remaining unamortized deferred financing costs, or pro rata portion thereof, is also reported as interest expense.

Environmental Reserves

We estimate the liability related to environmental matters based on, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. We record our best estimate of a loss when the loss is considered probable. As additional information becomes available, we assess the potential liability related to our pending matters and revise our estimates.

Revenue Recognition in the Packaging Segments

Sales of products in the packaging segments are recognized when delivery has occurred and title has transferred, there is persuasive evidence of an agreement or arrangement, the price is fixed and determinable, and collection is reasonably assured.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Critical and Significant Accounting Policies (continued)

Stock-Based Compensation

Ball has a variety of restricted stock and stock option plans. The compensation cost associated with restricted stock grants has been calculated using the fair value at the date of grant and amortized over the restriction period. Stock-based compensation is reported as part of selling, general and administrative expenses in the consolidated statements of earnings. In the fourth quarter of 2006, Ball amended one of its deferred compensation stock plans to allow for limited diversification beginning in 2007, which required an initial mark-to-market adjustment of $6.7 million.

Effective January 1, 2006, the company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," and elected to use the modified prospective transition method and the Black-Scholes valuation model. Tax benefits associated with option exercises are reported in financing activities in the consolidated statements of cash flows beginning in 2006. Prior to January 1, 2006, expense related to stock options was calculated using the intrinsic value method under the guidelines of Accounting Principles Board (APB) Opinion No. 25 and has therefore not been included in the consolidated statements of earnings in 2005. Ball's earnings as reported included after-tax stock-based compensation of $6.6 million for the year ended December 31, 2005. If the fair value based method had been used, after-tax stock-based compensation would have been $8.7 million in 2005 and diluted earnings per share would have been lower by $0.02. Further details regarding the expense calculated under the fair value based method are provided in Note 16.

Foreign Currency Translation

Assets and liabilities of foreign operations are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive earnings as a component of shareholders' equity.

Reclassifications

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

New Accounting Pronouncements

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

In April 2007 the FASB issued FASB Staff Position (FSP) Interpretation No. (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 became effective for Ball as of January 1, 2008, and its effect is still under evaluation.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

1. Critical and Significant Accounting Policies (continued)

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 became effective for Ball as of January 1, 2008, and at this time, we do not expect to elect the fair value option for any eligible items.

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 became effective for Ball as of January 1, 2008, and is still being evaluated for its effect on the company’s financial statements. In February 2008 the FASB delayed the effective date for certain nonfinancial assets and liabilities until January 1, 2009.

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

The accounting policies of the segments are the same as those in the condensed consolidated financial statements.

We also have investments in companies in the U.S., PRC and Brazil, which are accounted for under the equity method of accounting and, accordingly, those results are not included in segment sales or earnings.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

2. Business Segment Information (continued)

Effective January 1, 2007, a plastic product line with 2007 net sales of $52.1 million was transferred from the metal food and household products packaging, Americas, segment to the plastic packaging, Americas, segment. 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. Prior periods have been conformed to the current presentation.

Major Customers

Following is a summary of Ball's major customers and their respective percentages of consolidated net sales for the years ended December 31:

	2007	2006	2005
SABMiller plc	11%	11%	11%
PepsiCo, Inc. and affiliates	9%	9%	10%
All bottlers of Pepsi-Cola or Coca-Cola branded beverages	28%	29%	27%
U.S. government agencies and their prime contractors	9%	9%	11%

Summary of Net Sales by Geographic Area

($ in millions)	U.S.	Foreign (a)	Consolidated
2007	$ 5,268.4	$ 2,121.3	$ 7,389.7
2006	4,868.6	1,752.9	6,621.5
2005	4,133.3	1,617.9	5,751.2

Summary of Long-Lived Assets by Geographic Area (b)

($ in millions)	U.S.	Germany (c)	Other (d)	Consolidated
2007	$ 2,052.3	$ 1,441.1	$ 684.3	$ 4,177.7
2006	2,117.1	1,289.9	672.6	4,079.6

(a) Includes the company's net sales in the PRC, Canada and certain European countries (none of which was individually significant), intercompany eliminations and other.
(b) Long-lived assets primarily consist of property, plant and equipment; goodwill; and other intangible assets.
(c) For reporting purposes, Ball Packaging Europe's goodwill and intangible assets have been allocated to Germany. The total amounts allocated were $1,108.9 million and $1,021.7 million at December 31, 2007 and 2006, respectively.
(d) Includes the company's long-lived assets in the PRC, Canada and certain European countries, not including Germany (none of which was individually significant), intercompany eliminations and other.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

2. Business Segment Information (continued)

Summary of Business by Segment

($ in millions)	2007	2006	2005
Net Sales			
Metal beverage packaging, Americas	$ 2,849.5	$ 2,604.4	$ 2,390.4
Legal settlement (Note 4)	(85.6)	–	–
Total metal beverage packaging, Americas	2,763.9	2,604.4	2,390.4
Metal beverage packaging, Europe/Asia	1,902.2	1,512.5	1,354.5
Metal food & household products packaging, Americas	1,183.4	1,138.7	824.0
Plastic packaging, Americas	752.4	693.6	487.5
Aerospace & technologies	787.8	672.3	694.8
Net sales	$ 7,389.7	$ 6,621.5	$ 5,751.2
Consolidated Earnings			
Metal beverage packaging, Americas	$ 299.2	$ 269.4	$ 254.1
Legal settlement (Note 4)	(85.6)	–	–
Business consolidation costs (Note 5)	–	–	(19.3)
Total metal beverage packaging, Americas	213.6	269.4	234.8
Metal beverage packaging, Europe/Asia	256.1	193.2	171.2
Property insurance gain (Note 6)	–	75.5	–
Business consolidation gains (Note 5)	–	–	9.3
Total metal beverage packaging, Europe/Asia	256.1	268.7	180.5
Metal food & household products packaging, Americas	36.2	37.9	30.3
Business consolidation costs (Note 5)	(44.2)	(35.5)	(11.2)
Total metal food & household products packaging, Americas	(8.0)	2.4	19.1
Plastic packaging, Americas	26.3	28.3	16.7
Business consolidation costs (Note 5)	(0.4)	–	–
Total plastic packaging, Americas	25.9	28.3	16.7
Aerospace & technologies	64.6	50.0	54.7
Segment earnings before interest and taxes	552.2	618.8	505.8
Corporate undistributed expenses	(38.3)	(37.5)	(25.8)
Earnings before interest and taxes	513.9	581.3	480.0
Interest expense (a)	(149.4)	(134.4)	(116.4)
Tax provision	(95.7)	(131.6)	(106.2)
Minority interests	(0.4)	(0.4)	(0.8)
Equity in results of affiliates (Note 11)	12.9	14.7	15.5
Net earnings	$ 281.3	$ 329.6	$ 272.1

(a) Includes $19.3 million of debt refinancing costs in 2005.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

2. Business Segment Information (continued)

Summary of Business by Segment (continued)

($ in millions)	2007	2006	2005
Depreciation and Amortization			
Metal beverage packaging, Americas	$ 73.4	$ 74.2	$ 69.0
Metal beverage packaging, Europe/Asia	91.9	80.3	73.4
Metal food & household products packaging, Americas (a)	42.8	32.2	16.3
Plastic packaging, Americas (a)	51.6	46.2	36.8
Aerospace & technologies	17.9	16.4	14.9
Segment depreciation and amortization	277.6	249.3	210.4
Corporate	3.4	3.3	3.1
Depreciation and amortization	$ 281.0	$ 252.6	$ 213.5
Property, Plant and Equipment Additions			
Metal beverage packaging, Americas	$ 87.4	$ 88.7	$ 109.9
Metal beverage packaging, Europe/Asia	150.7	82.1	97.9
Metal food & household products packaging, Americas (a)	23.0	19.4	16.8
Plastic packaging, Americas (a)	20.2	51.1	27.6
Aerospace & technologies	23.0	34.5	33.1
Segment property, plant and equipment additions	304.3	275.8	285.3
Corporate	4.2	3.8	6.4
Property, plant and equipment additions	$ 308.5	$ 279.6	$ 291.7

	December 31, 2007	December 31, 2006
Total Assets		
Metal beverage packaging, Americas	$ 1,169.6	$ 1,147.2
Metal beverage packaging, Europe/Asia	2,600.5	2,412.7
Metal food & household products packaging, Americas (a)	1,141.7	1,094.9
Plastic packaging, Americas (a)	568.8	609.0
Aerospace & technologies	278.7	268.2
Segment assets	5,759.3	5,532.0
Corporate assets, net of eliminations	261.3	308.9
Total assets	$ 6,020.6	$ 5,840.9
Investments in Affiliates		
Metal beverage packaging, Americas	$ 13.5	$ 15.7
Metal beverage packaging, Europe/Asia	0.2	0.2
Aerospace & technologies	7.5	7.5
Corporate (b)	56.4	53.1
Investments in affiliates	$ 77.6	$ 76.5

(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.

(b) Includes equity investments not evaluated as part of the segments' assets.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

3. Acquisitions

2006

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). Contemporaneously with the acquisition, Ball also refinanced $598.2 million of U.S. Can debt, including $26.8 million of bond redemption premiums and fees, and the company expects to realize approximately $44 million of acquired net operating tax loss and credit carryforwards of which approximately $13 million have been utilized as of December 31, 2007. 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.

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.

Ball Asia Pacific Limited

In the fourth quarter of 2006, Ball Asia Pacific Limited, an indirect wholly owned subsidiary of Ball Corporation, acquired all the minority ownership interest in its PRC-based high-density polypropylene plastic container business for $4.6 million in cash. The acquisition of the minority interest was not significant to the company.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

3. Acquisitions (continued)

Following is a summary of the net assets acquired in the U.S. Can and Alcan transactions. The valuations were performed by management, including the identification and valuation of acquired intangible assets and of liabilities, including the development and assessment of associated costs of consolidation and integration plans. Management also performed valuations of 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 final valuation of the acquired assets and liabilities and revised the preliminary purchase price allocations accordingly. The final allocation compared to the December 31, 2006, preliminary allocation 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

The customer relationships and acquired technologies of both acquisitions were identified as valuable intangible assets, and the company assigned to them an estimated life of 20 years. Because the acquisition of U.S. Can was a stock purchase, neither the goodwill nor the intangible assets are tax deductible for U.S. income tax purposes unless, 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.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisitions had occurred as of January 1 in each of the periods presented. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisitions been in effect for the periods presented, nor are they necessarily indicative of the results that may be obtained in the future.

($ in millions, except per share amounts)	December 31, 2006	December 31, 2005
Net sales	$ 6,799.0	$ 6,497.1
Net earnings	330.5	288.7
Basic earnings per share	3.20	2.67
Diluted earnings per share	3.15	2.62

Pro forma adjustments primarily include the after-tax effects of: (1) increased interest expense related to incremental borrowings used to finance the acquisitions; (2) increased depreciation expense on property, plant and equipment based on increased fair values; and (3) increased amortization expense attributable to intangible assets arising from the acquisitions.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

4. Legal Settlement

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

5. Business Consolidation Activities

Following is a summary of business consolidation activities included in the consolidated statements of earnings for the years ended December 31:

($ in millions)	2007	2006	2005
Metal beverage packaging, Americas	$ –	$ –	$ (19.3)
Metal beverage packaging, Europe/Asia	–	–	9.3
Metal food & household products packaging, Americas	(44.2)	(35.5)	(11.2)
Plastic packaging, Americas	(0.4)	–	–
	$ (44.6)	$ (35.5)	$ (21.2)

2007

Metal Food & Household Products Packaging, Americas

On October 24, 2007, Ball announced plans to close two manufacturing facilities and to exit the custom and decorative tinplate can business located in Baltimore, Maryland. Ball will close its food and household products packaging facilities in Tallapoosa, Georgia, and Commerce, California, both of which manufacture aerosol and general line cans. The two plant closures will result in a net reduction in manufacturing capacity of 10 production lines, including the relocation of two high-speed aerosol lines into existing Ball facilities. A pretax charge of $41.9 million ($25.4 million after tax) was recorded in the fourth quarter in connection with the closure of the aerosol plants, including $10.7 million for severance costs, $23 million for the write down to net realizable value of fixed assets, $2.4 million for excess inventory and $5.8 million for other associated costs. No cash costs were incurred in 2007. The carrying value of fixed assets remaining for sale in connection with the plant closures was $9.4 million at December 31, 2007.

The company also recorded a $2.3 million pretax pension annuity expense ($1.4 million after tax) related to a previously closed food can plant. The pension settlement payment was made in December 2007.

Plastic Packaging, Americas

In the fourth quarter of 2007, Ball recorded a pretax charge of $0.4 million ($0.2 million after tax) for severance costs related to the termination of approximately 50 employees in response to lost sales. The severance amounts are expected to be paid in the first quarter of 2008.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

5. Business Consolidation Activities (continued)

2006

Metal Food & Household Products Packaging, Americas

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. The company closed a leased facility in Alliance, Ohio, which was one of 10 manufacturing locations acquired from U.S. Can, and a food can plant in Burlington, Ontario. A pretax charge of $33.6 million ($27.4 million after tax) was recorded in the fourth quarter related to the Burlington closure, comprised of $7.8 million of severance costs, $16.8 million of pension costs, $2.9 million of plant decommissioning costs and $6.1 million for the write off of obsolete equipment and related spare parts and tooling. Payments of $11 million were made in 2007 against the Burlington reserves for employee severance and other associated costs, and only $1 million of severance costs remain to be paid. The carrying value of fixed assets remaining for sale in connection with the Burlington plant closure was $14.5 million at December 31, 2007. The closure of the Ohio plant, estimated to cost approximately $1 million for employee and other costs, has been treated as an opening balance sheet item related to the acquisition and all costs were incurred and paid as of December 31, 2007.

