

BALL CORP
Form 10-Q
August 12, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Commission file number 001-07349

BALL CORPORATION

State of Indiana

35-0160610

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

10 Longs Peak Drive, P.O. Box 5000

Broomfield, CO 80021-2510

80021-2510

(Address of registrant's principal executive office) (Zip Code)

Edgar Filing: BALL CORP - Form 10-Q

Registrant's telephone number, including area code: 303/469-3131

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2016
Common Stock, without par value	174,228,508 shares

Table of Contents

Ball Corporation

QUARTERLY REPORT ON FORM 10-Q

For the period ended June 30, 2016

INDEX

	Page Number
<u>PART I. FINANCIAL INFORMATION:</u>	
<u>Item 1. Financial Statements</u>	
<u>Unaudited Condensed Consolidated Statements of Earnings for the Three and Six Months Ended June 30, 2016 and 2015</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Earnings for the Three and Six Months Ended June 30, 2016 and 2015</u>	4
<u>Unaudited Condensed Consolidated Balance Sheets at June 30, 2016, and December 31, 2015</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015</u>	6
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	58
<u>Item 4. Controls and Procedures</u>	58
<u>PART II. OTHER INFORMATION</u>	
<u>II.</u>	60

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(\$ in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	\$ 2,030	\$ 2,172	\$ 3,785	\$ 4,095
Costs and expenses				
Cost of sales (excluding depreciation and amortization)	(1,596)	(1,775)	(3,012)	(3,336)
Depreciation and amortization	(78)	(71)	(153)	(139)
Selling, general and administrative	(105)	(118)	(213)	(234)
Business consolidation and other activities	27	66	(240)	14
	(1,752)	(1,898)	(3,618)	(3,695)
Earnings before interest and taxes	278	274	167	400
Interest expense	(41)	(31)	(79)	(70)
Debt refinancing and other costs	(46)	(5)	(106)	(65)
Total interest expense	(87)	(36)	(185)	(135)
Earnings (loss) before taxes	191	238	(18)	265
Tax (provision) benefit	146	(79)	229	(79)
Equity in results of affiliates, net of tax	1	1	—	2
Net earnings	338	160	211	188
Less net earnings attributable to noncontrolling interests	—	—	—	(7)
Net earnings attributable to Ball Corporation	\$ 338	\$ 160	\$ 211	\$ 181
Earnings (loss) per share:				
Basic	\$ 2.38	\$ 1.16	\$ 1.49	\$ 1.32
Diluted	\$ 2.33	\$ 1.13	\$ 1.45	\$ 1.28

Weighted average shares outstanding (000s):

Edgar Filing: BALL CORP - Form 10-Q

Basic	142,038	137,801	141,916	137,446
Diluted	145,227	141,540	145,165	141,302

See accompanying notes to the unaudited condensed consolidated financial statements.

3

Table of Contents

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(\$ in millions)	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
Net earnings	\$ 338	\$ 160	\$ 211	\$ 188
Other comprehensive earnings:				
Foreign currency translation adjustment	(29)	47	—	(92)
Pension and other postretirement benefits	64	8	63	31
Effective financial derivatives	12	(15)	11	(16)
Total other comprehensive earnings (loss)	47	40	74	(77)
Income tax (provision) benefit	(31)	(1)	(27)	(5)
Total other comprehensive earnings (loss), net of tax	16	39	47	(82)
Total comprehensive earnings	354	199	258	106
Less comprehensive (earnings) loss attributable to noncontrolling interests	—	—	—	(7)
Comprehensive earnings attributable to Ball Corporation	\$ 354	\$ 199	\$ 258	\$ 99

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(\$ in millions)	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 6,399	\$ 224
Receivables, net	1,910	885
Inventories, net	1,483	898
Deferred taxes and other current assets	294	177
Total current assets	10,086	2,184
Noncurrent assets		
Property, plant and equipment, net	4,396	2,686
Goodwill	5,183	2,177
Intangible assets, net	2,052	195
Restricted cash	2,124	2,154
Other assets	1,236	301
Total assets	\$ 25,077	\$ 9,697
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt and current portion of long-term debt	\$ 3,125	\$ 77
Accounts payable	2,168	1,501
Accrued employee costs	361	229
Cash purchase price payable to Rexam's shareholders	3,825	—
Other current liabilities	874	335
Total current liabilities	10,353	2,142
Noncurrent liabilities		
Long-term debt	8,234	4,974
Employee benefit obligations	1,527	1,147
Deferred taxes and other liabilities	1,129	173
Total liabilities	21,243	8,436
Shareholders' equity		
Common stock (333,561,888 shares issued - 2016; 332,332,395 shares issued - 2015)	995	962
Retained earnings	4,733	4,557
Accumulated other comprehensive earnings (loss)	(593)	(640)
Treasury stock, at cost (191,606,105 shares - 2016; 194,240,427 shares - 2015)	(1,404)	(3,628)
Total Ball Corporation shareholders' equity	3,731	1,251
Noncontrolling interests	103	10
Total shareholders' equity	3,834	1,261
Total liabilities and shareholders' equity	\$ 25,077	\$ 9,697

See accompanying notes to the unaudited condensed consolidated financial statements.

