BALL CORP
Form 10-K
February 25, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K
(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission File Number 1-7349
Ball Corporation
State of Indiana 35-0160610
10 Longs Peak Drive, P.O. Box 5000
Broomfield, Colorado 80021-2510
Registrant's telephone number, including area code: (303) 469-3131
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange
	Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [X] NO [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES [ ] NO [X]

The aggregate market value of voting stock held by non-affiliates of the registrant was $5,445 million based upon the closing market price and common shares outstanding as of July 1, 2007.

Number of shares outstanding as of the latest practicable date.

Class	Outstanding at February 3, 2008
Common Stock, without par value	97,547,020

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy statement to be filed with the Commission within 120 days after December 31, 2007, to the extent indicated in Part III.

Ball Corporation and Subsidiaries
ANNUAL REPORT ON FORM 10-K
For the year ended December 31, 2007

INDEX

PART I

Item 1. Business

Ball Corporation (Ball, we, the company or our) is one of the largest packaging companies in the world. Our predecessor company, Ball Brothers Glass Manufacturing Company, was founded in 1880 by five Ball brothers. Today, in addition to metal and plastic packaging products, we provide aerospace products and services through a wholly owned subsidiary, Ball Aerospace & Technologies Corp. (Ball Aerospace). In 2007 our total consolidated net sales were $7.4 billion. Packaging is responsible for 89 percent of that number; Ball Aerospace contributes the rest.

We are headquartered in Broomfield, Colorado, and employ approximately 15,500 people worldwide. Our stock is traded on the New York Stock Exchange and the Chicago Stock Exchange under the ticker symbol BLL.

Today, Ball's packaging businesses make metal and plastic packaging for beverages, foods and household products. Our largest product lines are aluminum and steel beverage cans, which contributed 63 percent of our 2007 total net sales and 85 percent of our 2007 total segment earnings before interest and taxes. We also produce steel food cans, steel aerosol cans, polyethylene terepthalate (PET) and polypropylene plastic bottles for beverages and foods, plastic pails, steel paint cans and decorative steel tins. Our ongoing packaging business dates back to 1969 when Ball began supplying beverage cans.

Ball Aerospace is a leader in the design, development and manufacture of innovative aerospace systems. It produces spacecraft, instruments and sensors, radio frequency and microwave technologies, data exploitation solutions and a variety of advanced aerospace technologies and products that enable deep space missions. Our packaging and aerospace businesses share a long history and a common financial philosophy, and we benefit from the presence of each.

Our corporate strategy is to grow our worldwide beverage can business and our U.S. aerospace business, to improve the performance of the metal food and household products packaging, Americas, and plastic packaging, Americas, segments and to utilize free cash flow and earnings growth to increase shareholder value.

Our Financial Philosophy

Ball Corporation maintains a clear and disciplined financial strategy focused on improving shareholder returns through:

- Long-term earnings per share growth of 10 percent to 15 percent over time
- Increasing Economic Value Added (EVA®)
- Focusing on free cash flow generation

The compensation of a majority of our employees is tied directly to the company's performance through our EVA® incentive program. When the company performs well, our employees are paid more. If the company doesn't perform well, our employees get paid less or no incentive compensation.

We use free cash flow as a lever as we manage our capital structure. The cash generated by our businesses is used primarily: (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. We also will, when we believe it will benefit the company and our shareholders, make strategic acquisitions or divest parts of our business.

Our Core Purpose and Values

We believe that our core purpose and core values are integral to our company's performance. They play an important role in our relationships with employees, customers, suppliers, investors and other key stakeholders. We realize that other companies have similar principles, under a variety of names. The proof is in the way a company and its employees conduct business every day. Ball Corporation has existed for 128 years. We believe our core purpose and core values have had much to do with our longevity and success.

Ball Corporation is in business to add value to all of its stakeholders, whether it is providing quality products and services to customers, an attractive return on investment to shareholders, a meaningful work life for employees or a contribution of time, effort and resources to our communities. In all of our interactions, we ask how we can get better for our own good and the good of those who have a stake in our success. Our core values include integrity, respect, motivation, flexibility, innovation and teamwork.