The fourth quarter also included a net charge of $0.9 million ($0.6 million after tax) to shut down a welded food can line at the Richmond, British Columbia, plant and record the recovery of business consolidation costs previously expensed. All activities have been completed and all costs have been incurred as of the end of 2007.

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

In the first quarter, a pretax charge of $2.1 million ($1.4 million after tax) was recorded to shut down a metal food can production line in the Whitby, Ontario, plant. The charge was comprised of $0.6 million of employee termination costs, $0.7 million for equipment removal and other decommissioning costs and $0.8 million for impairment of plant equipment and related spares and tooling. Production from the line has ceased and other related activities were completed during 2006. The fourth quarter of 2006 included $0.7 million of earnings ($0.5 million after tax) to reflect the net proceeds on the disposition of the plant’s fixed assets. As of the end of 2007, all costs have been incurred and paid and no reserve balances remain.

2005

Metal Beverage Packaging, Americas

The company announced in July 2005 the commencement of a project to upgrade and streamline its North American beverage can end manufacturing capabilities. The project is expected to be completed in early 2009 and will result in productivity gains and cost reductions. A pretax charge of $19.3 million ($11.7 million after tax) was recorded in the third quarter of 2005 in connection with this project. The pretax charge included $11.7 million for employee severance, pension and other employee benefit costs, $1.6 million for decommissioning costs and $6 million for the write off of obsolete equipment spare parts and tooling. Payments of $2.4 million were made in 2007 against the reserve. Severance and other employee benefit costs of $4.4 million remain at December 31, 2007, all of which are expected to be paid in 2008 and 2009 as the remaining end modules are put into operation. Pension costs will be paid over the retirement period for the affected employees.

Notes to Consolidated Financial Statements
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5. Business Consolidation Activities (continued)

Metal Food & Household Products Packaging, Americas

In the fourth quarter, a pretax charge of $4.6 million ($3.1 million after tax) was recorded for pension, severance and other employee benefit costs related to a reduction in force in a Canadian food can plant. All costs have been incurred and paid as of December 31, 2007.

In the second quarter, a pretax charge of $8.8 million ($5.9 million after tax) was recorded in connection with the closure of a three-piece food can manufacturing plant in Baie d'Urfe, Quebec. The plant was closed in the third quarter, and the subsequent real estate sale resulted in the second quarter charge being offset by a $2.2 million gain ($1.5 million after tax) in the fourth quarter. All costs have been incurred and paid as of December 31, 2007.

Metal Beverage Packaging, Europe/Asia

The company recorded $9.3 million of earnings in 2005, primarily related to the final settlement of PRC tax obligations, and an adjustment to reclassify an asset to be put in service previously held for sale, related to a PRC business consolidation charge taken in the second quarter of 2001. Tax clearances from the applicable authorities were required during the formal liquidation process. These matters have been concluded.

6. Property Insurance Gain

On April 1, 2006, a fire in the Hassloch, Germany, metal beverage can plant in the company's metal beverage packaging, Europe/Asia, segment damaged a significant portion of the plant's 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 €59.6 million ($75.5 million) was recorded in the 2006 consolidated statement of earnings to reflect the difference between the net book value of the impaired assets and the property insurance proceeds. In accordance with the agreement reached with the insurance company, property insurance proceeds of €48.7 million ($61.3 million) were received in 2006 and the final proceeds of €37.6 million ($48.6 million) were received in January 2007. An additional €27.2 million ($35.1 million) and €40 million ($51 million) were recorded in cost of sales in 2007 and 2006, respectively, for insurance recoveries related to business interruption costs, as well as €11.3 million ($14.3 million) in 2006 to offset clean-up costs.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

7. Accounts Receivable

($ in millions)	December 31, 2007	December 31, 2006
Trade accounts receivable, net	$ 505.4	$ 422.2
Business interruption insurance receivable (Note 6)	–	35.9
Other receivables	77.3	121.4
	$ 582.7	$ 579.5

Trade accounts receivable are shown net of an allowance for doubtful accounts of $13.2 million at December 31, 2007, and $9.8 million at December 31, 2006. Other receivables include non-income tax receivables, such as property tax and sales tax; certain vendor rebate receivables; and other similar items.

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 of up to $250 million. The agreement qualifies as off-balance sheet financing under the provisions of SFAS No. 140, as amended by SFAS No. 156. Net funds received from the sale of the accounts receivable totaled $170 million and $201.3 million at December 31, 2007 and 2006, respectively, and are reflected as a reduction of accounts receivable in the consolidated balance sheets. Fees incurred in connection with the sale of accounts receivable, which are reported as part of selling, general and administrative expenses, totaled $11.4 million in 2007, $9.7 million in 2006 and $7.7 million in 2005.

Net accounts receivable under long-term contracts, due primarily from agencies of the U.S. government and their prime contractors, were $136 million and $125.3 million at December 31, 2007 and 2006, respectively, and included $48.1 million and $62.4 million, respectively, representing the recognized sales value of performance that had not been billed and was not yet billable to customers. The average length of the long-term contracts is approximately 4 years and the average length remaining on those contracts at December 31, 2007, was 17 months. Approximately $0.6 million of unbilled receivables at December 31, 2007, is expected to be collected after one year and is related to customary fees and cost withholdings that will be paid upon milestone or contract completions, as well as final overhead rate settlements.

8. Inventories

($ in millions)	December 31, 2007	December 31, 2006
Raw materials and supplies	$ 433.6	$ 445.6
Work in process and finished goods	564.5	489.8
	$ 998.1	$ 935.4

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

9. Property, Plant and Equipment

($ in millions)	December 31, 2007	2006
Land	$ 92.2	$ 88.5
Buildings	820.1	764.1
Machinery and equipment	2,914.2	2,618.6
Construction in progress	154.7	215.1
	3,981.2	3,686.3
Accumulated depreciation	(2,040.0)	(1,810.3)
	$ 1,941.2	$ 1,876.0

Property, plant and equipment are stated at historical cost. Depreciation expense amounted to $263.8 million, $238 million and $202.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The change in the net property, plant and equipment balance during 2007 is primarily the result of capital spending and changes in foreign currency exchange rates, offset by depreciation. A fixed asset write down of €26.7 million ($33.8 million) was included in accumulated depreciation at December 31, 2006, to record the estimated impairment of the assets damaged as a result of the fire at the company’s Hassloch, Germany, metal beverage can plant (see Note 6).

10. 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 1 and 14)	–	(9.3)	–	–	(9.3)
Effects of foreign currency exchange rates	–	104.0	–	0.4	104.4
Balance at December 31, 2007	$ 279.4	$ 1,115.3	$ 354.3	$ 114.1	$ 1,863.1

(a) Related to the final purchase price allocations for the U.S. Can and Alcan acquisitions discussed in Note 3.

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.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

11. Intangibles and Other Assets

($ in millions)	December 31, 2007	2006
Intangibles and Other Assets:		
Investments in affiliates	$ 77.6	$ 76.5
Prepaid pension	10.3	2.3
Other intangibles (net of accumulated amortization of $92.9 and $70.7 at December 31, 2007 and 2006, respectively)	121.9	116.2
Company-owned life insurance	88.9	77.5
Deferred tax asset	4.3	34.9
Property insurance receivable (Note 6)	–	49.7
Other	70.4	72.8
	$ 373.4	$ 429.9

Total amortization expense of other intangible assets amounted to $17.2 million, $14.6 million and $11.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. Based on intangible assets and foreign currency exchange rates as of December 31, 2007, total annual intangible asset amortization expense is expected to be approximately $17 million in each of the years 2008 and 2009 and approximately $6 million for each of the years 2010 through 2012.

12. Leases

The company leases warehousing and manufacturing space and certain equipment in the packaging segments and office and technical space in the aerospace and technologies segment. During 2005 and 2003, we entered into leases that qualify as operating leases for book purposes and capital leases for tax purposes. Under these lease arrangements, Ball has the option to purchase the leased equipment at the end of the lease term, or if we elect not to do so, to compensate the lessors for the difference between the guaranteed minimum residual values totaling $16.3 million and the fair market value of the assets, if less. Certain of the company’s leases in effect at December 31, 2007, include renewal options and/or escalation clauses for adjusting lease expense based on various factors.

Total noncancellable operating leases in effect at December 31, 2007, require rental payments of $49.9 million, $40.4 million, $31.3 million, $23.5 million and $19 million for the years 2008 through 2012, respectively, and $54.4 million combined for all years thereafter. Lease expense for all operating leases was $85.3 million, $83.1 million and $74 million in 2007, 2006 and 2005, respectively.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

13. Debt and Interest Costs

Short-term debt at December 31, 2007, includes $49.7 million outstanding under uncommitted bank facilities totaling $345 million. At December 31, 2006, $140.1 million was outstanding under uncommitted bank facilities totaling $329 million. The weighted average interest rate of the outstanding short-term facilities was 5.7 percent at December 31, 2007, and 4.8 percent at December 31, 2006.

Long-term debt at December 31 consisted of the following:

(in millions)	2007 In Local Currency		2007 In U.S. $		2006 In Local Currency		2006 In U.S. $	
Notes Payable								
6.875% Senior Notes, due December 2012 (excluding issue premium of $2.7 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								
Term A Loan, British sterling denominated, due October 2011 (2007 – 6.85%; 2006 – 6.11%)		82.9		164.7		85.0		166.4
Term B Loan, euro denominated, due October 2011 (2007 – 5.55%; 2006 – 4.46%)	€	341.3		498.2	€	350.0		462.0
Term C Loan, Canadian dollar denominated, due October 2011 (2007 – 5.485%; 2006 – 5.205%)	C$	126.8		127.6	C$	134.0		114.9
Term D Loan, U.S. dollar denominated, due October 2011 (2007 – 5.72%; 2006 – 6.225%)	$	487.5		487.5	$	500.0		500.0
U.S. dollar multi-currency revolver borrowings, due October 2011 (2006 – 6.225%)	$	–		–	$	15.0		15.0
British sterling multi-currency revolver borrowings, due October 2011 (2007 – 6.92%; 2006 – 6.14%)		2.1		4.2		4.0		7.8
Industrial Development Revenue Bonds								
Floating rates due through 2015 (2007 – 3.46% to 3.7%; 2006 – 3.97% to 4.15%)	$	13.0		13.0	$	20.0		20.0
Other	Various			13.7	Various			25.5
				2,308.9				2,311.6
Less: Current portion of long-term debt				(127.1)				(41.2)
			$	2,181.8			$	2,270.4

The senior credit facilities bear interest at variable rates and also include (1) a multi-currency, long-term revolving credit facility that provides the company with up to the equivalent of $715 million and (2) a Canadian long-term revolving credit facility that provides the company with up to the equivalent of $35 million. Both revolving credit facilities expire in October 2011. At December 31, 2007, taking into account outstanding letters of credit, $705 million was available under the revolving credit facilities.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

13. Debt and Interest Costs (continued)

Long-term debt obligations outstanding at December 31, 2007, have maturities of $127.1 million, $160 million, $388.4 million, $625.1 million and $550.3 million for the years ending December 31, 2008 through 2012, respectively, and $456.1 million thereafter. Ball provides letters of credit in the ordinary course of business to secure liabilities recorded in connection with industrial development revenue bonds and certain self-insurance arrangements. Letters of credit outstanding at December 31, 2007 and 2006, were $41 million and $52.4 million, respectively.

The notes payable and senior credit facilities are guaranteed on a full, unconditional and joint and several basis by certain of the company's domestic wholly owned subsidiaries. Certain foreign denominated tranches of the senior credit facilities are similarly guaranteed by certain of the company's wholly owned foreign subsidiaries. Note 22 contains further details as well as condensed, consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries.

The company was not in default of any loan agreement at December 31, 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.

2006

On March 27, 2006, Ball expanded its senior secured credit facilities with the addition of a $500 million Term D Loan facility due in installments through October 2011. Also on March 27, 2006, Ball issued at a price of 99.799 percent $450 million of 6.625% senior notes (effective yield to maturity of 6.65 percent) due in March 2018. The proceeds from these financings were used to refinance existing U.S. Can debt with Ball Corporation debt at lower interest rates, acquire certain North American plastic container net assets from Alcan and reduce seasonal working capital debt. (See Note 3 for further details of the acquisitions.)

2005

On October 13, 2005, Ball refinanced its senior secured credit facilities to extend debt maturities at lower interest rate spreads and provide the company with additional borrowing capacity for future growth. During the third and fourth quarters of 2005, Ball redeemed its 7.75% senior notes due in August 2006. The refinancing and senior note redemptions resulted in a debt refinancing charge of $19.3 million ($12.3 million after tax) for the related call premium and unamortized debt issuance costs.

