BALL CORP
Form 10-K
February 25, 2009

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, 2008
( ) 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 $4,610 million based upon the closing market price and common shares outstanding as of June 29, 2008.

Number of shares outstanding as of the latest practicable date.

Class	Outstanding at February 1, 2009
Common Stock, without par value	93,777,593

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy statement to be filed with the Commission within 120 days after December 31, 2008, to the extent indicated in Part III.

Ball Corporation and Subsidiaries
ANNUAL REPORT ON FORM 10-K
For the year ended December 31, 2008

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PART I

Item 1. Business

Ball Corporation (Ball, we, the company or our) is one of the world's leading suppliers of metal and plastic packaging to the beverage, food and household products industries. Our packaging products are produced for a variety of end uses and are manufactured in plants around the world. We also supply aerospace and other technologies and services to governmental and commercial customers within our aerospace and technologies segment (Ball Aerospace). In 2008 our total consolidated net sales were $7.6 billion. Our packaging businesses are responsible for 90 percent of that number, with the remaining 10 percent contributed from our aerospace business.

Our largest product lines are aluminum and steel beverage cans, which contributed 65 percent of our 2008 total net sales and 75 percent of our 2008 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.

We sell our packaging products primarily to major beverage, food and household products companies with which we have developed long-term customer relationships. This is evidenced by our high customer retention and our large number of long-term supply contracts. While we have a diversified customer base, we sell a majority of our packaging products to relatively few major companies in North America, Europe, the People's Republic of China (PRC) and Argentina, as do our equity joint ventures in Brazil, the U.S. and the PRC.

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 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.

We are headquartered in Broomfield, Colorado, and employ approximately 14,500 people worldwide. Our stock is traded on the New York Stock Exchange and the Chicago Stock Exchange under the ticker symbol BLL. Our predecessor company was founded in 1880 by five Ball brothers and operated for many years as Ball Brothers Glass Manufacturing Company.

Our Financial Strategy

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

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

The cash generated by our businesses is used primarily: (1) to finance the company's operations, (2) to fund stock buy-back programs and dividend payments, (3) to fund strategic investments and (4) to service the company's debt.

We also will, when we believe it will benefit the company and our shareholders, make strategic acquisitions or divest parts of our business.

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 does not perform well, our employees get paid less or no incentive compensation.

Our Reporting Segments

Ball Corporation reports its financial performance in five reportable segments organized along a combination of product lines, after aggregating operating segments that have similar economic characteristics: (1) metal beverage packaging, Americas and Asia; (2) metal beverage packaging, Europe; (3) metal food and household products packaging, Americas; (4) plastic packaging, Americas; and (5) aerospace and technologies. We also have investments in companies in the U.S., the PRC and Brazil, which are accounted for using the equity method of accounting and, accordingly, those results are not included in segment sales or earnings. Due to first quarter 2008 management reporting changes, Ball's operations in the PRC with 2008 net sales of $289.6 million are now aggregated and included in the metal beverage packaging, Americas and Asia, segment (previously included within the company's European operations). Prior periods required to be shown in this Annual Report on Form 10-K (Annual Report) have been conformed to the current presentation.

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 sheet, tinplate 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 has been significant consolidation of suppliers in both North America and in Europe. 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.

A substantial part of Ball's packaging sales are made directly to companies in packaged beverage and food businesses, including SABMiller plc and bottlers of Pepsi-Cola and Coca-Cola branded beverages and their affiliates that utilize consolidated purchasing groups. 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).

Metal Beverage Packaging, Americas and Asia, Segment

Industry Background and Ball's Operations

According to publicly available information and company estimates, the combined U.S. and Canada metal beverage container markets decreased in 2008 to 101 billion units from 105 billion units in 2007. Five 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 in excess of 30 billion recyclable beverage cans in the U.S. and Canada in 2008 – about 30 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, as are all beverage cans produced by our competitors in the U.S., Canada and Mexico. In 2008 we were able to pass through substantially all aluminum-related cost increases levied by producers. In North America, four aluminum suppliers provide virtually all of our requirements. Some of those aluminum suppliers have experienced significant financial and liquidity constraints in recent years, which may be exacerbated by the global economic crisis.

We believe we have limited our exposure related to changes in the costs of aluminum sheet as a result of the inclusion of provisions in most aluminum container sales contracts to pass through aluminum cost changes, as well as the use of derivative instruments.

Beverage containers are sold in a highly competitive market based on quality, service and price, which is relatively capital intensive and is characterized by plants that run more or less continuously in order to operate profitably. In addition 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 has grown significantly in the carbonated soft drink and water industries over the past quarter century. 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.

Metal beverage packaging, Americas and Asia, is Ball's largest segment, accounting for 40 percent of consolidated net sales in 2008. 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 14 manufacturing facilities in the U.S. and one in Canada. Can ends are produced within two of the U.S. facilities, as well as in a third 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 MillerCoors, LLC, operate beverage can and end manufacturing facilities in Golden, Colorado. On July 1, 2008, the U.S. and Puerto Rico businesses of Coors Brewing Company (Coors) and our largest North American brewery customer, Miller Brewing Company (Miller), were combined to form MillerCoors, LLC.