Information Pertaining to Our Packaging Business

A substantial part of Ball's packaging sales are made directly to companies in packaged beverage and food businesses, including SABMiller and bottlers of Pepsi-Cola and Coca-Cola branded beverages and their affiliates that utilize consolidated purchasing groups. Sales to SABMiller plc and PepsiCo, Inc., represented 11 percent and 9 percent of Ball's consolidated net sales, respectively, for the year ended December 31, 2007. Additional details about sales to major customers are included in Note 2 to the consolidated financial statements, which can be found in Item 8 of this Annual Report (Financial Statements and Supplementary Data).

Our principal packaging businesses are the manufacture and sale of aluminum, steel, polyethylene terephthalate (PET) and polypropylene containers, primarily for beverages, foods and household products. Our packaging products are sold in highly competitive markets, primarily based on quality, service and price. The packaging business is capital intensive, requiring significant investment in machinery and equipment.

Profitability is sensitive to selling prices, production volumes, labor, transportation, utility and warehousing costs, as well as the availability and price of raw materials, such as aluminum, steel, plastic resin and other direct materials. These raw materials are generally available from several sources, and we have secured what we consider to be adequate supplies and are not experiencing any shortages. There is a high concentration of suppliers in both North America and in Europe. In North America two steel suppliers provide more than 70 percent of our tinplate steel and four aluminum suppliers provide virtually all of our requirements. In Europe, three steel suppliers and three aluminum suppliers provide approximately 95 percent of our requirements.

We believe we have limited our exposure related to changes in the costs of aluminum, steel and plastic resin as a result of: (1) the inclusion of provisions in most aluminum container sales contracts to pass through aluminum cost changes, as well as the use of derivative instruments, (2) the inclusion of provisions in certain steel container sales contracts to pass through steel cost changes and the existence of certain other steel container sales contracts that incorporate annually negotiated metal costs and (3) the inclusion of provisions in substantially all plastic container sales contracts to pass through resin cost changes. In 2007 we were able to pass through the majority of steel cost increases levied by producers, and we continually attempt to reduce manufacturing and other material costs as much as possible. While raw materials and energy sources, such as natural gas and electricity, may from time to time be in short supply or unavailable due to external factors, and the pass through of steel and aluminum costs to our customers may be limited in some instances, we cannot predict the timing or effects, if any, of such occurrences on future operations.

Research and development (R&D) efforts in the North American packaging segments, as well as in the European metal beverage container business, are primarily directed toward packaging innovation, specifically the development of new sizes and types of containers, as well as new uses for the current containers. Other R&D efforts in these segments seek to improve manufacturing efficiencies. Our North American packaging R&D activities are primarily conducted in the Ball Technology & Innovation Center (BTIC) located in Westminster, Colorado. The European R&D activities are primarily conducted in a technical center located in Bonn, Germany.

Our Reporting Segments

Ball Corporation reports its financial performance in five segments – metal beverage packaging, Americas; metal beverage packaging, Europe/Asia; metal food and household products packaging, Americas; plastic packaging, Americas; and aerospace and technologies. The segments are organized on a product line and geographic market basis. Prior periods required to be shown in this Annual Report on Form 10-K (Annual Report) have been conformed to the current presentation.

Metal Beverage Packaging, Americas, Segment

Industry Background

According to publicly available information and company estimates, the combined U.S. and Canada metal beverage container markets decreased in 2007 to 105 billion units from 106 billion units in 2006. Four companies manufacture substantially all of the metal beverage containers in the U.S. and Canada. Two of these producers and three other independent producers also manufacture metal beverage containers in Mexico. Ball produced nearly 33 billion recyclable beverage cans in the U.S. and Canada in 2007 – about 31 percent of the total market. Sales volumes of metal beverage containers in North America tend to be highest during the period from April through September. All of the beverage cans produced by Ball in the U.S. and Canada are made of aluminum.