A summary of total interest cost paid and accrued follows:

($ in millions)	2007	2006	2005
Interest costs before refinancing costs	$ 155.8	$ 142.5	$ 102.4
Debt refinancing costs	–	–	19.3
Total interest costs	155.8	142.5	121.7
Amounts capitalized	(6.4)	(8.1)	(5.3)
Interest expense	$ 149.4	$ 134.4	$ 116.4

Interest paid during the year (a)	$ 153.9	$ 125.4	$ 138.5

(a) Includes $6.6 million paid in 2005 in connection with the redemption of the company’s senior and senior subordinated notes.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Taxes on Income

The amount of earnings before income taxes is:

($ in millions)	2007	2006	2005
U.S.	$ 155.0	$ 252.6	$ 208.5
Foreign	209.5	194.3	155.1
	$ 364.5	$ 446.9	$ 363.6

The provision for income tax expense is:

($ in millions)	2007	2006	2005
Current			
U.S.	$ 18.0	$ 51.7	$ 75.0
State and local	7.0	10.7	15.3
Foreign	80.2	31.0	51.5
Uncertain tax positions	11.5	–	–
Repatriation of foreign earnings	–	–	16.0
Total current	116.7	93.4	157.8
Deferred			
U.S.	5.8	17.1	(12.5)
State and local	(0.9)	2.6	(2.6)
Foreign	(25.9)	18.5	(17.3)
Repatriation of foreign earnings	–	–	(19.2)
Total deferred	(21.0)	38.2	(51.6)
Provision for income taxes	$ 95.7	$ 131.6	$ 106.2

The income tax provision recorded within the consolidated statements of earnings differs from the provision determined by applying the U.S. statutory tax rate to pretax earnings as a result of the following:

($ in millions)	2007	2006	2005
Statutory U.S. federal income tax	$ 127.6	$ 156.4	$ 127.2
Increase (decrease) due to:			
Foreign tax holiday	(1.3)	(6.1)	(5.6)
Company-owned life insurance	(3.9)	(5.8)	(3.2)
Tax rate differences	(6.3)	(1.1)	(3.1)
Research and development tax credits	(4.5)	(11.6)	(10.6)
Manufacturing deduction	(3.3)	(2.0)	(2.9)
State and local taxes, net	3.9	9.0	8.3
Statutory rate reduction	(10.4)	–	–
Foreign subsidiary stock loss	(17.2)	–	–

Uncertain tax positions		11.5		–		–
Foreign exchange loss of European subsidiary		–		(8.1)		–
Other, net		(0.4)		0.9		(3.9)
Provision for taxes	$	95.7	$	131.6	$	106.2
Effective tax rate expressed as a percentage of pretax earnings		26.3%		29.4%		29.2%

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Taxes on Income (continued)

The lower effective rate in 2007 was the result of earnings mix (higher foreign earnings taxed at lower rates) and net tax benefit adjustments of $17.2 million recorded in the third quarter of 2007, as compared to $6.4 million in 2006. These net tax benefit adjustments were the result of enacted income tax rate reductions in Germany and the United Kingdom and a tax loss related to the company's Canadian operations. These benefits were offset by a tax provision to adjust for the final settlement negotiations concluded in the fourth quarter with the Internal Revenue Service (IRS) related to a company-owned life insurance plan (discussed below).

In 1995 Ball Packaging Europe's Polish subsidiary was granted a tax holiday. Under the terms of the holiday, an exemption was granted on manufacturing earnings for up to €39.5 million of income tax. At December 31, 2007, the tax exemption had been fully utilized. In 2005 Ball Packaging Europe's Serbian subsidiary was granted a tax holiday. Under the terms of the holiday, the earnings of this subsidiary are exempt from income taxation for a period of 10 years beginning in the first year the Serbian subsidiary has taxable earnings. As of December 31, 2007, the 10-year period had commenced and eight years remain.

Net income tax payments were $63.6 million, $138.6 million and $99 million for 2007, 2006 and 2005, respectively.

The significant components of deferred tax assets and liabilities at December 31 were:

($ in millions)	2007	2006
Deferred tax assets:		
Deferred compensation	$ 64.2	$ 58.7
Accrued employee benefits	105.0	113.8
Plant closure costs	32.1	21.6
Accrued pensions	33.4	93.0
Inventory and other reserves	25.8	19.4
Net operating losses	45.2	46.9
Other	23.0	36.8
Total deferred tax assets	328.7	390.2
Valuation allowance	(17.8)	(13.4)
Net deferred tax assets	310.9	376.8
Deferred tax liabilities:		
Depreciation	(261.6)	(289.9)
Goodwill and other intangible assets	(81.4)	(71.4)
LIFO inventory reserves	(19.6)	(24.2)
Other	(22.9)	(24.8)
Total deferred tax liabilities	(385.5)	(410.3)
Net deferred tax liability	$ (74.6)	$ (33.5)

At December 31, 2007, the net deferred tax liability was included in the consolidated balance sheets as follows:

($ in millions)	2007	2006
Deferred taxes and prepaid expenses	$ 48.3	$ 39.0
Intangibles and other assets, net	4.3	34.9

Income taxes payable	(1.4)	(11.4)
Deferred taxes and other liabilities	(125.8)	(96.0)
Net deferred tax liability	$ (74.6)	$ (33.5)

The change in deferred taxes during 2007 is primarily attributable to book depreciation exceeding tax depreciation and a decrease in accrued pension liabilities.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

14. Taxes on Income (continued)

At December 31, 2007, Ball Corporation and its domestic subsidiaries had net operating loss carryforwards, expiring between 2020 and 2026, of $64.6 million with a related tax benefit of $25.2 million. Also at December 31, 2007, Ball Packaging Europe and its subsidiaries had net operating loss carryforwards, with no expiration date, of $54.4 million with a related tax benefit of $14.6 million. Ball Packaging Products Canada Corp. had a net operating loss carryforward, with no expiration date, of $15.8 million with a related tax benefit of $5.4 million. Due to the uncertainty of ultimate realization, these European and Canadian benefits have been offset by valuation allowances of $8.6 million and $5.4 million, respectively. Upon realization, $5.3 million of the European valuation allowance will be recognized as a reduction in goodwill. At December 31, 2007, the company has foreign tax credit carryforwards of $5.8 million; however, due to the uncertainty of realization of the entire credit, a valuation allowance of $3.8 million has been applied to reduce the carrying value to $2 million.

Effective January 1, 2007, Ball adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes." As of the date of adoption, the accrual for uncertain tax position 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 reduction in opening retained earnings and a $9.3 million reduction in goodwill. A reconciliation of the unrecognized tax benefits follows:

($ in millions)		As Adjusted for Accounting Change
Balance at January 1, 2007	$	45.8
Additions based on tax positions related to the current year		3.9
Additions for tax positions of prior years		7.6
Reductions for settlements		(18.4)
Effect of foreign currency exchange rates		2.2
Balance at December 31, 2007	$	41.1
Balance sheet classification:		
Income taxes payable	$	4.2
Deferred taxes and other liabilities		36.9
Total	$	41.1

The amount of unrecognized tax benefits at December 31, 2007, that, if recognized, would reduce tax expense is $35.9 million. At this time there are no positions where the unrecognized tax benefit is expected to increase or decrease significantly within the next 12 months. U.S. Federal and state income tax returns filed for the years 2000-2006 are open for audit, with an effective settlement of the Federal returns through 2004. The income tax returns filed in Europe for the years 2002 through 2006 are also open for audit. The company's significant filings in Europe are in Germany, France, the Netherlands, Poland, Serbia and the United Kingdom.

The company recognizes the accrual of interest and penalties related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2007, Ball recognized approximately $2.7 million of interest expense. The accrual for uncertain tax positions at December 31, 2007, includes approximately $5.1 million representing potential interest expense. No penalties have been accrued.

The 2007 provision for income taxes included an $11.5 million accrual under FIN No. 48. The majority of this provision was related to the effective settlement during the third quarter of 2007 with the Internal Revenue Service for interest deductions on incurred loans from a company-owned life insurance plan. The total accrual at December 31, 2007, for the effective settlement of the applicable prior years 2000-2004 under examination, and unaudited years 2005 through 2007, was $18.4 million, including estimated interest. The settlement resulted in a

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Ball Corporation and Subsidiaries

14. Taxes on Income (continued)

majority of the interest deductions being sustained with prospective application that results in no significant impact to future earnings per share or cash flows.

On October 22, 2004, the American Jobs Creation Act of 2004 (Jobs Act) was signed into law. The Jobs Act provided certain domestic companies a temporary opportunity to repatriate previously undistributed earnings of controlled foreign subsidiaries at a reduced federal tax rate, approximating 5.25 percent. Under the company's approved distribution plan, the company received a distribution of $488.4 million, of which approximately $320.3 million was taxable and subject to the provisions of the Jobs Act. In the third quarter of 2005, the company recorded a current tax payable of $16 million that was more than offset by the release of $19.2 million of accrued taxes on prior year unremitted foreign earnings, resulting in a net decrease in tax expense of $3.2 million for that period.

Notwithstanding the 2005 distribution pursuant to the Jobs Act, management's intention is to indefinitely reinvest undistributed foreign earnings of Ball's controlled foreign corporations and, as a result, no U.S. income or foreign withholding tax provision has been made. It is not practicable to estimate the additional taxes that may become payable upon the eventual remittance of these foreign earnings.

15. Employee Benefit Obligations

($ in millions)	December 31, 2007	2006
Total defined benefit pension liability	$ 406.2	$ 510.6
Less current portion	(25.7)	(24.1)
Long-term defined benefit pension liability	380.5	486.5
Retiree medical and other postemployment benefits	193.3	191.1
Deferred compensation	185.4	144.0
Other	39.8	26.1
	$ 799.0	$ 847.7

Certain management employees may elect to defer the payment of all or a portion of their annual incentive compensation into the company's deferred compensation plan and/or the company's deferred compensation stock plan. The employee becomes a general unsecured creditor of the company with respect to amounts deferred. Amounts deferred into the deferred compensation stock plan receive a 20 percent company match with a maximum match of $20,000 per year. Amounts deferred into the stock plan are represented in the participant's account as stock units, with each unit having a value equivalent to one share of Ball's common stock. Beginning in 2007, participants in the stock plan were allowed to reallocate a prescribed number of units to other notional investment funds, comparable to those described above, subject to specified time constraints.

The company's pension plans cover substantially all U.S., Canadian and European employees meeting certain eligibility requirements. The defined benefit plans for salaried employees, as well as those for hourly employees in Germany and the United Kingdom, provide pension benefits based on employee compensation and years of service. Plans for North American hourly employees provide benefits based on fixed rates for each year of service. The German plans are not funded but the company maintains book reserves, and annual additions to the reserves are generally tax deductible. With the exception of the German plans, our policy is to fund the plans on a current basis to the extent deductible under existing tax laws and regulations and in amounts sufficient to satisfy statutory funding requirements. We also have defined benefit pension obligations in France and Austria, the assets and liabilities of which are insignificant.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Employment Benefit Obligations (continued)

Defined Benefit Pension Plans

An analysis of the change in benefit accruals for 2007 and 2006 follows:

($ in millions)	2007			2006		
	U.S.	Foreign	Total	U.S.	Foreign	Total
Change in projected benefit obligation:						
Benefit obligation at prior year end	$ 805.3	$ 634.5	$ 1,439.8	$ 778.0	$ 593.6	$ 1,371.6
Service cost	40.9	8.9	49.8	26.9	9.3	36.2
Interest cost	47.1	30.5	77.6	45.8	26.9	72.7
Benefits paid	(45.8)	(55.2)	(101.0)	(34.6)	(45.1)	(79.7)
Net actuarial gain	(17.0)	(49.9)	(66.9)	(19.3)	(10.3)	(29.6)
Business acquisitions	–	–	–	51.7	–	51.7
Effect of exchange rates	–	53.6	53.6	–	57.1	57.1
Plan amendments and other	9.4	2.3	11.7	(43.2)	3.0	(40.2)
Benefit obligation at year end	839.9	624.7	1,464.6	805.3	634.5	1,439.8
Change in plan assets:						
Fair value of assets at prior year end	679.6	251.9	931.5	570.6	213.7	784.3
Actual return on plan assets	64.2	11.4	75.6	65.6	29.1	94.7
Employer contributions (a)	97.5	18.2	115.7	39.7	15.2	54.9
Contributions to unfunded German plans (b)	–	24.0	24.0	–	22.0	22.0
Benefits paid	(45.8)	(55.2)	(101.0)	(34.6)	(45.1)	(79.7)
Business acquisitions	–	–	–	38.3	–	38.3
Effect of exchange rates	–	20.6	20.6	–	14.9	14.9
Other	–	2.3	2.3	–	2.1	2.1
Fair value of assets at end of year	795.5	273.2	1,068.7	679.6	251.9	931.5
Funded status	$ (44.4)	$ (351.5)(b)	$ (395.9)	$ (125.7)	$ (382.6)(b)	$ (508.3)

(a) 2007 contributions include additional pension contributions of $44.5 million ($27.3 million after tax) to bring North American plan obligations to a 95 percent or higher funded status level.