The beverage can market in the PRC is approximately 12 billion cans, of which Ball's operations represent an estimated 22 percent, with an additional 13 percent manufactured by two joint ventures in which we participate. Our percentage of the industry makes us one of the largest manufacturers of beverage cans in the PRC. Six other manufacturers make up the remainder of the market. Our operations include the manufacture of aluminum cans and ends in three plants in the PRC, as well as in our two joint ventures. We also manufacture and sell high-density plastic containers in two PRC plants primarily servicing the motor oil industry. 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 over the past several years, and we expect the PRC market to continue to grow over time, after the effects of the current global economic crisis begin to dissipate.

We 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. The Brazilian joint venture is expanding capacity at its existing facility near Sao Paulo and is building a new plant near Rio de Janeiro.

In order to more closely balance capacity and demand within our business, during 2008 Ball announced or completed the closure of three metal beverage packaging plants in North America:

We closed a metal beverage packaging plant in Kent, Washington. The plant had two 12-ounce aluminum beverage can manufacturing lines that produced approximately 1.1 billion cans annually. The closure is expected to result in net fixed costs savings of approximately $10 million in 2009.

We announced on October 30, 2008, the closure of our metal beverage can plants in Kansas City, Missouri, and Guayama, Puerto Rico. The Kansas City plant, which primarily manufactures specialty beverage cans, will be closed by the end of the first quarter 2009 with manufacturing volumes absorbed by other North American beverage can plants. The Puerto Rico facility, which manufactured 12-ounce beverage cans, was closed at the end of 2008. Cost reductions associated with these plant closings are expected to be up to $30 million in 2009 and be $7 million cash positive upon final disposition of the assets.

Where growth is projected in certain markets or for certain products, Ball is undertaking selected capacity increases in its existing facilities and may establish or obtain additional manufacturing capacity to the extent required by the growth of any of the markets we serve.

Metal Beverage Packaging, Europe, Segment

Industry Background and Ball's Operations

The European beverage can market is approximately 55 billion cans, or more than half the size of the North American beverage can market. While current economic conditions have slowed growth in the near term, the European market is expected to grow, and is highly regional in terms of growth and packaging mix. Growth in central and eastern Europe has been particularly strong in recent years but has been impacted by the recent economic downturn, causing the company to delay completion of its new plant in Lublin, Poland. Western markets, including the United Kingdom and France continue to hold up on a relative basis.

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 winter holiday season for the United Kingdom. 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.

Ball Packaging Europe is the second largest metal beverage container producer in Europe, with an estimated 29 percent of European shipments, and supplies two-piece beverage cans and can ends for producers of beer, carbonated soft drinks, mineral water, fruit juices, energy drinks and other beverages.

The metal beverage packaging, Europe, segment, which accounted for 25 percent of Ball's consolidated net sales in 2008, consists of 10 beverage can plants and two beverage can end plants in Europe. 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. In addition Ball Packaging Europe is currently renting additional space on the premises of a supplier in Haslach, Germany in order to produce the Ball Resealable End (BRE). The European plants produced approximately 16 billion cans in 2008, with approximately 56 percent of those being produced from aluminum and 44 percent from steel. Six of the can plants use aluminum and four use steel.

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 is being 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. However, due to the recent global economic downturn, we will delay the completion of the plant until market conditions warrant such startup. In addition we are delaying construction of our planned beverage can plant in India due to current economic conditions in that country.

European raw material supply contracts are generally for a period of one year, although Ball Packaging Europe has negotiated some longer term agreements. In Europe three steel suppliers and four aluminum suppliers provide approximately 95 percent of our requirements. 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 generally tries to minimize 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.

Metal Food & Household Products Packaging, Americas, Segment

Industry Background and Ball's Operations

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 43 percent are three-piece cans and 57 percent are two-piece cans. The steel tinplate aerosol can market is approximately 3.2 billion cans annually. We anticipate slight growth in the aerosol market, while the food market is expected to be essentially flat over time.

Sales volumes of metal food containers in North America tend to be highest from May through October as a result of seasonal fruit, vegetable and salmon packs. We estimate our 2008 shipments of more than 5.6 billion steel food containers to be approximately 19 percent of total U.S. and Canadian metal food container shipments. We estimate our aerosol business accounts for approximately 50 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. In North America, two steel suppliers provide more than 70 percent of our tinplate steel. Some steel suppliers have experienced significant financial and liquidity constraints in recent years, which may be exacerbated by the global economic crisis. We believe we have limited our exposure related to changes in the costs of steel tinplate as a result of 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. In 2008 we were able to pass through the majority of steel cost increases levied by producers.

The metal food and household products packaging, Americas, segment accounted for 16 percent of consolidated net sales in 2008. The two major product lines in this segment are steel food and 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, Americas, segment, Ball announced plans to close aerosol container manufacturing plants in Tallapoosa, Georgia, and Commerce, California. Ball closed the Commerce facility during the third quarter of 2008 and closed the Tallapoosa facility in January 2009. The two plant closures 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 allow us to supply customers from a consolidated asset base. These actions are expected to yield annual pretax cost savings in excess of $15 million in 2009 and improve aerosol plant manufacturing utilization to more than 85 percent from about 70 percent.