Beverage container production capacity in the U.S., Canada and Mexico exceeds demand. In order to more closely balance capacity and demand within our business, from time to time we consolidate our can and end manufacturing capacity into fewer, more efficient facilities, and we are actively considering additional plant rationalizations. We also attempt to efficiently match capacity with the changes in customer demand for our packaging products. To that end, during 2005 Ball commenced a project to upgrade and streamline its North American beverage can end manufacturing capabilities, a project expected to result in productivity improvements and reduced manufacturing costs. We have installed the majority of production modules in this multi-year project, the final modules are in the design and installation phase and the project is expected to be mostly completed in 2009. In connection with this project, the can end manufacturing operations at the Reidsville, North Carolina, plant were shut down during the fourth quarter of 2006.

The aluminum beverage can competes aggressively with other packaging materials. The glass bottle has shown resilience in the packaged beer industry, while the PET container continues its growth in the carbonated soft drink and water industry. In Canada, metal beverage containers have captured significantly lower percentages of packaged beverage industry volumes than in the U.S., particularly in the packaged beer industry.

The 2006 recycling rate in the United States for aluminum cans was 52 percent, the highest recycling rate for any beverage container. The aluminum can sheet we currently buy contains an average of 41 percent post consumer recycled content and approximately 9 percent post industrial content, reducing the amount of virgin material to 50 percent.

Ball’s Operations

Metal beverage packaging, Americas, represents Ball’s largest segment, accounting for 37 percent of consolidated net sales in 2007. Metal beverage containers are primarily sold under multi-year supply contracts to fillers of carbonated soft drinks, beer, energy drinks and other beverages. Decorated two-piece aluminum beverage cans are produced at 16 manufacturing facilities in the U.S. and one each in Canada and Puerto Rico. Can ends are produced within three of the U.S. facilities, as well as in a fourth facility that manufactures only ends.

Through Rocky Mountain Metal Container, LLC, a 50/50 joint venture, which is accounted for as an equity investment, Ball and Coors Brewing Company (Coors), a wholly owned subsidiary of Molson Coors Brewing Company, operate beverage can and end manufacturing facilities in Golden, Colorado. Coors and our largest North American brewery customer, Miller Brewing Company, have announced plans to combine their U.S. businesses in 2008, subject to regulatory approvals. We also participate in a 50/50 joint venture in Brazil, Latapack-Ball Embalagens, Ltda., that manufactures aluminum cans and ends and is accounted for as an equity investment.

Metal Beverage Packaging, Europe/Asia, Segment

Industry Background

The European beverage can market is approximately 50 billion cans, about half the size of the North American beverage can market. The European market is growing significantly, however, and is highly regional in terms of growth and packaging mix. Growth in central and eastern Europe has been particularly strong in recent years. In Poland alone, the beverage can market grew by approximately 30 percent from 2006 to 2007. In Germany, the return of the beverage can market is continuing after it was essentially eliminated in 2003 due to issues surrounding the implementation of mandatory deposit legislation. Total production grew to about 3.2 billion cans in 2007, still far below its peak of 7.3 billion cans in 2001. However, the German consumption is only approximately 500 million cans while the majority of German production is still being exported.

Sales volumes of metal beverage containers in Europe tend to be highest during the period from May through August with a smaller increase in demand during the Christmas season. As in North America, the metal beverage container competes aggressively with other packaging materials used by the European beer and carbonated soft drink industries. The glass bottle is heavily utilized in the packaged beer industry, while the PET container is increasingly utilized in the carbonated soft drink, juice and mineral water industries. Recycling rates vary throughout Europe, but average around 53 percent for aluminum and steel containers, which exceeds the European Union’s goal of 50 percent recycling for metals. Due in part to the intrinsic value of aluminum and steel, metal packaging recycling rates in Europe compare favorably to those of other packaging materials. Ball’s European operations helped establish and financially support recycling initiatives in growing markets such as Poland, Serbia and the People’s Republic of China (PRC) to educate consumers about the benefits of recycling aluminum and steel cans and to increase recycling rates.