(b) The German plans are unfunded and the liability is included in the company's consolidated balance sheets. Benefits are paid directly by the company to the participants. The German plans represented $328.5 million and $333.4 million of the total unfunded status at December 31, 2007 and 2006, respectively.

Amounts recognized in the consolidated balance sheets for the funded status at December 31 consisted of:

($ in millions)	2007			2006		
	U.S.	Foreign	Total	U.S.	Foreign	Total

Prepaid pension cost	$ –	$ 10.3	$ 10.3	$ –	$ 2.3	$ 2.3
Defined benefit pension liabilities	(44.4)	(361.8)	(406.2)	(125.7)	(384.9)	(510.6)
	$ (44.4)	$ (351.5)	$ (395.9)	$ (125.7)	$ (382.6)	$ (508.3)

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Employee Benefit Obligations (continued)

Amounts recognized in accumulated other comprehensive earnings (loss) at December 31 consisted of:

	2007			2006		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Net loss	$ 180.0	$ 6.8	$ 186.8	$ 220.2	$ 50.3	$ 270.5
Net prior service credit	2.0	(5.8)	(3.8)	(5.7)	(6.3)	(12.0)
Tax effect and foreign exchange rates	(71.9)	(12.1)	(84.0)	(85.0)	(21.7)	(106.7)
	$ 110.1	$ (11.1)	$ 99.0	$ 129.5	$ 22.3	$ 151.8

The accumulated benefit obligation for all U.S. defined benefit pension plans was $832.1 million and $804.8 million at December 31, 2007 and 2006, respectively. The accumulated benefit obligation for all foreign defined benefit pension plans was $571.6 million and $584.1 million at December 31, 2007 and 2006, respectively. Following is the information for defined benefit plans with an accumulated benefit obligation in excess of plan assets at December 31:

	2007			2006		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Projected benefit obligation	$ 839.9	$ 328.8	$ 1,168.7	$ 805.3	$ 579.7	$ 1,385.0
Accumulated benefit obligation	832.1	318.9	1,151.0	804.8	529.9	1,334.7
Fair value of plan assets	795.5	0.3(a)	795.8	679.6	194.8(a)	874.4

(a) The German plans are unfunded and, therefore, there is no fair value of plan assets associated with them. The unfunded status of those plans was $328.5 million and $333.4 million at December 31, 2007 and 2006, respectively.

Components of net periodic benefit cost were:

	2007			2006			2005		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Service cost	$ 40.9	$ 8.9	$ 49.8	$ 26.9	$ 9.3	$ 36.2	$ 24.2	$ 8.4	$ 32.6
Interest cost	47.1	30.5	77.6	45.8	26.9	72.7	40.1	28.1	68.2
Expected return on plan assets	(54.5)	(18.5)	(73.0)	(51.1)	(15.5)	(66.6)	(46.2)	(14.7)	(60.9)
Amortization of prior service cost	0.9	(0.5)	0.4	3.0	(0.3)	2.7	4.8	(0.1)	4.7
Recognized net actuarial loss	13.5	5.0	18.5	18.4	3.3	21.7	15.5	2.3	17.8
Curtailment loss	0.8	2.1	2.9	–	2.2	2.2	–	3.0	3.0
Subtotal	48.7	27.5	76.2	43.0	25.9	68.9	38.4	27.0	65.4

Non-company sponsored plans		1.3		0.1		1.4		1.2		0.1		1.3		1.0		–	1.0
Net periodic benefit cost	$	50.0	$	27.6	$	77.6	$	44.2	$	26.0	$	70.2	$	39.4	$	27.0	$ 66.4

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive earnings into net periodic benefit cost during 2008 are $14.1 million and $0.6 million, respectively.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Employee Benefit Obligations (continued)

Weighted average assumptions used to determine benefit obligations for the North American plans at December 31 were:

	U.S.			Canada		
	2007	2006	2005	2007	2006	2005
Discount rate	6.25%	6.00%	5.75%	5.75%	5.00%	5.00%
Rate of compensation increase	4.80%	4.80%	3.33%	3.50%	3.50%	3.50%

Weighted average assumptions used to determine benefit obligations for the European plans at December 31 were:

	United Kingdom			Germany		
	2007	2006	2005	2007	2006	2005
Discount rate	5.70%	5.00%	4.90%	5.50%	4.50%	4.01%
Rate of compensation increase	4.00%	4.00%	4.00%	2.75%	2.75%	2.75%
Pension increase	3.10%	2.75%	2.50%	1.75%	1.75%	1.75%

The discount and compensation increase rates used above to determine the benefit obligations at December 31, 2007, will be used to determine net periodic benefit cost for 2008.

Weighted average assumptions used to determine net periodic benefit cost for the North American plans for the years ended December 31 were:

	U.S.			Canada		
	2007	2006	2005	2007	2006	2005
Discount rate	6.00%	5.75%	6.00%	5.00%	5.00%	5.75%
Rate of compensation increase	4.80%	3.33%	3.33%	3.50%	3.50%	3.50%
Expected long-term rate of return on assets	8.25%	8.50%	8.50%	6.82%	6.78%	7.65%

Weighted average assumptions used to determine net periodic benefit cost for the European plans for the years ended December 31 were:

	United Kingdom			Germany		
	2007	2006	2005	2007	2006	2005
Discount rate	5.00%	4.90%	5.50%	4.50%	4.01%	4.76%
Rate of compensation increase	4.00%	4.00%	4.00%	2.75%	2.75%	2.75%
Pension increase	2.75%	2.50%	2.50%	1.75%	1.75%	1.75%
Expected long-term rate of return on assets	7.25%	7.00%	7.00%	N/A	N/A	N/A

Current financial accounting standards require that the discount rates used to calculate the actuarial present value of pension and other postretirement benefit obligations reflect the time value of money as of the measurement date of the benefit obligation and reflect the rates of return currently available on high quality fixed income securities whose cash flows (via coupons and maturities) match the timing and amount of future benefit payments of the plan. In addition, changes in the discount rate assumption should reflect changes in the general level of interest rates.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Employee Benefit Obligations (continued)

In selecting the U.S. discount rate for December 31, 2007, several benchmarks were considered, including Moody's long-term corporate bond yield for Aa bonds and the Citigroup Pension Liability Index. In addition, the expected cash flows from the plans were modeled relative to the Citigroup Pension Discount Curve and matched to cash flows from a portfolio of bonds rated Aa or better. In Canada the markets for locally denominated high-quality, longer term corporate bonds are relatively thin. As a result, the approach taken in Canada was to use yield curve spot rates to discount the respective benefit cash flows and to compute the underlying constant bond yield equivalent. The Canadian discount rate at December 31, 2007, was selected based on a review of the expected benefit payments for each of the Canadian defined benefit plans over the next 60 years and then discounting the resulting cash flows to the measurement date using the AA corporate bond spot rates to determine the equivalent level discount rate. In the United Kingdom and Germany, the company and its actuarial consultants considered the applicable iBoxx 15+ year AA corporate bond yields for the respective markets and determined a rate consistent with those expectations. In all countries, the discount rates selected for December 31, 2007, were based on the range of values obtained from cash flow specific methods, together with the changes in the general level of interest rates reflected by the benchmarks.

The assumption related to the expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested to provide for the benefits over the life of the plans. The assumption was based upon Ball’s pension plan asset allocations, investment strategies and the views of investment managers and other large pension plan sponsors. Some reliance was placed on historical asset returns of our plans. An asset-return generation model was used to project future asset returns using simulation and asset class correlation. The analysis included expected future risk premiums, forward-looking return expectations derived from the yield on long-term bonds and the price earnings ratios of major stock market indexes, expected inflation and real risk-free interest rate assumptions and the fund’s expected asset allocation.

The expected long-term rates of return on assets were calculated by applying the expected rate of return to a market related value of plan assets at the beginning of the year, adjusted for the weighted average expected contributions and benefit payments. The market related value of plan assets used to calculate expected return was $853 million for 2007, $780.7 million for 2006 and $758.5 million for 2005.

Included in other comprehensive earnings, net of the related tax effect, were decreases in pension and other postretirement item obligations of $57.9 million and $55.9 million in 2007 and 2006, respectively, and an increase of $43.6 million in 2005.

For pension plans, accumulated gains and losses in excess of a 10 percent corridor and the prior service cost are amortized over the average remaining service period of active participants.

Defined Benefit Pension Plan Assets

Investment policies and strategies for the plan assets in the U.S., Canada and the United Kingdom are established by pension investment committees of the company and its relevant subsidiaries and include the following common themes: (1) to provide for long-term growth of principal income without undue exposure to risk, (2) to minimize contributions to the plans, (3) to minimize and stabilize pension expense, and (4) to achieve a rate of return above the market average for each asset class over the long term. The pension investment committees are required to regularly, but no less frequently than once annually, review asset mix and asset performance, as well as the performance of the investment managers. Based on their reviews, which are generally conducted quarterly, investment policies and strategies are revised as appropriate.

In accordance with 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) if imposed by the appropriate regulatory agency, provide a lien on company assets in that amount for the benefit of the plan. The guarantee can be removed upon approval by both Ball and the pension plan trustees.

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Ball Corporation and Subsidiaries

15. Employee Benefit Obligations (continued)

Target asset allocations in the U.S. and Canada are set using a minimum and maximum range for each asset category as a percent of the total funds' market value. Assets contributed to the United Kingdom plans are invested using established percentages. Following are the target asset allocations established as of December 31, 2007:

	U.S.	Canada	United Kingdom
Cash and cash equivalents	0-10%	0-10%	–
Equity securities	30-75% (a)	50-75% (c)	82% (d)
Fixed income securities	25-70% (b)	25-45%	18%
Alternative investments	0-35%	–	–

(a) Equity securities may consist of: (1) up to 25 percent large cap equities, (2) up to 10 percent mid cap equities, (3) up to 10 percent small cap equities, (4) up to 35 percent foreign equities and (5) up to 35 percent special equities. Holdings in Ball Corporation common stock cannot exceed 5 percent of the trust's assets.
(b) Debt securities may include up to 10 percent high yield non-investment grade bonds, up to 10 percent bank loans and up to 15 percent international bonds.
(c) May include between 15 percent and 45 percent non-Canadian equity securities and must remain within the Canadian tax law for foreign property limits.
(d) Equity securities must consist of United Kingdom securities and up to 29 percent foreign securities.

The actual weighted average asset allocations for Ball's defined benefit pension plans, which are within the established targets for each country, were as follows at December 31:

	2007	2006
Cash and cash equivalents	5%	1%
Equity securities	51%	62%
Fixed income securities	36%	31%
Alternative investments	8%	6%
	100%	100%

Contributions to the company's defined benefit pension plans, not including the unfunded German plans, are expected to be $49 million in 2008. This estimate may change based on plan asset performance. Benefit payments related to these plans are expected to be $66 million, $70 million, $74 million, $77 million and $82 million for the years ending December 31, 2008 through 2012, respectively, and a total of $473 million for the years 2013 through 2017. Payments to participants in the unfunded German plans are expected to be approximately $26 million in each of the years 2008 through 2012 and a total of $136 million for the years 2013 through 2017.

Other Postemployment Benefits

The company sponsors defined benefit and defined contribution postretirement health care and life insurance plans for substantially all U.S. and Canadian employees. Employees may also qualify for long-term disability, medical and life insurance continuation and other postemployment benefits upon termination of active employment prior to retirement. All of the Ball-sponsored postretirement health care and life insurance plans are unfunded and, with the exception of life insurance benefits, are self-insured.

In Canada, the company provides supplemental medical and other benefits in conjunction with Canadian provincial health care plans. Most U.S. salaried employees who retired prior to 1993 are covered by noncontributory defined benefit medical plans with capped lifetime benefits. Ball provides a fixed subsidy toward each retiree's future purchase of medical insurance for U.S. salaried and substantially all nonunion hourly employees retiring after January 1, 1993. Life insurance benefits are noncontributory. Ball has no commitments to increase benefits provided by any of the postemployment benefit plans.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Employee Benefit Obligations (continued)

An analysis of the change in other postretirement benefit accruals for 2007 and 2006 follows:

($ in millions)	2007	2006
Change in benefit obligation:		
Benefit obligation at prior year end	$ 185.1	$ 176.0
Service cost	3.1	3.3
Interest cost	10.2	10.8
Benefits paid	(15.3)	(10.4)
Net actuarial gain	(3.1)	(20.7)
Business acquisitions	–	26.5
Curtailment gain	–	(1.2)
Plan amendments	(5.9)	0.8
Effect of exchange rates	3.9	–
Benefit obligation at year end	178.0	185.1
Change in plan assets:		
Fair value of assets at prior year end	–	–
Employer contributions	15.3	10.4
Benefits paid	(15.4)	(10.8)
Medicare Part D subsidy	0.1	0.4
Fair value of assets at end of year	–	–
Funded status	$ (178.0)	$ (185.1)

Components of net periodic benefit cost were:

($ in millions)	2007	2006	2005
Service cost	$ 3.1	$ 3.3	$ 2.6
Interest cost	10.2	10.8	9.7
Amortization of prior service cost	0.4	1.5	1.5
Recognized net actuarial gain	0.6	2.4	2.3
Net periodic benefit cost	$ 14.3	$ 18.0	$ 16.1

The estimated net loss and prior service cost for the other postretirement plans that will be amortized from accumulated other comprehensive earnings (loss) into net periodic benefit cost during 2008 are $0.4 million and $0.3 million, respectively.