Also in October 2007, Ball announced its intention to exit the custom and decorative tinplate can business based in its Baltimore, Maryland, manufacturing plant. During 2008 it was determined, based on market conditions that we would remain in that business.

Plastic Packaging, Americas, Segment

Industry Background and Ball's Operations

Demand for containers made of PET and polypropylene has slowed in the beverage and food markets due to current economic conditions. 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. In the smaller polypropylene container industry, Ball is one of three major competitors. 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. We believe we have limited our exposure related to changes in the costs of plastic resin as a result of the inclusion of provisions in substantially all plastic container sales contracts to pass through resin cost changes.

Plastic packaging, Americas, accounted for 9 percent of Ball's consolidated net sales in 2008. We estimate our 2008 shipments of 5.5 billion plastic bottles to be approximately 10 percent of total U.S. PET container shipments. In addition this segment shipped approximately 750 million polypropylene food and specialty containers during 2008. The company operates eight plastic container manufacturing facilities in the U.S.

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 Gamma®, Gamma-Clear®, AmazonHM® and KHS Corpoplast GmbH Plasmax® barrier 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.

On June 26, 2008, Ball announced the closure of a plastic packaging manufacturing plant in Brampton, Ontario, which ceased operations in the third quarter of 2008. The Brampton operations have been consolidated into the company's other plastic packaging manufacturing facilities in the United States, and the closure of this facility is expected to result in annual, fixed-cost savings of approximately $4 million beginning in 2009.

Aerospace and Technologies Segment

Ball's aerospace and technologies segment, which accounted for 10 percent of consolidated net sales in 2008, includes national defense, antenna and video technologies, civil and operational space and systems engineering solutions 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 91 percent of segment sales in 2008.

Geopolitical events, shifting executive and legislative branch priorities, funding shortfalls combined with increased competition for new business have resulted in a decline in opportunities in areas matching Ball's aerospace and technologies segment's core capabilities in space hardware. Although we have seen declines in our space hardware opportunities, our traditional strength, we have seen growth in opportunities related to our services and tactical components. The 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 $597 million and $774 million at December 31, 2008 and 2007, respectively, and consists of the aggregate contract value of firm orders, excluding amounts previously recognized as revenue. The 2008 backlog includes $378 million expected to be recognized in revenues during 2009, 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 $309 million and $463 million at December 31, 2008 and 2007, respectively. Year-to-year comparisons of backlog are not necessarily indicative of the trend of future operations.

On February 15, 2008, the segment completed the sale of its shares in Ball Solutions Group Pty Ltd (BSG) to QinetiQ Pty Ltd for approximately $10.5 million, including cash sold of $1.8 million. BSG was previously a wholly owned Australian subsidiary that provided services to the Australian department of defense and related government agencies.

After an adjustment for working capital items, the sale resulted in a pretax gain of $7.1 million.

Ball’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

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.

In our aerospace business, we continue to focus our R&D activities on the design, development and manufacture of innovative aerospace systems. This includes the production of 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 aerospace R&D activities are conducted in various locations in the U.S.

Note 23, "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

Throughout our company’s history, we have focused on sustainability and the environment in all aspects of our businesses and recently have formalized our initiatives in light of the current environment. We continue to make progress on the sustainability goals stated in the sustainability report we issued on June 30, 2008. We have committed to formally report on the status of our sustainability efforts in 2010.

Key issues for our company include reducing our use of electricity and natural gas, reducing waste and increasing recycling at our facilities, analyzing and reducing our water consumption, reducing our existing volatile organic compounds and further improving safety performance in our facilities.

The 2007 recycling rate in the United States for aluminum cans was 54 percent, the highest recycling rate for any beverage container. According to the most recently published data, the aluminum can sheet we 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.

Recycling rates vary throughout Europe but average around 60 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 help establish and financially support recycling initiatives in growing markets, such as Poland and Serbia, to educate consumers about the benefits of recycling aluminum and steel cans and to increase recycling rates. We have also initiated a similar program in China to educate consumers in that market regarding the benefits of recycling.

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 could potentially 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.

Employee Relations

At the end of 2008, the company employed approximately 10,400 employees in the U.S. and 4,100 in other countries. An additional 1,000 people were employed in unconsolidated joint ventures in which Ball participates.

Approximately 30 percent 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 on the "Corporate" page, 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 "Corporate" page, 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, or a reduction in its requirements, 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 approximately 65 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 2008 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. The current global economic crisis may result in reductions in demand for our products, which, in turn, could increase these competitive pressures.

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 other food and beverage 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. Certain of our aerospace products are also subject to competition from alternative solutions. 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, 2008, 65 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 31 percent of our consolidated net sales from outside of the U.S. for the year ended December 31, 2008. 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;
- foreign governments' restrictive trade policies;
- the imposition of duties, taxes or government royalties;
- foreign exchange rate risks;
- difficulties in enforcement of contractual obligations and intellectual property rights; and