The beverage can market in the PRC is approximately 11 billion cans, of which Ball’s consolidated operations represent an estimated 22 percent, with an additional 13 percent manufactured by two joint ventures in which we participate. Six other manufacturers make up the remainder of the market. Capacity grew rapidly in the PRC in the late 1990s, resulting in a supply/demand imbalance. A number of can makers, including Ball, responded by rationalizing capacity. Demand growth has resumed and projected annual growth is expected to be in the 6 percent range in the near term.

Ball’s Operations

Ball Packaging Europe is the largest metal beverage container manufacturer in Germany, France and the Benelux countries and the second largest metal beverage container manufacturer in the United Kingdom and Poland. Ball Asia Pacific Limited is one of the largest manufacturers of beverage cans in China.

The metal beverage packaging, Europe/Asia, segment, which accounted for 26 percent of Ball’s consolidated net sales in 2007, consists of 10 beverage can plants and two beverage can end plants in Europe, as well as operations in the PRC. Of the 12 European plants, four are located in Germany, three in the United Kingdom, two in France and one each in the Netherlands, Poland and Serbia. The European plants produced slightly more than 14 billion cans in 2007, with approximately 60 percent of those being produced from aluminum and 40 percent from steel. Six of the can plants use aluminum and four use steel. We have also announced plans to construct a second beverage can plant in Poland with production scheduled to commence in 2009. Overall, Ball Packaging Europe is the second largest metal beverage container producer in Europe, with an estimated 29 percent of European shipments, and produces two-piece beverage cans and can ends for producers of beer, carbonated soft drinks, mineral water, fruit juices, energy drinks and other beverages.

On April 1, 2006, a fire in our Hassloch, Germany, plant damaged the majority of the plant's building and machinery and equipment. Property insurance proceeds largely covered equipment replacement and clean-up costs, and business interruption insurance proceeds generally covered lost volumes and other costs. In June 2007 we successfully started up a rebuilt Hassloch plant, which operates two steel beverage can manufacturing lines. Also in the first half of 2007, we started up a new aluminum beverage can manufacturing line in our Hermsdorf, Germany, plant.

In 2005 Ball completed the construction of an aluminum beverage can manufacturing plant in Belgrade, Serbia, to serve the growing demand for beverage cans in southern and eastern Europe. Ball announced plans in January 2008 to build a new beverage can manufacturing plant in Poland in order to meet the rapidly growing demand for beverage cans there and elsewhere in central and eastern Europe. The plant will be built in Lublin, which is in eastern Poland near the borders of Belarus and Ukraine. It will initially have one production line with an annual capacity of approximately 750 million cans per year and is expected to begin production in the first half of 2009. In addition during the fourth quarter of 2007, Ball announced plans for a beverage can plant in India that primarily will use existing manufacturing equipment from other Ball facilities.

European raw material supply contracts are generally for a period of one year, although Ball Packaging Europe has negotiated some longer term agreements. Aluminum is purchased primarily in U.S. dollars, while the functional currencies of Ball Packaging Europe and its subsidiaries are non-U.S. dollars. The company minimizes the resulting foreign exchange rate risk through the use of derivative contracts. In addition, purchase and sales contracts include fixed price, floating and pass-through pricing arrangements.

Capacity in the PRC has continued to grow in recent years, resulting in a continuing supply/demand imbalance. Demand growth in the PRC continues to be strong and is projected to grow by approximately 6 percent annually in the near term. Ball is undertaking selected capacity increases in its existing facilities in order to participate in the projected growth and may establish or obtain additional manufacturing capacity in the coming years if growth in demand continues. Our operations include the manufacture of aluminum cans and ends in three plants in the PRC located in the north, central and south regions. In addition we participate in two joint ventures that manufacture aluminum cans and ends in the PRC.

We also manufacture and sell high-density plastic containers in two PRC plants primarily servicing the motor oil industry.