5

Table of Contents

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)	Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities		
Net earnings	\$ 211	\$ 188
Adjustments to reconcile net earnings (loss) to cash provided by (used in) continuing operating activities:		
Depreciation and amortization	153	139
Business consolidation and other activities	240	(14)
Deferred tax provision (benefit)	(268)	(1)
Other, net	140	54
Changes in other working capital components (a)	(440)	(155)
Cash provided by (used in) operating activities	36	211
Cash Flows from Investing Activities		
Capital expenditures	(273)	(228)
Business acquisitions, net of cash acquired	413	(29)
Proceeds from dispositions, net of cash sold	2,815	—
Other, net	(86)	22
Cash provided by (used in) investing activities	2,869	(235)
Cash Flows from Financing Activities		
Long-term borrowings	3,824	2,315
Repayments of long-term borrowings	(621)	(2,308)
Net change in short-term borrowings	250	105
Proceeds from issuances of common stock	23	19
Acquisitions of treasury stock	(98)	(3)
Common dividends	(37)	(36)
Other, net	(21)	(41)
Cash provided by (used in) financing activities	3,320	51
Effect of exchange rate changes on cash	(50)	9
Change in cash and cash equivalents	6,175	36
Cash and cash equivalents - beginning of period	224	191
Cash and cash equivalents - end of period	\$ 6,399	\$ 227

(a) Includes payments of costs associated with the acquisition of Rexam and the sale of the Divestment Business.

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Ball Corporation and its controlled affiliates, including its consolidated variable interest entities (collectively Ball, the company, we or our), and have been prepared by the company. Certain information and footnote disclosures, including critical and significant accounting policies normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted for this quarterly presentation.

Results of operations for the periods shown are not necessarily indicative of results for the year, particularly in view of the seasonality in the packaging segments, the variability of contract revenues in the company's Aerospace segment, the acquisition of Rexam PLC (Rexam) and the divestiture of certain assets and liabilities of the combined business on June 30, 2016. These unaudited condensed consolidated financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto included in the company's Annual Report on Form 10-K filed on February 16, 2016, pursuant to Section 13 of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015 (annual report).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires Ball's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. These estimates are based on historical experience and various assumptions believed to be reasonable under the circumstances. Ball's management evaluates these estimates on an ongoing basis and adjusts or revises the estimates as circumstances change. As future events and their impacts cannot be determined with precision, actual results may differ from these estimates. In the opinion of management, the financial statements reflect all adjustments necessary to fairly state the results of the periods presented.

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

2. Accounting Pronouncements

Recently Adopted Accounting Standards

In November 2015, accounting guidance was issued that requires classification of all deferred tax assets and liabilities, along with any related valuation allowances, as noncurrent on the balance sheet. As a result, each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance, however, does not change the existing requirement that only permits offsetting within a tax jurisdiction; therefore, companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another tax jurisdiction. The guidance was applied prospectively on January 1, 2016. Prior period information was not adjusted.

In September 2015, amendments to existing accounting guidance were issued to simplify the accounting for adjustments made to provisional amounts recognized in business combinations. Under the previous guidance, companies were required to retrospectively revise comparative financial statements for changes made to provisional amounts. The amended guidance eliminates the requirement to retrospectively account for these adjustments. The guidance was applied prospectively to adjustments to provisional amounts that occurred on or after January 1, 2016. The guidance did not have a material effect on the company's unaudited condensed consolidated financial statements.

In July 2015, amendments to existing accounting guidance were issued to modify the subsequent measurement of inventory. Under previous guidance, a company measured inventory at the lower of cost or market, with market defined as replacement cost, net realizable value, or net realizable value less a normal profit margin. Current replacement cost could be used provided that it was not above the net realizable value (ceiling) or below net realizable value less a normal profit margin (floor). The new guidance requires a company to subsequently measure inventory at the lower of cost or net realizable value and eliminates the need to determine replacement cost and evaluate whether it is above the ceiling or below the floor. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance was applied prospectively on

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

January 1, 2016, and did not have a material effect on the company's unaudited condensed consolidated financial statements.

In May 2015, amendments to the existing accounting guidance were issued to remove the requirement to categorize net asset value per share, currently utilized as a practical expedient, by investment within the fair value hierarchy based on redeemable dates. This amendment also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share expedient. The guidance was applied prospectively on January 1, 2016, and did not have a material effect on the company's unaudited condensed consolidated financial statements.

In April 2015, amendments to existing accounting guidance were issued to provide explicit guidance related to a customer's accounting for fees paid in a cloud computing arrangement. Under the guidance, cloud computing arrangements that include a software license are to be accounted for consistent with the acquisition of other software licenses. Conversely, cloud computing arrangements that do not include a software license are to be accounted for as a service contract or other applicable accounting guidance. This guidance was applied prospectively on January 1, 2016, and did not have a material effect on the company's unaudited condensed consolidated financial statements.