The assumptions used for the determination of benefit obligations and net periodic benefit cost were the same as used for the U.S. and Canadian defined benefit pension plans. For other postretirement benefits, accumulated gains and losses, the prior service cost and the transition asset are amortized over the average remaining service period of active participants.

For the U.S. health care plans at December 31, 2007, a 9 percent health care cost trend rate was used for pre-65 and post-65 benefits, and trend rates were assumed to decrease to 5 percent in 2012 and remain at that level thereafter. For the Canadian plans, a 9 percent health care cost trend rate was used, which was assumed to decrease to 5 percent by 2016 and remain at that level in subsequent years.

Health care cost trend rates can have an effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would increase or decrease the total of service and interest cost by \$0.4 million and the postretirement benefit obligation by approximately \$4 million to \$5 million.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

15. Employee Benefit Obligations (continued)

Other Benefit Plans

Through December 31, 2006, the company matched employee contributions to the 401(k) plan with shares of Ball common stock, up to 50 percent of up to 6 percent of a participant’s annual salary. Effective January 1, 2007, the company matches U.S. salaried employee contributions with shares of Ball common stock, up to 100 percent of the first 3 percent of a participant’s salary plus 50 percent of the next 2 percent. The expense associated with the company match amounted to $20.8 million, $16.1 million and $14.3 million for 2007, 2006 and 2005, respectively.

In addition, substantially all employees within the company’s aerospace and technologies segment who participate in Ball’s 401(k) plan receive a performance-based matching cash contribution of up to 4 percent of base salary. The company recognized $8.7 million and $6.3 million of additional compensation expense related to this program for the years 2007 and 2005, respectively. There was no matching contribution for the year ended December 31, 2006.

In 2007 the company’s 401(k) plan matching contributions could not exceed $9,000 per employee and the limit on employee contributions was $15,500 per employee.

16. Shareholders’ Equity

At December 31, 2007, the company had 550 million shares of common stock and 15 million shares of preferred stock authorized, both without par value. Preferred stock includes 120,000 authorized but unissued shares designated as Series A Junior Participating Preferred Stock.

Under the company’s shareholder Rights Agreement dated July 26, 2006, as amended, one preferred stock purchase right (Right) is attached to each outstanding share of Ball Corporation common stock. Subject to adjustment, each Right entitles the registered holder to purchase from the company one one-thousandth of a share of Series A Junior Participating Preferred Stock at an exercise price of $185 per Right. Subject to certain limited exceptions for passive investors, if a person or group acquires 10 percent or more of the company's outstanding common stock (or upon occurrence of certain other events), the Rights (other than those held by the acquiring person) become exercisable and generally entitle the holder to purchase shares of Ball Corporation common stock at a 50 percent discount. The Rights, which expire in 2016, are redeemable by the company at a redemption price of $0.001 cent per Right and trade with the common stock. Exercise of such Rights would cause substantial dilution to a person or group attempting to acquire control of the company without the approval of Ball's board of directors. The Rights would not interfere with any merger or other business combinations approved by the board of directors.

The company increased its share repurchase program in 2007 to $211.3 million, net of issuances, compared to $45.7 million net repurchases in 2006 and $358.1 million in 2005. The net repurchases in 2007 included a forward contract entered into in December 2006 for the repurchase of 1,200,000 shares. The contract was settled on January 5, 2007, for $51.9 million in cash. The 2007 net repurchases did not include a forward contract entered into in December 2007 for the repurchase of 675,000 shares. That contract was settled on January 7, 2008, for $31 million in cash.

On December 12, 2007, in a privately negotiated transaction, Ball entered into an accelerated share repurchase agreement to buy $100 million of its common shares. The company advanced the $100 million on January 7, 2008, and received approximately 2 million shares, which represented 90 percent of the total shares as calculated using the previous day's closing price. The exact number of shares to be repurchased under the agreement, which will be determined on the settlement date of June 5, 2008, is subject to an adjustment based on a weighted average price calculation for the period between the initial purchase date and the settlement date. The company has the option to settle the contract in either cash or shares.

In connection with the employee stock purchase plan, the company contributes 20 percent of up to $500 of each participating employee's monthly payroll deduction toward the purchase of Ball Corporation common stock. Company contributions for this plan were $3.2 million each in 2007, 2006 and 2005.

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16. Shareholders' Equity (continued)

On October 24, 2007, Ball announced the discontinuance of the company's discount on the reinvestment of dividends associated with the company's dividend reinvestment and voluntary stock purchase plan for non-employee shareholders. The 5 percent discount was discontinued on November 1, 2007.

Accumulated Other Comprehensive Earnings (Loss)

The activity related to accumulated other comprehensive earnings (loss) was as follows:

($ in millions)	Foreign Currency Translation	Pension and Other Postretirement Items, Net of Tax	Effective Financial Derivatives, Net of Tax	Accumulated Other Comprehensive Earnings (Loss)
December 31, 2004	$ 148.9	$ (126.3)	$ 10.6	$ 33.2
2005 change	(74.3)	(43.6)	(16.0)	(133.9)
December 31, 2005	74.6	(169.9)	(5.4)	(100.7)
2006 change	57.2	55.9	6.0	119.1
Effect of SFAS No. 158 adoption (a)	–	(47.9)	–	(47.9)
December 31, 2006	131.8	(161.9)	0.6	(29.5)
2007 change	90.0	57.9	(11.5)	136.4
December 31, 2007	$ 221.8	$ (104.0)	$ (10.9)	$ 106.9

(a) Within the company's 2006 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. The 2006 amounts have been revised to correct the previous reporting.

Notwithstanding the 2005 distribution pursuant to the Jobs Act, management's intention is to indefinitely reinvest foreign earnings. Therefore, no taxes have been provided on the foreign currency translation component for any period. The change in the pension and other postretirement items is presented net of related tax expense of $31.3 million and $2.9 million for 2007 and 2006, respectively, and a related tax benefit of $27.3 million for 2005. The change in the effective financial derivatives is presented net of related tax benefit of $3.2 million for 2007, related tax expense of $5.7 million for 2006 and related tax benefit of $10.7 million for 2005.

Stock-Based Compensation Programs

Effective January 1, 2006, Ball adopted SFAS No. 123 (revised 2004), "Share Based Payment," which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. The new standard establishes accounting standards for transactions in which an entity exchanges its equity instruments for goods or services, including stock option and restricted stock grants. The major differences for Ball are that (1) expense is now recorded in the consolidated statements of earnings for the fair value of new stock option grants and nonvested portions of grants made prior to January 1, 2006, and (2) the company's deposit share program (discussed below) is no longer a variable plan that is marked to current market value each month through earnings. Upon adoption of SFAS No. 123 (revised 2004), Ball has chosen to use the modified prospective transition method and the Black-Scholes valuation model.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

16. Shareholders' Equity (continued)

The company has shareholder-approved stock option plans under which options to purchase shares of Ball common stock have been granted to officers and certain 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 issued through December 31, 2007, 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 year ended December 31, 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			(501,357)	9.99
Exercised	(985,373)	21.37		
Canceled/forfeited	(69,800)	44.20	(69,800)	10.70
End of period	4,747,005	32.06	1,664,980	10.88
Vested and exercisable, end of period	3,082,025	24.44		
Reserved for future grants	4,799,707			

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 December 31, 2007, was 6.2 years and the aggregate intrinsic value (difference in exercise price and closing price at that date) was $61.4 million. The weighted average remaining contractual term for options vested and exercisable at December 31, 2007, was 4.8 years and the aggregate intrinsic value was $63.4 million. The company received $21.1 million from options exercised during 2007. The intrinsic value associated with these exercises was $28.5 million, and the associated tax benefit of $9.5 million was reported as other financing activities in the consolidated statement of cash flows. The total fair value of options vested during 2007, 2006 and 2005 was $5 million, $4.8 million and $15.5 million, respectively.

These options cannot be traded in any equity market. However, 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 2007, 2006 and 2005 have estimated weighted average fair values at the date of grant of $11.22 per share, $10.46 per share and $11.65 per share, respectively. 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:

	2007 Grants	2006 Grants	2005 Grants

Expected dividend yield	0.81%	0.92%	1.01%
Expected stock price volatility	17.94%	19.70%	30.09%
Risk-free interest rate	4.55%	5.01%	3.89%
Expected life of options	4.75 years	4.54 years	4.75 years
Estimated forfeiture rate	12.00%	14.63%	N/A

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

16. Shareholders' Equity (continued)

For the years ended December 31, 2007 and 2006, the company recognized in selling, general and administrative expenses pretax expense of $15.9 million ($9.6 million after tax) and $12.9 million ($7.8 million after tax), respectively, for share-based compensation arrangements. These amounts represented $0.10 per basic share and $0.09 per diluted share in 2007, respectively, and $0.08 per basic share and $0.07 per diluted share in 2006, respectively. At December 31, 2007, there was $31.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized in earnings over a weighted average period of 2.5 years.

In addition to stock options, the company issues to officers and certain employees restricted shares and restricted stock units, 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. The adoption of SFAS No. 123 (revised 2004) did not change the accounting for compensation cost for the company's normal restricted share program.

To encourage certain senior management employees and outside directors to invest in Ball stock, Ball adopted a deposit share program in March 2001 (subsequently amended and restated in April 2004) that matches purchased shares with restricted shares. In general, restrictions on the matching shares lapse at the end of four years from date of grant, or earlier if established share ownership guidelines are met, assuming the relevant qualifying purchased shares are not sold or transferred prior to that time. Through December 31, 2005, under the principles of APB Opinion No. 25, this plan was accounted for as a variable plan where compensation expense was recorded based upon the current market price of the company's common stock until restrictions lapsed. Upon adoption of SFAS No. 123 (revised 2004) on January 1, 2006, grants under the plan are accounted for as equity awards and compensation expense is now recorded based upon the fair value of the shares at the grant date. The company recorded $6.5 million, $6.7 million and $7.3 million of expense in connection with this program in 2007, 2006 and 2005, respectively.

In April 2007 the company's board of directors granted 170,000 performance-contingent restricted stock units to key employees, 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 reassesses the probability of the goal being met and adjusts compensation expense as appropriate. No such adjustment was considered necessary at the end of 2007. The expense associated with the performance-contingent grants totaled $2.2 million in 2007.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

17. Earnings Per Share

The following table provides additional information on the computation of earnings per share amounts:

($ in millions, except per share amounts)	Years ended December 31, 2007	2006	2005
Diluted Earnings per Share:			
Net earnings	$ 281.3	$ 329.6	$ 272.1
Weighted average common shares (000s)	101,186	103,338	107,758
Dilutive effect of stock options and restricted shares	1,574	1,613	1,974
Weighted average shares applicable to diluted earnings per share	102,760	104,951	109,732
Diluted earnings per share	$ 2.74	$ 3.14	$ 2.48

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):

Option Price:	Years ended December 31, 2007	2006	2005
$ 39.74	–	–	709,250
$ 43.69	470,025	896,200	–
$ 49.32	926,300	–	–
	1,396,325	896,200	709,250

18. Financial Instruments and Risk Management

Policies and Procedures

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.

Commodity Price Risk

We manage our North American commodity price risk in connection with market price fluctuations of aluminum primarily by entering into container sales contracts that include aluminum-based pricing terms that generally reflect price fluctuations under our commercial supply contracts for aluminum purchases. The terms include fixed, floating or pass-through aluminum component 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 and fair value hedges of commodity price risk where there is not a pass-through arrangement in the sales contract.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

18. Financial Instruments and Risk Management (continued)

Most of the plastic packaging, Americas, sales contracts include provisions to fully pass-through resin cost changes. As a result, we believe we have minimal exposure related to changes in the cost of plastic resin. Most metal food and household products packaging, Americas, sales contracts either include provisions permitting us to pass through some or all steel cost changes we incur, or they incorporate annually negotiated steel costs. In 2007 and 2006, we were able to pass through to our customers the majority of steel cost increases. We anticipate that we will be able to pass through the majority of the steel price increases that occur through the end of 2008.

In Europe and Asia, the company manages the aluminum and steel raw material commodity price risks through annual and long-term contracts for the purchase of the materials, as well as for certain sales of containers, 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. We also use 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 to minimize the company's exposure to significant price changes. We also use option contracts to limit the impacts of European inflation in certain multi-year contracts.

The company had aluminum contracts hedging its aluminum exposure with notional amounts of approximately $1 billion and $260.3 million at December 31, 2007 and 2006, respectively. The aluminum contracts include cash flow and fair value hedges that offset sales contracts of various terms and lengths. Cash flow and fair value hedges related to forecasted transactions and firm commitments expire within the next four years. Included in shareholders' equity at December 31, 2007, within accumulated other comprehensive earnings, is a net after-tax loss of $16 million associated with these contracts, of which a net loss of $17 million is expected to be recognized in the consolidated statement of earnings during 2008. All of the losses on these derivative contracts will be offset by higher revenue from sales contracts. The consolidated balance sheet at December 31, 2007, included $32 million in prepaid expenses and $50.2 million in liabilities related to unrealized gains/losses on unsettled derivative contracts. The consolidated balance sheet at December 31, 2006, included $29.7 million in prepaid expenses and $34.8 million in liabilities for these gains/losses.