Metal Food & Household Products Packaging, Americas, Segment

Industry Background

The metal food and household products packaging, Americas, segment competes primarily in the steel tinplate food and aerosol can markets in North America. The steel tinplate food can market consists of approximately 31 billion cans annually, of which about 40 percent are three-piece cans and 60 percent are two-piece cans. The steel tinplate aerosol can market is approximately 3.2 billion cans annually. Growth in both markets is expected to be essentially flat over time. Service, quality and price are important competitive factors.

Sales volumes of metal food containers in North America tend to be highest from June through October as a result of seasonal fruit, vegetable and salmon packs. We estimate our 2007 shipments of more than 5.6 billion steel food containers to be approximately 18 percent of total U.S. and Canadian metal food container shipments. We estimate our aerosol business accounts for approximately 51 percent of total annual U.S. and Canadian steel aerosol shipments.

Competitors in the metal food container product line include two national and a small number of regional suppliers and self manufacturers. Several producers in Mexico also manufacture steel food containers. Competition in the U.S. steel aerosol can market primarily includes two national suppliers. Steel containers also compete with other packaging materials in the food and household products industry including glass, aluminum, plastic, paper and the stand-up pouch. As a result, demand for this product line is dependent on product innovation and cost reduction. Service, quality and price are among the other key competitive factors.

Ball’s Operations

The metal food and household products packaging, Americas, segment accounted for 16 percent of consolidated net sales in 2007. The two major product lines in this segment are steel food and, subsequent to the acquisition of U.S. Can in March 2006, aerosol containers.

Ball produces two-piece and three-piece steel food containers and ends for packaging vegetables, fruit, soups, meat, seafood, nutritional products, pet food and other products. These containers and ends are manufactured in nine plants in the U.S. and Canada and sold primarily to food processors in North America.

The segment also manufactures and sells aerosol cans, paint cans and custom and specialty containers in eight plants in the U.S. and is the largest manufacturer of aerosol cans in North America. In addition, the company manufactures and sells aerosol cans in two plants in Argentina.

In October 2007, as part of a restructuring of Ball's metal food and household products packaging division, Americas, Ball announced plans to close aerosol container manufacturing plants in Tallapoosa, Georgia, and Commerce, California. Ball also announced its intention to exit the custom and decorative tinplate can business based in its Baltimore, Maryland, manufacturing plant. The company recorded a largely non-cash, after-tax charge of approximately $27 million in the fourth quarter of 2007, primarily related to the plant closures and equipment relocation. When completed throughout 2008, the actions are expected to yield annual pretax cost savings in excess of $15 million and improve the aerosol business' plant utilization rate to more than 85 percent from about 70 percent.

In December 2006 the company closed a leased facility in Alliance, Ohio, which was one of the manufacturing locations acquired from U.S. Can, and a metal food can manufacturing plant in Burlington, Ontario, which was part of the metal food can operations prior to the U.S. Can acquisition. The closure of the Alliance plant was treated as an opening balance sheet item related to the acquisition. A pretax charge of $33.6 million ($27.4 million after tax) was recorded in the fourth quarter in respect of the Burlington plant closure. As part of these realignment projects, responsibility for the U.S. Can plastic container business was transferred to the company's plastic packaging, Americas, segment effective January 1, 2007.

Plastic Packaging, Americas, Segment

Industry Background

Demand for containers made of PET and polypropylene has increased in the beverage and food markets, with improved barrier technologies and other advances. This growth in demand is expected to continue. While PET and polypropylene beverage containers compete against metal, glass and cardboard, the historical increase in the sales of PET containers has come primarily at the expense of glass containers and through new market introductions. Competition in the PET plastic container industry is intense and includes several national and regional suppliers and self manufacturers, while Ball is one of three major competitors in the polypropylene container industry. Service, quality and price are important competitive factors with price being by far the most important, resulting in poor margins for most of the industry. The ability to produce customized, differentiated plastic containers is also a key competitive factor.