In April 2015, accounting guidance was issued to change the balance sheet presentation for debt issuance costs. Under the new guidance, debt issuance costs are presented as a direct deduction from the long-term debt, consistent with debt discounts, rather than as a deferred charge. The guidance does not affect the recognition and measurement of debt issuance costs; hence, amortization of debt issuance will continue to be reported as interest expense. This guidance was applied retrospectively on January 1, 2016, and resulted in decreases of intangibles and other long-term assets and long-term debt by \$80 million from the amounts previously reported as of December 31, 2015.

In February 2015, amendments to existing accounting guidance were issued that modify the analysis companies must perform in order to determine whether a legal entity should be consolidated. The new guidance includes modifications related to: 1) limited partnerships and similar legal entities, 2) evaluating fees paid to a decision maker or service provider as a variable interest, 3) the effect of fee arrangements on the primary beneficiary, 4) the effect of related parties on the primary beneficiary, and 5) certain investment funds. This guidance was applied on a modified retrospective basis on January 1, 2016, and did not have a material effect on the company's unaudited condensed consolidated financial statements.

In January 2015, accounting guidance was issued to eliminate the concept of extraordinary items. Previous guidance required extraordinary events, defined as both unusual in nature and infrequent in occurrence, to be reported as separate line items from results of ordinary operations within company financial statements. The disclosure requirements will be for items and events which are unusual in nature and/or infrequent in occurrence. Companies have the option of disclosing such items as a separate component of income from continuing operations or disclosing unusual and/or infrequent events in the notes to the financial statements. The guidance was applied prospectively on January 1, 2016, and did not have a material effect on the company's unaudited condensed consolidated financial statements.

New Accounting Guidance

In June 2016, amendments requiring financial assets or a group of financial assets measured at amortized cost basis to be presented at the net amount expected to be collected were finalized. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. This guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The guidance will be effective on January 1, 2020. The company is currently assessing the impact the adoption of this standard will have on its consolidated financial statements.

In May 2016, narrow scope amendments and practical expedients were issued to clarify the new revenue recognition standard. The amendments clarify the collectability criterion of the revenue standard wherein an entity is allowed to recognize revenue in the amount of consideration received when the following criteria are met: the entity has transferred

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

control of the goods or services, the entity has stopped transferring goods or services, or has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable. The amendments also clarify the following: the fair value of noncash consideration be measured at contract inception when determining the transaction price, allows an entity to make an accounting policy election to exclude from the transaction price certain types of taxes collected from a customer when the company discloses that policy, for contracts to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP, and a practical expedient is provided in which an entity can avoid having to evaluate the effects of each contract modification from contract inception through the beginning of the earliest period presented when accounting for contracts that were modified prior to adoption under both the full and modified retrospective transition approach. The amendments have the same effective date and transition requirements as the new revenue standard, which is effective for Ball on January 1, 2018. The company is currently assessing the impact the adoption of this new guidance will have on its consolidated financial statements.

In April 2016, amendments to clarify the guidance on accounting for licenses of intellectual property (IP) and identifying performance obligations in the new revenue recognition standard were finalized. The amendments clarify how an entity evaluates the nature of its promise in granting a license of IP, which will determine whether revenue should be recognized over time or at a point in time. The amendments also clarify when a promised good or service is separately identifiable and allows entities to disregard items that are immaterial in the context of a contract and allow entities the election to account for shipping and handling activities as a fulfillment cost rather than an additional promised service. The amendments have the same effective date and transition requirements as the new revenue standard, which is effective for Ball on January 1, 2018. The company is currently assessing the impact the adoption of this new guidance will have on its consolidated financial statements.

In March 2016, accounting guidance was issued on the effect of derivative contract novations on existing hedge accounting relationships. The amendments clarify that a change in the counterparty to a derivative instrument designated as a hedging instrument does not in and of itself require dedesignation of that hedging relationship, provided that all other hedge accounting criteria continue to be met. The guidance will be applied prospectively on January 1, 2017, and is not expected to have a material effect on the company's consolidated financial statements.

In March 2016, final accounting guidance was issued clarifying that the assessment of whether an embedded contingent put or call option is clearly and closely related to the debt host only requires an analysis of the four-step decision sequence outlined in the accounting standards codification. Consequently, when a contingent put or call option embedded in a debt instrument would be evaluated for possible separate accounting as a derivative instrument, the nature of the exercise contingency would be disregarded. Companies will still need to evaluate other relevant embedded derivative guidance. The guidance will be applied on a modified retrospective basis on January 1, 2017, and is not expected to have a material effect on the company's consolidated financial statements.

In March 2016, final accounting guidance was issued eliminating the requirement to retrospectively apply the equity method in previous periods when an investor initially obtains significant influence over an investee. The new guidance requires the investor to apply the equity method prospectively from the date the investment qualifies for the equity method. The investor will add the carrying value of the existing investment to the cost of the additional investment to determine the initial cost basis of the equity method investment. This guidance will be applied prospectively on January 1, 2017, and is not expected to have a material effect on the company's consolidated financial statements.