Interest Rate Risk

Our objective in managing our exposure to interest rate changes is to manage the impact of interest rate 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, collars and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at December 31, 2007, included pay-fixed interest rate swaps and interest rate collars. Pay-fixed swaps effectively convert variable rate obligations to fixed rate instruments. Collars create an upper and lower threshold within which interest costs will fluctuate. Swap and collar agreements expire at various times up to four years.

At December 31, 2007, the company had outstanding interest rate swap agreements in Europe with notional amounts of €135 million paying fixed rates. Approximately $4.1 million of a net after-tax gain associated with these contracts is included in accumulated other comprehensive earnings at December 31, 2007, of which $1.3 million is expected to be recognized in the consolidated statement of earnings during 2008. At December 31, 2007, the company had outstanding interest rate collars in the U.S. totaling $100 million. The value of these contracts in accumulated other comprehensive earnings at December 31, 2007, was insignificant. Approximately $1.1 million of net gain related to the termination or deselection of hedges is included in accumulated other comprehensive earnings at December 31,

2007. The amount recognized in 2007 earnings related to terminated hedges was insignificant.

The fair value of all non-derivative financial instruments approximates their carrying amounts with the exception of long-term debt. Rates currently available to the company for loans with similar terms and maturities are used to estimate the fair value of long-term debt based on discounted cash flows. The fair value of derivatives generally reflects the estimated amounts that we would pay or receive upon termination of the contracts at December 31, taking into account any unrealized gains and losses on open contracts.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

18. Financial Instruments and Risk Management (continued)

($ in millions)	2007 Carrying Amount	2007 Fair Value	2006 Carrying Amount	2006 Fair Value
Long-term debt, including current portion	$ 2,308.9	$ 2,323.6	$ 2,311.6	$ 2,314.1
Unrealized pretax gain on derivative contracts	–	5.7	–	4.1

Foreign Currency Exchange Rate Risk

Our objective in managing exposure to foreign currency fluctuations is to protect foreign cash flows and earnings from changes associated with foreign currency exchange rate changes through the use of 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, Serbian dinar, Brazilian real, Argentine peso and Chinese renminbi. 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. Such contracts outstanding at December 31, 2007, expire within four years and the amounts included in accumulated other comprehensive earnings related to these contracts were insignificant.

19. Quarterly Results of Operations (Unaudited)

The company's fiscal years end on December 31 and the fiscal quarters generally end on the Sunday nearest the calendar quarter end.

($ in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2007					
Net sales (a)	$ 1,694.2	$ 2,032.8	$ 1,906.5	$ 1,756.2	$ 7,389.7
Gross profit (b)	242.6	288.7	184.0	201.4	916.7
Net earnings	$ 81.2	$ 105.9	$ 60.9	$ 33.3	$ 281.3
Basic earnings per share (c)	$ 0.79	$ 1.04	$ 0.60	$ 0.33	$ 2.78
Diluted earnings per share (c)	$ 0.78	$ 1.03	$ 0.59	$ 0.33	$ 2.74
2006					
Net sales	$ 1,364.9	$ 1,842.5	$ 1,822.3	$ 1,591.8	$ 6,621.5
Gross profit (b)	159.6	231.2	248.7	219.1	858.6
Net earnings	$ 44.4	$ 129.8	$ 107.1	$ 48.3	$ 329.6
Basic earnings per share (c)	$ 0.43	$ 1.25	$ 1.04	$ 0.47	$ 3.19
Diluted earnings per share (c)	$ 0.42	$ 1.23	$ 1.02	$ 0.46	$ 3.14

(a) Net sales in the third quarter of 2007 are shown net of an $85.6 million legal settlement (see Note 4).
(b) Gross profit is shown after depreciation and amortization related to cost of sales of $246.5 million and $222.5 million for the years ended December 31, 2007 and 2006, respectively.

(c) Earnings per share calculations for each quarter are based on the weighted average shares outstanding for that period. As a result, the sum of the quarterly amounts may not equal the annual earnings per share amount.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

19. Quarterly Results of Operations (Unaudited) (continued)

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 has assessed the impact of these adjustments and does not believe these amounts are 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.

The unaudited quarterly results of operations included business consolidation costs and other significant items that impacted the company's operating performance. A summary of the items in 2007 and 2006 follows (all amounts are shown after tax):

($ in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2007					
Legal settlement (Note 4)	$ –	$ –	$ (51.8)	$ –	$ (51.8)
Business consolidation costs (Note 5)	–	–	–	(27.0)	(27.0)
	$ –	$ –	$ (51.8)	$ (27.0)	$ (78.8)
Basic earnings per share	$ –	$ –	$ (0.50)	$ (0.27)	$ (0.76)
Diluted earnings per share	$ –	$ –	$ (0.50)	$ (0.27)	$ (0.76)
2006					
Business consolidation (costs) gain (Note 5)	$ (1.4)	$ 0.3	$ –	$ (27.5)	$ (28.6)
Property insurance gain (Note 6)	–	45.2	1.7	(0.8)	46.1
Tax benefit for change in statutory functional currency	–	–	–	8.1	8.1
	$ (1.4)	$ 45.5	$ 1.7	$ (20.2)	$ 25.6
Basic earnings per share	$ (0.01)	$ 0.44	$ 0.02	$ (0.19)	$ 0.25
Diluted earnings per share	$ (0.01)	$ 0.43	$ 0.02	$ (0.19)	$ 0.24

Other than the items discussed above, fluctuations in sales and earnings for the quarters in 2007 and 2006 reflected the number of days in each fiscal quarter, as well as the normal seasonality of our businesses.

20. Research and Development

Research and development costs are expensed as incurred in connection with the company's internal programs for the development of products and processes. Costs incurred in connection with these programs, the majority of which are included in cost of sales, amounted to $27.4 million, $22.5 million and $24.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

21. Subsequent Event

On February 15, 2008, Ball Aerospace & Technologies Corp. completed the sale of its shares in Ball Solutions Group Pty Ltd (BSG) to QinetiQ Pty Ltd for approximately $10.5 million. BSG was previously a wholly-owned Australian subsidiary of Ball Aerospace that provided services to the Australian department of defense and related government agencies. The sale is expected to result in a gain of approximately $3 million.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt

As discussed in Note 13, the company's notes payable and senior credit facilities are guaranteed on a full, unconditional and joint and several basis by certain of the company's domestic wholly owned subsidiaries. Certain foreign denominated tranches of the senior credit facilities are similarly guaranteed by certain of the company's wholly owned foreign subsidiaries. The senior credit facilities are secured by: (1) a pledge of 100 percent of the stock owned by the company in its material direct and indirect majority-owned domestic subsidiaries and (2) a pledge of the company's stock, owned directly or indirectly, of certain foreign subsidiaries, which equals 65 percent of the stock of each such foreign subsidiary. The following is condensed, consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries, as of December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005 (in millions of dollars). 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.

CONDENSED, CONSOLIDATING STATEMENT OF EARNINGS
For the Year Ended December 31, 2007

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Net sales	$ -	$ 5,499.1	$ 2,101.4	$ (125.2)	$ 7,475.3
Legal settlement	–	(85.6)	–	–	(85.6)
Total net sales	–	5,413.5	2,101.4	(125.2)	7,389.7
Costs and expenses					
Cost of sales (excluding depreciation and amortization)	–	4,709.1	1,642.6	(125.2)	6,226.5
Depreciation and amortization	3.4	179.0	98.6	–	281.0
Business consolidation costs	-	41.9	2.7	–	44.6
Selling, general and administrative	71.3	168.7	83.7	–	323.7
Equity in results of subsidiaries	(298.7)	–	–	298.7	–
Intercompany license fees	(71.0)	69.5	1.5	–	–
	(295.0)	5,168.2	1,829.1	173.5	6,875.8
Earnings (loss) before interest and taxes	295.0	245.3	272.3	(298.7)	513.9
Interest expense	(34.3)	(53.4)	(61.7)	–	(149.4)
Earnings (loss) before taxes	260.7	191.9	210.6	(298.7)	364.5
Tax provision	20.6	(58.3)	(58.0)	–	(95.7)
Minority interests	–	–	(0.4)	–	(0.4)
Equity in results of affiliates	–	1.7	11.2	–	12.9
Net earnings (loss)	$ 281.3	$ 135.3	$ 163.4	$ (298.7)	$ 281.3

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt (continued)

CONDENSED, CONSOLIDATING STATEMENT OF EARNINGS
For the Year Ended December 31, 2006

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Net sales	$ –	$ 5,056.9	$ 1,733.0	$ (168.4)	$ 6,621.5
Costs and expenses					
Cost of sales (excluding depreciation and amortization)	–	4,349.9	1,358.9	(168.4)	5,540.4
Depreciation and amortization	3.3	160.3	89.0	–	252.6
Business consolidation costs	-	–	35.5	–	35.5
Selling, general and administrative	71.6	135.5	80.1	–	287.2
Property insurance gain	–	–	(75.5)	–	(75.5)
Equity in results of subsidiaries	(349.6)	–	–	349.6	–
Intercompany license fees	(70.4)	66.3	4.1	–	–
	(345.1)	4,712.0	1,492.1	181.2	6,040.2
Earnings (loss) before interest and taxes	345.1	344.9	240.9	(349.6)	581.3
Interest expense	(27.8)	(53.1)	(53.5)	–	(134.4)
Earnings (loss) before taxes	317.3	291.8	187.4	(349.6)	446.9
Tax provision	12.3	(94.9)	(49.0)	–	(131.6)
Minority interests	–	–	(0.4)	–	(0.4)
Equity in results of affiliates	–	3.7	11.0	–	14.7
Net earnings (loss)	$ 329.6	$ 200.6	$ 149.0	$ (349.6)	$ 329.6

CONDENSED, CONSOLIDATING STATEMENT OF EARNINGS
For the Year Ended December 31, 2005

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Net sales	$ –	$ 4,396.7	$ 1,582.5	$ (228.0)	$ 5,751.2
Costs and expenses					
Cost of sales (excluding depreciation and amortization)	–	3,781.1	1,249.6	(228.0)	4,802.7
Depreciation and amortization	3.1	129.2	81.2	–	213.5
Business consolidation costs	–	19.3	1.9	–	21.2
Selling, general and administrative	15.5	147.7	70.6	–	233.8
Equity in results of subsidiaries	(268.9)	–	–	268.9	–
Intercompany license fees	(68.6)	67.4	1.2	–	–
	(318.9)	4,144.7	1,404.5	40.9	5,271.2
Earnings (loss) before interest and taxes	318.9	252.0	178.0	(268.9)	480.0

Interest expense		(38.5)		(35.8)		(42.1)		–		(116.4)
Earnings (loss) before taxes		280.4		216.2		135.9		(268.9)		363.6
Tax provision		(8.3)		(82.7)		(15.2)		–		(106.2)
Minority interests		–		–		(0.8)		–		(0.8)
Equity in results of affiliates		–		2.7		12.8		–		15.5
Net earnings (loss)	$	272.1	$	136.2	$	132.7	$	(268.9)	$	272.1

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt (continued)

CONDENSED, CONSOLIDATING BALANCE SHEET
December 31, 2007

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
ASSETS					
Current assets					
Cash and cash equivalents	$ 70.1	$ 1.9	$ 79.6	$ –	$ 151.6
Receivables, net	1.1	164.9	416.7	–	582.7
Inventories, net	–	719.9	278.2	-	998.1
Deferred taxes and prepaid expenses	25.8	53.5	31.2	–	110.5
Total current assets	97.0	940.2	805.7	–	1,842.9
Property, plant and equipment, net	24.4	1,047.5	869.3	–	1,941.2
Investment in subsidiaries	2,274.7	413.7	81.0	(2,769.4)	–
Goodwill	–	740.8	1,122.3	–	1,863.1
Intangibles and other assets, net	98.0	142.8	132.6	–	373.4
Total assets	$ 2,494.1	$ 3,285.0	$ 3,010.9	$ (2,769.4)	$ 6,020.6
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt and current portion of long-term debt	$ 50.5	$ 2.5	$ 123.8	$ –	$ 176.8
Accounts payable	99.4	387.9	276.3	–	763.6
Accrued employee costs	11.8	160.2	66.0	-	238.0
Income taxes payable	15.5	–	0.2	–	15.7
Other current liabilities	59.9	186.8	72.3	–	319.0
Total current liabilities	237.1	737.4	538.6	–	1,513.1
Long-term debt	1,448.4	9.6	723.8	–	2,181.8
Intercompany borrowings	(694.3)	514.3	180.0	–	–
Employee benefit obligations	180.9	229.7	388.4	–	799.0
Deferred taxes and other liabilities	(20.5)	62.7	140.9	–	183.1
Total liabilities	1,151.6	1,553.7	1,971.7	–	4,677.0
Minority interests	–	–	1.1	–	1.1
Shareholders' equity					
Convertible preferred stock	–	–	4.8	(4.8)	–
Preferred shareholders' equity	–	–	4.8	(4.8)	–
Common stock	760.3	819.7	642.8	(1,462.5)	760.3