Ball's Operations

Plastic packaging, Americas, accounted for 10 percent of Ball's consolidated net sales in 2007. We estimate our 2007 shipments of 6 billion plastic bottles to be approximately 9 percent of total U.S. PET container shipments. In addition, this segment produced approximately 900 million food and specialty containers during 2007. The company operates eight plastic container manufacturing facilities in the U.S. and one in Canada.

Most of Ball's PET containers are sold under long-term contracts to suppliers of bottled water and carbonated soft drinks, including bottlers of Pepsi-Cola branded beverages and their affiliates that utilize consolidated purchasing groups. Most of our polypropylene containers are also sold under long-term contracts, primarily to food packaging companies. Plastic beer containers are being produced for several of our customers, and we are manufacturing plastic containers for the single serve juice and wine markets. Our line of Heat-Tek® PET plastic bottles for hot-filled beverages, such as sports drinks and juices, includes sizes from 8 ounces to 64 ounces.

Ball’s emphasis in this segment is on customized, differentiated containers. This includes unique barrier plastics such as Ball’s Heat-Tek® and SIG Technology AG's Plasmax® heat set bottles. The company is not investing in the carbonated soft drink and bottled water business, which is a commodity business, where return on investment has been unacceptable.

Aerospace and Technologies Segment

Ball's aerospace and technologies segment, which accounted for 11 percent of consolidated net sales in 2007, includes national defense solutions, advanced technologies and products, and civil and operational space businesses. The segment develops spacecraft, sensors and instruments, radio frequency systems and other advanced technologies for the civil, commercial and national security aerospace markets. The majority of the aerospace and technologies business involves work under contracts, generally from one to five years in duration, as a prime contractor or subcontractor for the National Aeronautics and Space Administration (NASA), the U.S. Department of Defense (DoD) and other U.S. government agencies. Contracts funded by the various agencies of the federal government represented 84 percent of segment sales in 2007. The percentage representing U.S. government sales decreased in 2007 due to higher revenues related to the WorldView 1 and WorldView 2 contracts with DigitalGlobe Inc. WorldView 1 and WorldView 2 are remote sensing satellites used to provide detailed maps and data about the Earth's surface for civil government mapping, land-use planning, disaster relief, exploration, defense and intelligence, and visualization and simulation environments.

Geopolitical events and executive and legislative branch priorities have yielded considerable growth opportunities in areas matching Ball Aerospace's core capabilities. However, there is strong competition for new business. The civil space systems, defense solutions and operational space businesses include hardware, software and services sold primarily to U.S. customers, with emphasis on space science and exploration, environmental and Earth sciences, and defense and intelligence applications. Major contractual activities frequently involve the design, manufacture and testing of satellites, remote sensors and ground station control hardware and software, as well as related services such as launch vehicle integration and satellite operations.

Other hardware activities include: target identification, warning and attitude control systems and components; cryogenic systems for reactant storage, and sensor cooling devices using either closed-cycle mechanical refrigerators or open-cycle solid and liquid cryogens; star trackers, which are general-purpose stellar attitude sensors; and fast-steering mirrors. Additionally, the aerospace and technologies segment provides diversified technical services and products to government agencies, prime contractors and commercial organizations for a broad range of information warfare, electronic warfare, avionics, intelligence, training and space systems needs.

Backlog in the aerospace and technologies segment was $774 million and $886 million at December 31, 2007 and 2006, respectively, and consists of the aggregate contract value of firm orders, excluding amounts previously recognized as revenue. The 2007 backlog includes $473 million expected to be recognized in revenues during 2008, with the remainder expected to be recognized in revenues thereafter. Unfunded amounts included in backlog for certain firm government orders, which are subject to annual funding, were $463 million and $492 million at December 31, 2007 and 2006, respectively. Year-to-year comparisons of backlog are not necessarily indicative of the trend of future operations. On December 24, 2007, Ball Aerospace entered into an agreement to sell its small Australian defense services business to a subsidiary of QinetiQ plc. This sale was completed on February 15, 2008.