In March 2016, the principal versus agent guidance within the new revenue recognition standard was amended to clarify how an entity should identify the unit of accounting for the principal versus agent evaluation. The new standard requires an entity to determine whether it is a principal or an agent in a transaction in which another party is involved in providing goods or services to a customer, by evaluating the nature of its promise to the customer. An entity is a principal and records revenue on a gross basis if it controls the promised good or service before transferring the good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The amendments have the same effective date and transition requirements as the new revenue standard, which is effective for Ball on January 1, 2018. The company is currently assessing the impact the adoption of this new guidance will have on its consolidated financial statements.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

In March 2016, amendments to existing accounting guidance were issued to simplify various aspects related to how share-based payments are accounted for and presented in the consolidated financial statements. All excess tax benefits and tax deficiencies should be recognized as income tax provision (benefit) in the income statement. This change is required to be applied prospectively resulting from settlements after the date of adoption of the guidance. The tax benefit will be recorded when it arises, subject to normal valuation considerations. This change is required to be applied on a modified retrospective basis, with a cumulative effect adjustment to opening retained earnings. All tax related cash flows resulting from share-based payments are to be reported as operating activities on the statement of cash flows with either a prospective or retrospective approach. Other modifications to the guidance include modifications related to minimum statutory tax withholding requirements and accounting policy election for the impact of forfeitures of shared-based payment awards. The guidance will be effective on January 1, 2017. The company is currently assessing the impact the adoption of this standard will have on its consolidated financial statements.

In February 2016, lease accounting guidance was issued which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. The guidance will be effective for Ball on January 1, 2019. The company is currently assessing the impact the adoption of this standard will have on its consolidated financial statements.

In January 2016, accounting guidance was issued on the classification and measurement of financial assets and liabilities (equity securities and financial liabilities) under the fair value option and the presentation and disclosure requirements for financial instruments. The guidance modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will need to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net earnings. An exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under the guidance and, as such, these investments may be measured at cost. The guidance will be effective on January 1, 2018. The company is currently assessing the impact the adoption of this new guidance will have on its consolidated financial statements.

In August 2014, accounting guidance was issued to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Under the new guidance, management is required to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. The guidance will be effective on January 1, 2017, and is not expected to have a material effect on the

company's consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board jointly issued new revenue recognition guidance which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The new guidance contains a more robust framework for addressing revenue issues and is intended to remove inconsistencies in existing guidance and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The guidance will supersede the majority of current revenue recognition guidance, including industry-specific guidance. In July 2015, the FASB approved the deferral of the effective date of the new revenue recognition guidance by one year. The guidance will be effective for Ball on January 1, 2018, and early adoption is permitted. However, entities are not permitted to adopt the standard earlier than the original effective date of January 1, 2017. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. The company is currently assessing the impact the adoption of this standard will have on its consolidated financial statements.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

3. Business Segment Information

Ball's operations are organized and reviewed by management along its product lines and geographical areas and presented in the four reportable segments discussed below.

Metal beverage packaging, Americas and Asia: Consists of the metal beverage packaging, Americas, operations in the U.S., Canada, Mexico and Brazil, and the metal beverage packaging, Asia, operations in the People's Republic of China (PRC) and Myanmar. The Americas and Asia segments have been aggregated based on similar economic and qualitative characteristics. The operations in this reporting segment manufacture and sell metal beverage containers.

Metal beverage packaging, Europe: Consists of operations in several countries in Europe that manufacture and sell metal beverage containers.

Food and Aerosol packaging: Consists of operations in the U.S., Europe, Canada, Mexico, Argentina and India that manufacture and sell steel food, aerosol, paint, general line and decorative specialty containers, as well as extruded aluminum aerosol containers and aluminum slugs.

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

The accounting policies of the segments are the same as those in the unaudited condensed consolidated financial statements. A discussion of the company's critical and significant accounting policies can be found in Ball's annual report. The company also has investments in companies in Guatemala, Panama, South Korea, the U.S. and Vietnam, which are accounted for under the equity method of accounting and, accordingly, those results are not included in segment sales or earnings.

Due to the timing of the Rexam acquisition, the newly acquired operations have been included in the corporate and other segment for the quarter ended June 30, 2016. During the third quarter, the company will evaluate both the existing and acquired operations to determine its internal reporting structure and the resulting effect on reportable

segments.

11

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Summary of Business by Segment

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales				
Metal beverage packaging, Americas & Asia	\$ 1,053	\$ 1,132	\$ 1,990	\$ 2,155
Metal beverage packaging, Europe	479	481	835	860
Food and aerosol packaging	298	332	583	640
Aerospace	193	230	373	445
Corporate and intercompany eliminations	7	(3)	4	(5)
Net sales	2,030	2,172	\$ 3,785	\$ 4,095
Net earnings				
Metal beverage packaging, Americas & Asia	\$ 137	\$ 126	\$ 239	\$ 252
Business consolidation and other activities	(12)	—	(16)	(3)
Total metal beverage packaging, Americas & Asia	125	126	223	249
Metal beverage packaging, Europe	74	59	113	88
Business consolidation and other activities	(5)	(5)	(9)	(7)
Total metal beverage packaging, Europe	69	54	104	81
Food and aerosol packaging	33	29	53	59
Business consolidation and other activities	(3)	(1)	(17)	(1)
Total food and aerosol packaging	30	28	36	58
Aerospace	19	20	37	39
Business consolidation and other activities	—	—	—	1
Total aerospace	19	20	37	40
Segment earnings before interest and taxes	243	228	400	428
Undistributed corporate expenses and intercompany eliminations, net	(12)	(26)	(35)	(52)
Business consolidation and other activities	47	72	(198)	24
Total undistributed corporate expenses and intercompany eliminations, net	35	46	(233)	(28)
Earnings before interest and taxes	278	274	167	400