Retained earnings	1,765.0	998.9	235.7	(1,234.6)	1,765.0
Accumulated other comprehensive earnings (loss)	106.9	(87.3)	154.8	(67.5)	106.9
Treasury stock, at cost	(1,289.7)	–	–	–	(1,289.7)
Common shareholders' equity	1,342.5	1,731.3	1,033.3	(2,764.6)	1,342.5
Total shareholders' equity	1,342.5	1,731.3	1,038.1	(2,769.4)	1,342.5
Total liabilities and shareholders' equity	$ 2,494.1	$ 3,285.0	$ 3,010.9	$ (2,769.4)	$ 6,020.6

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt (continued)

CONDENSED, CONSOLIDATING BALANCE SHEET
December 31, 2006

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
ASSETS					
Current assets					
Cash and cash equivalents	$ 110.3	$ 2.3	$ 38.9	$ –	$ 151.5
Receivables, net	(0.3)	238.3	341.5	–	579.5
Inventories, net	–	671.2	264.2	–	935.4
Deferred taxes and prepaid expenses	15.8	36.3	42.8	–	94.9
Total current assets	125.8	948.1	687.4	–	1,761.3
Property, plant and equipment, net	27.2	1,093.2	755.6	–	1,876.0
Investment in subsidiaries	1,855.2	438.3	81.1	(2,374.6)	–
Goodwill	–	754.4	1,019.3	–	1,773.7
Intangibles and other assets, net	102.4	141.2	186.3	–	429.9
Total assets	$ 2,110.6	$ 3,375.2	$ 2,729.7	$ (2,374.6)	$ 5,840.9
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt and current portion of long-term debt	$ 12.5	$ 11.2	$ 157.6	$ –	$ 181.3
Accounts payable	98.3	404.1	230.0	–	732.4
Accrued employee costs	9.5	137.1	54.5	–	201.1
Income taxes payable	19.2	–	52.6	–	71.8
Other current liabilities	79.1	91.2	97.4	–	267.7
Total current liabilities	218.6	643.6	592.1	–	1,454.3
Long-term debt	1,498.9	13.6	757.9	–	2,270.4
Intercompany borrowings	(1,069.6)	1,012.7	56.9	–	–
Employee benefit obligations	173.9	272.8	401.0	–	847.7
Deferred taxes and other liabilities	123.4	(121.8)	100.5	–	102.1
Total liabilities	945.2	1,820.9	1,908.4	–	4,674.5
Minority interests	–	–	1.0	–	1.0
Shareholders' equity					
Convertible preferred stock	–	–	179.6	(179.6)	–
Preferred shareholders' equity	–	–	179.6	(179.6)	–
Common stock	703.4	819.7	495.4	(1,315.1)	703.4
Retained earnings	1,535.3	861.0	48.6	(909.6)	1,535.3
Accumulated other comprehensive earnings (loss)	(29.5)	(126.4)	96.7	29.7	(29.5)

Treasury stock, at cost		(1,043.8)		–		–		–		(1,043.8)
Common shareholders' equity		1,165.4		1,554.3		640.7		(2,195.0)		1,165.4
Total shareholders' equity		1,165.4		1,554.3		820.3		(2,374.6)		1,165.4
Total liabilities and shareholders' equity	$	2,110.6	$	3,375.2	$	2,729.7	$	(2,374.6)	$	5,840.9

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt (continued)

CONDENSED, CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Cash flows from operating activities					
Net earnings (loss)	$ 281.3	$ 135.3	$ 163.4	$ (298.7)	$ 281.3
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization	3.4	179.0	98.6	–	281.0
Legal settlement	–	85.6	–	–	85.6
Business consolidation costs	–	41.9	0.4	–	42.3
Deferred taxes	(8.3)	13.2	(25.9)	–	(21.0)
Equity earnings of subsidiaries	(298.7)	–	–	298.7	–
Other, net	0.8	(13.3)	(18.4)	–	(30.9)
Working capital changes, net	164.8	(103.6)	(26.5)	–	34.7
Cash provided by operating activities	143.3	338.1	191.6	–	673.0
Cash flows from investing activities					
Additions to property, plant and equipment	(4.2)	(150.8)	(153.5)	–	(308.5)
Investments in and advances to affiliates	91.6	(173.8)	82.2	–	–
Property insurance proceeds	–	–	48.6	–	48.6
Other, net	(7.4)	(1.3)	2.8	–	(5.9)
Cash provided by (used in) investing activities	80.0	(325.9)	(19.9)	–	(265.8)
Cash flows from financing activities					
Long-term borrowings	–	0.1	0.2	–	0.3
Repayments of long-term borrowings	(27.5)	(12.7)	(34.3)	–	(74.5)
Change in short-term borrowings	6.4	–	(102.2)	–	(95.8)
Proceeds from issuances of common stock	46.5	–	–	–	46.5
Acquisitions of treasury stock	(257.8)	–	–	–	(257.8)
Common dividends	(40.6)	–	–	–	(40.6)
Other, net	9.5	–	–	–	9.5
Cash used in financing activities	(263.5)	(12.6)	(136.3)	–	(412.4)
Effect of exchange rate changes on cash	–	–	5.3	–	5.3
Change in cash and cash equivalents	(40.2)	(0.4)	40.7	–	0.1
Cash and cash equivalents - beginning of year	110.3	2.3	38.9	–	151.5
Cash and cash equivalents - end of year	$ 70.1	$ 1.9	$ 79.6	$ –	$ 151.6

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt (continued)

CONDENSED, CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Cash flows from operating activities					
Net earnings (loss)	$ 329.6	$ 200.6	$ 149.0	$ (349.6)	$ 329.6
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization	3.3	160.3	89.0	–	252.6
Property insurance gain	–	–	(75.5)	–	(75.5)
Business consolidation costs	–	–	34.2	–	34.2
Deferred taxes	1.4	18.4	18.4	–	38.2
Equity earnings of subsidiaries	(349.6)	–	–	349.6	–
Other, net	30.8	(45.1)	(26.1)	–	(40.4)
Working capital changes, net	46.9	(69.0)	(115.2)	–	(137.3)
Cash provided by operating activities	62.4	265.2	73.8	–	401.4
Cash flows from investing activities					
Additions to property, plant and equipment	(3.7)	(192.5)	(83.4)	–	(279.6)
Business acquisitions, net of cash acquired	–	(759.6)	(31.5)	–	(791.1)
Investments in and advances to affiliates	(754.1)	689.5	64.6	–	–
Property insurance proceeds	–	–	61.3	–	61.3
Other, net	(1.0)	9.1	7.9	–	16.0
Cash provided by (used in) investing activities	(758.8)	(253.5)	18.9	–	(993.4)
Cash flows from financing activities					
Long-term borrowings	949.1	0.3	–	–	949.4
Repayments of long-term borrowings	(45.0)	(3.8)	(156.2)	–	(205.0)
Change in short-term borrowings	(25.8)	–	48.8	–	23.0
Proceeds from issuances of common stock	38.4	–	–	–	38.4
Acquisitions of treasury stock	(84.1)	–	–	–	(84.1)
Common dividends	(41.0)	–	–	–	(41.0)
Other, net	7.1	(7.6)	–	–	(0.5)
Cash provided by (used in) financing activities	798.7	(11.1)	(107.4)	–	680.2
Effect of exchange rate changes on cash	–	–	2.3	–	2.3
Change in cash and cash equivalents	102.3	0.6	(12.4)	–	90.5
Cash and cash equivalents - beginning of year	8.0	1.7	51.3	–	61.0

Cash and cash equivalents - end of year	$	110.3	$	2.3	$	38.9	$	–	$	151.5

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

22. Subsidiary Guarantees of Debt (continued)

CONDENSED, CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Cash flows from operating activities					
Net earnings (loss)	$ 272.1	$ 136.2	$ 132.7	$ (268.9)	$ 272.1
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization	3.1	129.2	81.2	–	213.5
Business consolidation costs (gains)	–	19.1	(0.1)	–	19.0
Deferred taxes	(11.3)	(3.8)	(36.5)	–	(51.6)
Equity earnings of subsidiaries	(268.9)	–	–	268.9	–
Other, net	30.0	(8.4)	(3.9)	–	17.7
Working capital changes, net	15.3	5.5	67.3	–	88.1
Cash provided by (used in) operating activities	40.3	277.8	240.7	–	558.8
Cash flows from investing activities					
Additions to property, plant and equipment	(6.4)	(182.9)	(102.4)	–	(291.7)
Investments in and advances to affiliates	683.9	(102.1)	(581.8)	–	–
Other, net	(9.5)	11.3	(0.1)	–	1.7
Cash provided by (used in) investing activities	668.0	(273.7)	(684.3)	–	(290.0)
Cash flows from financing activities					
Long-term borrowings	60.0	0.4	822.4	–	882.8
Repayments of long-term borrowings	(493.0)	(3.4)	(453.3)	–	(949.7)
Change in short-term borrowings	29.0	–	39.4	–	68.4
Proceeds from issuances of common stock	35.6	–	–	–	35.6
Acquisitions of treasury stock	(393.7)	–	–	–	(393.7)
Common dividends	(42.5)	–	–	–	(42.5)
Other, net	(9.5)	–	(2.1)	–	(11.6)
Cash provided by (used in) financing activities	(814.1)	(3.0)	406.4	–	(410.7)
Effect of exchange rate changes on cash	–	–	4.2	–	4.2
Change in cash and cash equivalents	(105.8)	1.1	(33.0)	-	(137.7)
Cash and cash equivalents - beginning of year	113.8	0.6	84.3	–	198.7
Cash and cash equivalents - end of year	$ 8.0	$ 1.7	$ 51.3	$ –	$ 61.0

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

23. 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 we participate, our operations in developing markets, changing commodity prices for the materials used in the manufacture of our products and changing capital markets. Where practicable, we attempt to 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 business. 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. Our information at this time does not indicate that these matters will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

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 or sustained. The representative for the former shareholders of U.S. Can filed a lawsuit against the company in the first quarter of 2008 seeking a declaration of the parties' rights and obligations with respect to the claims asserted by the company.

24. Indemnifications and Guarantees

During the normal course of business, the company or the 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; 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 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 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 many 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. Certain foreign denominated 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 that 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.

Notes to Consolidated Financial Statements
Ball Corporation and Subsidiaries

24. Indemnifications and Guarantees (continued)

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 and foremost 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 that could be paid is equal to the outstanding amounts due under the accounts receivable financing (see Note 7). The company, the appropriate 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 that is expected to have a material adverse effect on the company's consolidated results of operations, financial position or cash flows.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no matters required to be reported under this item.

ItemControls and Procedures
9A.

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to seek to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to the officers who certify the company's financial reports and to other members of senior management and the board of directors. Based on their evaluation as of December 31, 2007, the chief executive officer and chief financial officer of the company have concluded that the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control – Integrated Framework," our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of our internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, "Financial Statements and Supplementary Data."

Changes in Internal Control

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

There were no matters required to be reported under this item.

Part III

Item 10. Directors and Executive Officers of the Registrant

The executive officers of the company as of December 31, 2007, were as follows:

1. R. David Hoover, 62, Chairman, President and Chief Executive Officer since April 2002 and a director since 1996. Mr. Hoover was President and Chief Executive Officer from January 2001 until April 2002 and Vice Chairman, President and Chief Operating Officer from April 2000 to January 2001; Vice Chairman, President and Chief Financial Officer from January 2000 to April 2000; Vice Chairman and Chief Financial Officer, 1998-2000; Executive Vice President and Chief Financial Officer, 1997-1998; Executive Vice President, Chief Financial Officer and Treasurer, 1996-1997; Executive Vice President and Chief Financial Officer, 1995-1996; Senior Vice President and Chief Financial Officer, 1992-1995; Vice President and Treasurer, 1988-1992; Assistant Treasurer, 1987-1988; Vice President, Finance and Administration, Technical Products, 1985-1987; Vice President, Finance and Administration, Management Services Division, 1983-1985.

2. Raymond J. Seabrook, 56, Executive Vice President and Chief Financial Officer since April 2006; Senior Vice President and Chief Financial Officer, April 2000 to April 2006; Senior Vice President, Finance, April 1998 to April 2000; Vice President, Planning and Control, 1996-1998; Vice President and Treasurer, 1992-1996; Senior Vice President and Chief Financial Officer, Ball Packaging Products Canada, Inc., 1988-1992.

3. John A. Hayes, 42, Executive Vice President and Chief Operating Officer since January 23, 2008; Senior Vice President, Ball Corporation, and President, Ball Packaging Europe, April 25, 2007, to January 23, 2008; Vice President, Ball Corporation, and President, Ball Packaging Europe, March 2006 to April 25, 2007; Executive Vice President of Ball's European packaging business, July 2005 to March 2006; Vice President, Corporate Strategy, Marketing and Development, January 2003 to July 2005; Vice President, Corporate Planning and Development, April 2000 to January 2003; Senior Director, Corporate Planning and Development, February 1999 to April 2000; Vice President, Mergers and Acquisitions/Corporate Finance, Lehman Brothers, Chicago, Illinois, April 1993 to February 1999.