The company's aerospace and technologies segment has contracts with the U.S. government or its contractors that have standard termination provisions. The government retains the right to terminate contracts at its convenience. However, if contracts are terminated in this manner, Ball is entitled to reimbursement for allowable costs and profits on authorized work performed through the date of termination. U.S. government contracts are also subject to reduction or modification in the event of changes in government requirements or budgetary constraints.

Patents

In the opinion of the company, none of its active patents is essential to the successful operation of its business as a whole.

Research and Development

Note 20, "Research and Development," in the consolidated financial statements within Item 8 of this report, contains information on company research and development activity. Additional information is also included in Item 2, “Properties.”

Sustainability and the Environment

Sustainability is a systematic way of thinking about the things we do every day as a global company and how our activities interact with our world. Whether it is being more environmentally protective, helping our customers become more sustainable or investing further in our communities, we are committed to making Ball a more sustainable enterprise. Environmental awareness, a key component of sustainability, is not new to us. For many years, we have found ways to reduce our own environmental footprint while providing a safe and healthy environment for our diverse workforce.

Ball views the global emergence of sustainability as an opportunity. In 2007 we started a formal sustainability initiative and have created a cross-functional employee task force that is developing processes for capturing sustainability-related data and identifying existing and new opportunities in all of our activities. We are using the triple bottom line – environmental, economic and social aspects of sustainability – in our approach. Key issues for our company include recycling, climate change, energy use, water conservation, diversity and regulated chemicals and emissions. Those areas of focus may be expanded or become more specific as we continue this process. We plan to issue a corporate sustainability report in 2008 using the G3 Reporting Framework issued by the Global Reporting Initiative as a reporting framework. We are engaging our key stakeholders to help us develop and implement our plans. As we move forward, we will be posting additional information on our website.

Compliance with federal, state and local laws relating to protection of the environment has not had a material adverse effect upon the capital expenditures, earnings or competitive position of the company. As more fully described under Item 3, “Legal Proceedings,” the U.S. Environmental Protection Agency and various state environmental agencies have designated the company as a potentially responsible party, along with numerous other companies, for the cleanup of several hazardous waste sites. However, the company’s information at this time indicates that these matters will not have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

Legislation that would prohibit, tax or restrict the sale or use of certain types of containers, or would require diversion of solid wastes, including packaging materials, from disposal in landfills, has been or may be introduced anywhere we operate. While container legislation has been adopted in some jurisdictions, similar legislation has been defeated in public referenda and legislative bodies in numerous others. The company anticipates that continuing efforts will be made to consider and adopt such legislation in many jurisdictions in the future. If such legislation were widely adopted, it potentially could have a material adverse effect on the business of the company, including its liquidity, results of operations or financial condition, as well as on the container manufacturing industry generally, in view of the company’s substantial global sales and investment in metal and PET container manufacturing. However, the packages we produce are widely used and perform well in U.S. states, Canadian provinces and European countries that have deposit systems.

Employees

At the end of December 2007, the company employed approximately 15,500 people worldwide, including 11,100 employees in the U.S. and 4,400 in other countries. There are an additional 1,000 people employed in unconsolidated joint ventures in which Ball participates. Approximately one-third of Ball's North American packaging plant employees are unionized and most of our European plant employees are union workers. Collective bargaining agreements with various unions in the U.S. have terms of three to five years and those in Europe have terms of one to two years. The agreements expire at regular intervals and are customarily renewed in the ordinary course after bargaining between union and company representatives. The company believes that its employee relations are good and that its safety, training, education and retention practices assist in enhancing employee satisfaction levels.

Where to Find More Information

Ball Corporation is subject to the reporting and other information requirements of the Securities Exchange Act of 1934, as amended (Exchange Act). Reports and other information filed with the Securities and Exchange Commission (SEC) pursuant to the Exchange Act may be inspected and copied at the public reference facility maintained by the SEC in Washington, D.C. The SEC maintains a website at www.sec.gov containing our reports, proxy materials, information statements and other items. The company also maintains a website at www.ball.com on which it provides a link to access Ball’s SEC reports free of charge.