Edgar Filing: BALL CORP - Form 10-Q

Interest expense	(41)	(31)	(79)	(70)
Debt refinancing and other costs	(46)	(5)	(106)	(65)
Total interest expense	(87)	(36)	(185)	(135)
Tax (provision) benefit	146	(79)	229	(79)
Equity in results of affiliates, net of tax	1	1	(0)	2
Net earnings	338	160	211	188
Less net earnings attributable to noncontrolling interests	—	—	—	(7)
Net earnings attributable to Ball Corporation	\$ 338	\$ 160	\$ 211	\$ 181

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

4. Acquisitions

Rexam

On June 30, 2016, Ball acquired 100 percent of the outstanding shares of Rexam, a United Kingdom-based beverage container manufacturer, for the purchase price of £2.9 billion (\$3.8 billion) in cash, and 32.25 million treasury shares of Ball Corporation common stock (valued at \$71.39 per share for a total consideration of \$2.3 billion). Additionally, the company recorded \$21 million of consideration for stock-based compensation (see Note 15). The common shares were valued using the price on the date of acquisition and have been presented as a reduction of treasury stock as of June 30, 2016, although the shares were issued on July 1, 2016 as this issuance of shares was irrevocably committed at June 30, 2016. The cash portion of the acquisition price was paid in July, 2016, using proceeds from restricted cash held in escrow and borrowings under the \$1.4 billion and €1.1 billion Term A loan facilities obtained in March 2016 (discussed further in the long-term debt section below).

The consummation of the acquisition was subject to, among other things, approval from Ball's shareholders, approval from Rexam's shareholders, certain regulatory approvals and satisfaction of other customary closing conditions. In order to satisfy certain regulatory requirements, the company was required to divest certain assets including a portion of Ball's existing metal beverage packaging businesses and select metal beverage can assets of Rexam (the Divestment Business).

The sale of the Divestment Business to Ardagh Group S.A. (Ardagh), was completed immediately after the Rexam acquisition on June 30, 2016, for \$3.42 billion, subject to customary closing adjustments and certain transaction service arrangements between Ball and Ardagh during a transition period. A pre-tax gain of \$331 million was recorded in connection with the sale and is subject to finalization of working capital and other items, and has been recorded within business consolidation and other activities. The company has recorded an amount due from Ardagh of \$235 million in other receivables, in the unaudited condensed consolidated balance sheet as of June 30, 2016 for remaining cash proceeds expected to be received from Ardagh associated with the sale of the Divestment Business. As a condition of the sale of the Divestment Business to Ardagh, the company has guaranteed a minimum volume of sales for the Divestment Business in 2017, whereby the company would be required to pay Ardagh up to \$75 million based upon any shortfall of 2017 sales relative to an agreed-upon minimum threshold. Additionally, the company entered into a supply agreement with Ardagh to manufacture and sell can ends to the Divestment Business in Brazil in exchange for proceeds of \$103 million, which have been included in other, net in operating activities in the unaudited condensed consolidated statement of cash flows.

Edgar Filing: BALL CORP - Form 10-Q

The portion of the Divestment Business composed of Ball's legacy beverage packaging businesses had earnings before taxes as shown below. These earnings before taxes may not be indicative of the earnings before taxes that would be generated by these components of the Divestment Business in future periods. Additionally, due to complexities associated with how Ball's legacy beverage packaging businesses included in the Divestment Business were integrated into Ball Corporation in historical periods, these earnings before taxes may not be indicative of the earnings before taxes of these components of the Divestment Business were they to be operated as a standalone business or businesses:

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Earnings before taxes	\$ 68	\$ 49	\$ 104	\$ 80
Earnings before taxes attributable to Ball Corporation	\$ 68	\$ 49	\$ 104	\$ 77

The Rexam portion of the Divestment Business is not included in the table above because the financial information is not included in Ball's historical results.

A total of 54 manufacturing facilities were acquired from Rexam, including 17 in the U.S., 20 in Europe, 12 in South America and five in the Africa, Middle East and Asia (AMEA) region. A total of 22 manufacturing facilities were sold as part of the Divestment Business, including 12 Ball facilities and 10 Rexam facilities. Of these 22 facilities, eight are located in the U.S., 12 are located in Europe and two are located in Brazil. The company has a total of 75 metal beverage

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

manufacturing facilities and joint ventures after the completion of the acquisition and the sale of the Divestment Business.