4. John R. Friedery, 51, President, Metal Beverage Packaging, Americas and Asia, since January 23, 2008; Senior Vice President and Chief Operating Officer, North American Packaging, January 2004 to January 23, 2008; President, Metal Beverage Container, 2000 to January 2004; Senior Vice President, Manufacturing, 1998-2000; Vice President, Manufacturing, 1996-1998; Plant Manager, 1993-1996; Assistant Plant Manager, 1992-1993; Administrative Manager, 1991-1992; General Supervisor, 1989-1991; Production Supervisor, 1988-1989.

5. Charles E. Baker, 50, Vice President, General Counsel and Assistant Corporate Secretary since April 2004; Associate General Counsel, 1999 to April 2004; Senior Director, Business Development, 1995-1999; Director, Corporate Compliance, 1994-1997; Director, Business Development, 1993-1995.

6. Harold L. Sohn, 61, Senior Vice President, Corporate Relations, since April 25, 2007; Vice President, Corporate Relations, 1993 to April 25, 2007; Director, Industry Affairs, Packaging Products, 1988-1993.

7. David A. Westerlund, 57, Executive Vice President, Administration since April 2006 and Corporate Secretary since December 2002; Senior Vice President, Administration, April 1998 to April 2006; Vice President, Administration, 1997-1998; Vice President, Human Resources, 1994-1997; Senior Director, Corporate Human Resources, July 1994-December 1994; Vice President, Human Resources and Administration, Ball Glass Container Corporation, 1988-1994; Vice President, Human Resources, Ball-InCon Glass Packaging Corp., 1987-1988.

8. Scott C. Morrison, 45, Vice President and Treasurer since April 2002; Treasurer, September 2000 to April 2002; Managing Director/Senior Banker of Corporate Banking, Bank One, Indianapolis, Indiana, 1995 to August 2000.

9. Douglas K. Bradford, 50, Vice President and Controller since April 2003; Controller since April 2002; Assistant Controller, May 1998 to April 2002; Senior Director, Tax Administration, January 1995 to May 1998; Director, Tax Administration, July 1989 to January 1995.

Other information required by Item 10 appearing under the caption "Director Nominees and Continuing Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," of the company’s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2007, is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 appearing under the caption "Executive Compensation" in the company’s proxy statement, to be filed pursuant to Regulation 14A within 120 days after December 31, 2007, is incorporated herein by reference. Additionally, the Ball Corporation 2000 Deferred Compensation Company Stock Plan, the Ball Corporation 2005 Deferred Compensation Company Stock Plan, the Ball Corporation Deposit Share Program and the Ball Corporation Directors Deposit Share Program were created to encourage key executives and other participants to acquire a larger equity ownership interest in the company and to increase their interest in the company’s stock performance. Non-employee directors also participate in the 2000 Deferred Compensation Company Stock Plan.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 appearing under the caption "Voting Securities and Principal Shareholders," in the company’s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2007, is incorporated herein by reference.

Securities authorized for issuance under equity compensation plans are summarized below:

Equity Compensation Plan Information

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	4,747,005	$ 32.06	4,799,707
Equity compensation plans not approved by security holders	–	–	–
Total	4,747,005	$ 32.06	4,799,707

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 appearing under the caption "Ratification of the Appointment of Independent Registered Public Accounting Firm," in the company’s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2007, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 appearing under the caption "Certain Committees of the Board," in the company's proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2007, is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements:

The following documents are included in Part II, Item 8:

Report of independent registered public accounting firm

Consolidated statements of earnings – Years ended December 31, 2007, 2006 and 2005

Consolidated balance sheets – December 31, 2007 and 2006

Consolidated statements of cash flows – Years ended December 31, 2007, 2006 and 2005

Consolidated statements of shareholders' equity and comprehensive earnings – Years ended December 31, 2007, 2006 and 2005

Notes to consolidated financial statements

(2) Financial Statement Schedules:

Financial statement schedules have been omitted as they are either not applicable, are considered insignificant or the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits:

See the Index to Exhibits, which appears at the end of this document and is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ R. David Hoover R. David Hoover Chairman, President and Chief Executive Officer February 25, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

(1) Principal Executive Officer:

/s/ R. David Hoover		Chairman, President and Chief Executive Officer
R. David Hoover		February 25, 2008

(2) Principal Financial Accounting Officer:

/s/ Raymond J. Seabrook		Executive Vice President and Chief Financial Officer
Raymond J. Seabrook		February 25, 2008

(3) Controller:

/s/ Douglas K. Bradford		Vice President and Controller
Douglas K. Bradford		February 25, 2008

(4) A Majority of the Board of Directors:

/s/ Robert W. Alspaugh		Director
Robert W. Alspaugh		February 25, 2008
/s/ Howard M. Dean	*	Director
Howard M. Dean		February 25, 2008
/s/ Hanno C. Fiedler	*	Director
Hanno C. Fiedler		February 25, 2008
/s/ R. David Hoover	*	Chairman of the Board and Director

R. David Hoover		February 25, 2008
/s/ John F. Lehman	*	Director
John F. Lehman		February 25, 2008
/s/ Georgia Nelson	*	Director
Georgia Nelson		February 25, 2008
/s/ Jan Nicholson	*	Director
Jan Nicholson		February 25, 2008

/s/ George M. Smart George M. Smart	*	Director February 25, 2008
/s/ Theodore M. Solso Theodore M. Solso	*	Director February 25, 2008
/s/ Stuart A. Taylor II Stuart A. Taylor II	*	Director February 25, 2008
/s/ Erik H. van der Kaay Erik H. van der Kaay	*	Director February 25, 2008

*By R. David Hoover as Attorney-in-Fact pursuant to a Limited Power of Attorney executed by the directors listed above, which Power of Attorney has been filed with the Securities and Exchange Commission.

BALL CORPORATION
(Registrant)

By: /s/ R. David Hoover
R. David Hoover
As Attorney-in-Fact
February 25, 2008

Ball Corporation and Subsidiaries
Annual Report on Form 10-K
For the year ended December 31, 2007

Index to Exhibits

Exhibit Number	Description of Exhibit
2.1	Share Sale and Transfer Agreement dated August 29/30, 2002, among Schmalbach-Lubeca Holding GmbH, AV Packaging GmbH, Ball Pan-European Holdings, Inc. and Ball Corporation (filed by incorporation by reference to Ball Corporation's Quarterly Report on Form 10-Q for the quarter ended September 29, 2002) filed November 14, 2002.
2.2	Amendment Agreement, dated December 18, 2002, among Schmalbach-Lubeca Holding GmbH, AV Packaging GmbH, Ball Pan-European Holdings, Inc., Ball Corporation and Ball (Germany) Acquisition GmbH, amending the Share Sale and Transfer Agreement, dated August 29/30, 2002, among Schmalbach-Lubeca Holding GmbH, AV Packaging GmbH, Ball Pan-European Holdings, Inc. and Ball Corporation (filed by incorporation by reference to the Current Report on Form 8-K, dated December 19, 2002) filed December 31, 2002.
3.i	Amended Articles of Incorporation as of June 24, 2005 (filed by incorporation by reference to the Quarterly Report on Form 10-Q dated July 3, 2005) filed August 9, 2005.
3.ii	Bylaws of Ball Corporation as amended January 22, 2008. (Filed herewith.)
4.1(a)	Registration Rights Agreement, dated as of December 19, 2002, by and among Ball Corporation, Lehman Brothers, Inc., Deutsche Bank Securities Inc., Banc of America Securities LLC, Banc One Capital Markets, Inc., BNP Paribas Securities Corp., Dresdner Kleinwort Wasserstein-Grantchester, Inc., McDonald Investments Inc., Sun Trust Capital Markets, Inc. and Wells Fargo Brokerage Services, LLC and certain subsidiary guarantors of Ball Corporation (filed by incorporation by reference to Exhibit 4.1 of the Current Report on Form 8-K, dated December 19, 2002) filed December 31, 2002.
4.1(b)	Senior Note Indenture, dated as of December 19, 2002, by and among Ball Corporation, certain subsidiary guarantors of Ball Corporation and The Bank of New York, as Trustee (filed by incorporation by reference to the Current Report on Form 8-K dated December 19, 2002) filed December 31, 2002.
10.1	1988 Restricted Stock Plan and 1988 Stock Option and Stock Appreciation Rights Plan (filed by incorporation by reference to the Form S-8 Registration Statement, No. 33-21506) filed April 27, 1988.
10.2	Ball Corporation Deferred Incentive Compensation Plan (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31,

1987) filed March 25, 1988.

10.3 Ball Corporation 1986 Deferred Compensation Plan, as amended July 1, 1994 (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended July 3, 1994) filed August 17, 1994.

10.4 Ball Corporation 1988 Deferred Compensation Plan, as amended July 1, 1994 (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended July 3, 1994) filed August 17, 1994.

10.5 Ball Corporation 1989 Deferred Compensation Plan, as amended July 1, 1994 (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended July 3, 1994) filed August 17, 1994.

Exhibit Number	Description of Exhibit
10.6	Amended and Restated Form of Severance Benefit Agreement that exists between the company and its executive officers, effective as of August 1, 1994, and as amended on January 24, 1996 (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended March 22, 1996) filed May 15, 1996.
10.7	Ball Corporation 1986 Deferred Compensation Plan for Directors, as amended October 27, 1987 (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 1990) filed April 1, 1991.
10.8	1991 Restricted Stock Plan for Nonemployee Directors of Ball Corporation (filed by incorporation by reference to the Form S-8 Registration Statement, No. 33-40199) filed April 26, 1991.
10.9	Ball Corporation Economic Value Added Incentive Compensation Plan dated January 1, 1994 (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 1994) filed March 29, 1995.
10.10	Ball Corporation 1997 Stock Incentive Plan (filed by incorporation by reference to the Form S-8 Registration Statement, No. 333-26361) filed May 1, 1997.
10.11	1993 Stock Option Plan (filed by incorporation by reference to the Form S-8 Registration Statement, No. 33-61986) filed April 30, 1993.
10.12	Ball Corporation Supplemental Executive Retirement Plan (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended October 2, 1994) filed November 15, 1994.
10.13	Ball Corporation Long-Term Cash Incentive Plan, dated October 25, 1994, amended and restated effective January 1, 2003 (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 2003) filed March 12, 2004.
10.14	Amended and Restated Form of Severance Agreement (Change of Control Agreement) that exists between the company and its executive officers (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 2005) filed February 22, 2006.
10.15	Ball Corporation 2000 Deferred Compensation Company Stock Plan (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 2001) filed March 28, 2002.
10.16	Ball Corporation Deposit Share Program, as amended (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended July 4, 2004) filed August 11, 2004.

10.17 Ball Corporation Directors Deposit Share Program, as amended. This plan is referred to in Item 11, the Executive Compensation section of this Form 10-K (filed by incorporation by reference to the Quarterly Report on Form 10-Q for the quarter ended July 4, 2004) filed August 11, 2004.

10.18 Ball Corporation 2005 Deferred Compensation Plan, effective January 1, 2005 (filed by incorporation by reference to the Current Report on Form 8-K dated December 23, 2005) filed December 23, 2005.

10.19 Ball Corporation 2005 Deferred Compensation Company Stock Plan, effective January 1, 2005 (filed by incorporation by reference to the Current Report on Form 8-K dated December 23, 2005) filed December 23, 2005.

10.20 Ball Corporation 2005 Deferred Compensation Plan for Directors, effective January 1, 2005 (filed by incorporation by reference to the Current Report on Form 8-K dated December 23, 2005) filed December 23, 2005.

Exhibit Number	Description of Exhibit
10.21	Credit agreement dated October 13, 2005, among Ball Corporation, Ball European Holdings S.ar.l., Ball Packaging Products Canada Corp. and each Other Subsidiary Borrower, Deutsche Bank AG, New York Branch, as a Lender, Administrative Agent and Collateral Agent and The Bank of Nova Scotia, as the Canadian Administrative Agent (filed by incorporation by reference to the Current Report on Form 8-K dated October 17, 2005) filed October 17, 2005.
10.22	Subsidiary Guaranty Agreement dated as of October 13, 2005, among certain Domestic subsidiaries listed therein as Guarantors, and Deutsche Bank AG, New York Branch, as Administrative Agent (filed by incorporation by reference to the Current Report on Form 8-K dated October 17, 2005) filed October 17, 2005.
11	Statement re: Computation of Earnings per Share (filed by incorporation by reference to the notes to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data").
12	Statement re: Computation of Ratio of Earnings to Fixed Charges. (Filed herewith.)
14	Ball Corporation Executive Officers and Board of Directors Business Ethics Statement (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 2005) filed February 22, 2006.
18.1	Letter re: Change in Accounting Principles regarding change in pension plan valuation measurement date (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 2002) filed March 27, 2003.
18.2	Letter re: Change in Accounting Principles regarding the change in accounting for certain inventories (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 2006) filed February 22, 2007.
21	List of Subsidiaries of Ball Corporation. (Filed herewith.)
23	Consent of Independent Registered Public Accounting Firm. (Filed herewith.)
24	Limited Power of Attorney. (Filed herewith.)
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. (Filed herewith.)
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. (Furnished herewith.)

99.1 Specimen Certificate of Common Stock (filed by incorporation by reference to the Annual Report on Form 10-K for the year ended December 31, 1979) filed March 24, 1980.

99.2 Cautionary statement for purposes of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended. (Filed herewith.)