The company has established written Ball Corporation Corporate Governance Guidelines; a Ball Corporation Executive Officers and Board of Directors Business Ethics Statement (Ethics Statement); a Business Ethics booklet; and Ball Corporation Audit Committee, Nominating/Corporate Governance Committee, Human Resources Committee and Finance Committee charters. These documents are set forth on the company’s website at www.ball.com under the section “Investors,” under the subsection “Financial Information,” and under the link “Corporate Governance.” A copy may also be obtained upon request from the company’s corporate secretary.

The company intends to post on its website the nature of any amendments to the company’s codes of ethics that apply to executive officers and directors, including the chief executive officer, chief financial officer and controller, and the nature of any waiver or implied waiver from any code of ethics granted by the company to any executive officer or director. These postings will appear on the company’s website at www.ball.com under the section “Investors,” under the subsection “Financial Information,” and under the link “Corporate Governance.”

Item 1A. Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

The loss of a key customer could have a significant negative impact on our sales.

While we have diversified our customer base, we do sell a majority of our packaging products to relatively few major beverage, packaged food and household product companies, some of which operate in North America, South America, Europe and Asia.

Although more than 70 percent of our customer contracts are long-term, these contracts are terminable under certain circumstances, such as our failure to meet quality or volume requirements. Because we depend on relatively few major customers, our business, financial condition or results of operations could be adversely affected by the loss of any of these customers, a reduction in the purchasing levels of these customers, a strike or work stoppage by a significant number of these customers' employees or an adverse change in the terms of the supply agreements with these customers.

The primary customers for our aerospace segment are U.S. government agencies or their prime contractors. These sales represented approximately 9 percent of Ball's consolidated 2007 net sales. Our contracts with these customers are subject to several risks, including funding cuts and delays, technical uncertainties, budget changes, competitive activity and changes in scope.

We face competitive risks from many sources that may negatively impact our profitability.

Competition within the packaging industry is intense. Increases in productivity, combined with existing or potential surplus capacity in the industry, have maintained competitive pricing pressures. The principal methods of competition in the general packaging industry are price, service and quality. Some of our competitors may have greater financial, technical and marketing resources. Our current or potential competitors may offer products at a lower price or products that are deemed superior to ours.

We are subject to competition from alternative products, which could result in lower profits and reduced cash flows.

Our metal packaging products are subject to significant competition from substitute products, particularly plastic carbonated soft drink bottles made from PET, single serve beer bottles and containers made of glass, cardboard or other materials. Competition from plastic carbonated soft drink bottles is particularly intense in the United States and the United Kingdom. There can be no assurance that our products will successfully compete against alternative products, which could result in a reduction in our profits or cash flow.

We have a narrow product range, and our business would suffer if usage of our products decreased.

For the 12 months ended December 31, 2007, 63 percent of our consolidated net sales were from the sale of metal beverage cans, and we expect to derive a significant portion of our future revenues from the sale of metal beverage cans. Our business would suffer if the use of metal beverage cans decreased. Accordingly, broad acceptance by consumers of aluminum and steel cans for a wide variety of beverages is critical to our future success. If demand for glass and PET bottles increases relative to cans, or the demand for aluminum and steel cans does not develop as expected, our business, financial condition or results of operations could be materially adversely affected.

Our business, financial condition and results of operations are subject to risks resulting from increased international operations.

We derived 29 percent of our consolidated net sales from outside of the U.S. for the year ended December 31, 2007. This sizeable scope of international operations may lead to more volatile financial results and make it more difficult for us to manage our business. Reasons for this include, but are not limited to, the following:

- political and economic instability in foreign markets, including instability that might result from Kosovo's recent declaration of independence from Serbia;
- foreign governments' restrictive trade policies;
- the imposition of duties, taxes or government royalties;
- foreign exchange rate risks;
-