This acquisition aligns with Ball's Drive for 10 vision, including the company's longstanding capital allocation strategy and EVA philosophy. The combination creates the world's largest supplier of metal beverage containers allowing the company to better serve its customers with its enhanced geographic footprint and innovative product offerings. In particular, Ball expects the acquisition to deliver long-term shareholder value through optimizing global sourcing, reducing general and administrative expenses, sharing best practices to improve production efficiencies and leveraging its footprint to lower freight, logistics and warehousing costs. In addition, further value can be created through balance sheet improvements with a focus on working capital and inventory management and sustainability priorities as a result of the larger plant network.

Due to the timing of the acquisition, the newly acquired operations have been included in the corporate and other segment for the quarter ended June 30, 2016. During the third quarter, the company will evaluate both the existing and acquired operations to determine its internal reporting structure and the resulting effect on reportable segments. The acquisition has been accounted for as a business combination and, its results of operations did not have a significant impact on the company's unaudited condensed consolidated statement of earnings and cash flow from the date of acquisition. In addition, pretax charges totaling \$196 million were incurred for transaction costs associated with the acquisition, which, in accordance with current accounting guidance, were expensed as incurred. The transaction costs are included in the business consolidation and other activities line of the unaudited condensed consolidated statement of earnings. \$66 million of these costs were included in the three months ended June 30, 2016, and \$94 million in the six months ended June 30, 2016.

In connection with the acquisition, Ball assumed Rexam debt of approximately \$2.8 billion. Subsequent to June 30, 2016, approximately \$2.7 billion was extinguished. The proceeds from the sale of the Divestment Business were used to extinguish the assumed debt.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

The table below is a summary of the net assets acquired from Rexam using preliminary fair values. The valuation by management of certain assets, and liabilities, is still in process and therefore, the actual fair values may vary significantly from these preliminary estimates. Final valuations are expected to be completed within one year of the acquisition.

(\$ in millions)

Cash	\$ 451
Receivables, net	797
Inventories, net	791
Deferred taxes and other current assets	158
Assets held for sale (sold to Ardagh on June 30, 2016)	913
Total current assets	3,110
Property, plant and equipment	2,297
Goodwill	3,767
Intangible assets	1,888
Restricted cash	174
Other assets	721
Total assets acquired	11,957
Short-term debt and current portion of long-term debt	2,801
Accounts payable	869
Accrued employee costs	125
Liabilities held for sale (sold to Ardagh on June 30, 2016)	7
Other current liabilities	447
Total current liabilities	4,249
Long-term debt	25
Employee benefit obligations	496
Deferred taxes and other liabilities	927
Total liabilities assumed	5,697
Net assets acquired	6,260
Noncontrolling interests	(94)
Aggregate value of consideration paid	\$ 6,166

In connection with the acquisition, the company assumed certain commitments from Rexam, including lease and purchase commitments, which we are currently evaluating.

The following table details the identifiable intangible assets acquired at the preliminary fair value and estimated useful lives:

(\$ in millions)	Fair Value	Weighted-Average Estimated Useful Life (in Years)
Customer relationships	\$ 1,840	15
Trademarks	40	5
Technology	8	9
	\$ 1,888	

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Because the acquisition of Rexam was a stock purchase, neither the goodwill nor the intangible assets are deductible under local country corporate tax laws but will generally be deductible in computing earnings and profits for U.S. tax purposes.

The following unaudited pro forma consolidated results of operations (pro forma information) have been prepared as if the acquisition of Rexam and the sale of the Divestment Business had occurred as of January 1, 2015. The pro forma information combines the historical results of Ball and Rexam. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisition been in effect for the periods presented, nor are they necessarily indicative of the results that may be obtained in the future.

	Three Months		Six Months Ended	
	Ended June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(\$ in millions, except per share amounts)				
Net sales (1)	\$ 2,761	\$ 3,027	\$ 5,179	\$ 5,689
Net earnings attributable to Ball Corporation (2)	\$ 75	\$ 88	\$ 87	\$ (551)
Basic earnings (loss) per share	\$ 0.43	\$ 0.50	\$ 0.50	\$ (3.14)
Diluted earnings (loss) per share	\$ 0.42	\$ 0.49	\$ 0.49	\$ (3.14)

(1) Net sales were adjusted to include net sales of Rexam. The company also excluded the net sales attributable to the Divestment Business.

(2) Pro forma adjustments to net earnings attributable to Ball Corporation include the following:

- Excludes acquisition-related transaction costs and debt refinancing costs incurred in the three and six months ended June 30, 2016 pro forma statements of earnings and three months ended June 30, 2015. The six months ended June 30, 2015 pro forma net earnings were adjusted to include the acquisition related transaction costs and debt refinancing costs incurred in the six months ended June 30, 2016 and the six months ended December 31, 2015 as the pro forma information shown assumes that the Rexam acquisition has been consummated as of January 1, 2015.
- Additional interest expense associated with the new debt utilized to finance the acquisition.
- Additional depreciation and amortization expense based on the increased fair value of property, plant and equipment and amortizable intangible assets acquired.
- An additional charge to cost of sales of \$74 million was included in the six months ended June 30, 2015 based on the step up value of inventory.
- Excludes net earnings attributable to the Divestment Business for the three and six months ended June 30, 2016 and net earnings attributable to the Divestment Business for the three and six months ended June 30, 2015.

- Excludes the gain on sale of the Divestment Business in the three and six months ended June 30, 2016.

All of these pro forma adjustments were adjusted for the applicable income tax impacts. Ball has applied enacted statutory tax rates in the United Kingdom for the respective periods. Ball has used a tax rate of 20.0 percent to calculate the financing, acquisition and divestment business-related adjustments for the three and six months ended 2016 and the three months ended June 30, 2015. A tax rate of 20.5 percent was used to calculate the financing, acquisition and divestment business-related adjustments for the six months ended June 30, 2015. However, the tax impact on acquisition-related transaction costs already incurred were recorded at a U.S. statutory rate of approximately 37 percent as these transaction costs were incurred in the U.S. These rates may be subject to change and may not be reflective of Ball's effective tax rate for future periods after consummation of the acquisition and sale of the Divestment Business.

In late 2015, Ball completed the acquisition of the remaining outstanding noncontrolling interests in a Ball-consolidated joint venture company (Latapack-Ball) organized and operating in Brazil. Ball and its joint venture partners reached an agreement for the partners to exchange all of their interest in Latapack-Ball for a total of approximately 5.7 million treasury shares of Ball common stock and \$17.4 million of cash. The acquisition of the noncontrolling interests in the joint venture was completed in December 2015, and Latapack-Ball is now a wholly owned subsidiary of Ball.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Acquisition-Related Long-term Debt and Restricted Cash

On February 19, 2015, the company entered into a £3.3 billion unsecured, committed bridge loan agreement (the Bridge Facility), pursuant to which lending institutions agreed, subject to limited conditions, to provide the financing necessary to pay the cash portion of the consideration payable to Rexam's shareholders upon consummation of the acquisition of Rexam along with related fees and expenses. In December 2015, the company issued senior notes totaling \$1 billion, €400 million and €700 million due 2020, 2020, and 2023, respectively, with rates of 4.375 percent, 3.5 percent and 4.375 percent, respectively. Pursuant to the terms of the Bridge Facility, the company deposited the net proceeds from the issuance of such notes into escrow accounts, recorded as restricted cash, which reduced the commitments under the Bridge Facility to £1.9 billion.

On February 19, 2015, the company entered into a \$3 billion revolving credit facility (the 2018 Revolver) to replace its then existing approximate \$1 billion revolving credit facility, repay its \$93 million Term C loan, repay the outstanding balance on the existing revolving credit facility, redeem the 2020 and 2021 senior notes and provide ongoing liquidity for the company. In June 2015, during a subsequent debt offering, the company issued \$1 billion of 5.25 percent senior notes, thereby reducing the borrowing capacity under the revolving credit facility from \$3 billion to \$2.25 billion. In March 2016, the 2018 revolver was refinanced in full with a \$1.5 billion multi-currency revolving credit facility available to Ball and certain of its subsidiaries (the 2021 Revolver).

On March 18, 2016, Ball refinanced the Bridge Facility in full with a \$1.4 billion Term A loan facility available to Ball and a €1.1 billion Term A loan facility available to a subsidiary of Ball. The Term A Loan facilities and 2021 Revolver were entered under a secured, five-year credit agreement.

In July, 2016, \$3.8 billion of proceeds released from the restricted cash escrow accounts and amounts drawn under the \$1.4 billion Term A loan facility and the €1.1 billion Term A loan facility were used to pay the cash portion of the consideration due to Rexam's shareholders for the acquisition of Rexam.

Currency Exchange Rate and Interest Rate Risks

The company entered into collar and option contracts to partially mitigate its currency exchange rate risk associated with the British pound denominated cash portion of the purchase price from February 19, 2015, through the expected

closing date of the acquisition. In June 2016, the company terminated the collar and option contracts with notional amounts that totaled approximately £1.4 billion (\$1.8 billion). In connection with the December 2015 issuance of \$1 billion senior notes due 2020, the company executed cross-currency swaps to convert this fixed-rate U.S. dollar debt to fixed-rate euro debt for the life of the notes to more effectively match the future cash flows of the company. The cross-currency swaps with a notional amount of \$1 billion were terminated on June 30, 2016. These contracts were not designated as hedges for accounting purposes; and therefore, changes in the fair value of these contracts were recorded in the unaudited condensed consolidated statements of earnings in business consolidation and other activities.

The company entered into interest rate swaps to hedge against rising U.S. and European interest rates to minimize its interest rate exposure associated with anticipated debt issuances in connection with the acquisition of Rexam. As of June 30, 2016, the company terminated all interest rate swaps and interest rate option contracts. None of these contracts have been designated as hedges; therefore, changes in the fair value of these interest rate swap and option contracts have been recorded in the unaudited condensed consolidated statements of earnings in debt refinancing and other costs, a component of total interest expense.

For further details related to the aforementioned currency exchange rate and interest rate risks, and the valuation of these derivatives, see Notes 5 and 17.

Wavefront Technologies (Wavefront)

In January 2016, the company acquired Wavefront located in Annapolis Junction, Maryland, for total cash consideration of \$36 million, net of cash acquired. Wavefront provides systems and network engineering, software development software and analytical services for cyber and mission-focused programs to the U.S. government and commercial

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

industry. The financial results of Wavefront have been included in our aerospace segment from the date of acquisition. The acquisition is not material to the company.

Sonoco Products Company (Sonoco)

In February 2015, the company acquired Sonoco's metal end and closure manufacturing facilities in Canton, Ohio, and entered into a long-term supply agreement with Sonoco in exchange for total cash of \$29 million paid at closing, \$11 million of contingent cash consideration and \$24 million of contingent noncash consideration.

The facilities manufacture multiple-sized closures for the metal food container market, including high quality steel and aluminum easy-open ends. The financial results of Sonoco have been included in our food and aerosol packaging segment from the date of acquisition. The acquisition is not material to the company.

5. Business Consolidation and Other Activities

The following is a summary of business consolidation and other activity (charges)/income included in the unaudited condensed consolidated statements of earnings:

(\$ in millions)	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
Metal beverage packaging, Americas & Asia	\$ (12)	\$ —	\$ (16)	\$ (3)
Metal beverage packaging, Europe	(5)	(5)	(9)	(7)
Food and aerosol packaging	(3)	(1)	(17)	(1)
Aerospace	—	—	—	1
Corporate and other	47	72	(198)	24
	\$ 27	\$ 66	\$ (240)	\$ 14

2016

Metal Beverage Packaging, Americas and Asia

For the three and six months ended June 30, 2016, the company had charges recorded of \$9 million for professional services and other costs associated with the acquisition of Rexam.

Other charges in the three and six months ended June 30, 2016 included \$3 million and \$7 million, respectively, of insignificant items.

Metal Beverage Packaging, Europe

During the three and six months ended June 30, 2016, the company recorded charges of \$3 million and \$7 million, respectively, for professional services and other costs associated with the acquisition of Rexam.

Other charges in the three and six months ended June 30, 2016, included \$2 million of insignificant activities.

Food and Aerosol Packaging

During the first six months of 2016, the company announced the closure of the Weirton, West Virginia, plant, a food and household packaging flat sheet production and end-making facility, which will cease production in early 2017. Charges in the three and six months ended June 30, 2016 were \$2 million and \$11 million, respectively, and comprised of employee severance and benefits, facility shutdown costs, and asset impairment and disposal costs.

Other charges in the three and six months ended June 30, 2016 included \$1 million and \$6 million, respectively, of insignificant activities.

18

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Corporate

During the three months ended June 30, 2016, the company recorded the following amounts:

- Expense of \$53 million for professional services and other costs associated with the acquisition of Rexam.
 - Losses of \$91 million associated with its collar, swap and option contracts entered into to reduce its exposure to currency exchange rate changes in connection with the British pound denominated cash portion of the purchase price for the acquisition of Rexam, further discussed in Note 17.
- \$99 million for foreign currency losses from the revaluation of foreign currency denominated restricted cash and intercompany loans related to the cash component of the Rexam acquisition purchase price and the revaluation of the euro-denominated debt issuance in December 2015.
- Expense of \$71 million for compensation arrangements related to the Rexam acquisition.
- An unrealized gain of \$32 million on the fair value of cross-currency swaps entered into in connection with the December 2015 issuance of the \$1 billion senior notes due 2020. See Note 17 for additional information.
- A gain of \$331 million in connection with the sale of the Ball portion of the Divestment Business.
- Expense of \$2 million for insignificant activities.

During the six months ended June 30, 2016, the company recorded the following charges:

- Expense of \$77 million for professional services and other costs associated with the acquisition of Rexam.
- Losses of \$179 million associated with its collar, swap and option contracts entered into to reduce its exposure to currency exchange rate changes in connection with the British pound denominated cash portion of the purchase price for the acquisition of Rexam, further discussed in Note 17.
- \$195 million for foreign currency losses from the revaluation of foreign currency denominated restricted cash and intercompany loans related to the cash component of the Rexam acquisition purchase price and the revaluation of the euro-denominated debt issuance in December 2015.
- Expense of \$71 million for compensation arrangements related to the Rexam acquisition.
- An unrealized loss of \$4 million on the fair value of cross-currency swaps entered into in connection with the December 2015 issuance of the \$1 billion senior notes due 2020. See Note 17 for additional information.
- A gain of \$331 million in connection with the sale of the Ball portion of the Divestment Business.
- Expense of \$3 million for insignificant activities.

2015

Metal Beverage Packaging, Americas and Asia

During the first six months of 2015, the company recorded charges of \$3 million related to business reorganization activities in the company's metal beverage packaging, Asia, operations, and for ongoing costs related to previously closed facilities.

Metal Beverage Packaging, Europe

During the first six months of 2015, the company recorded a charge of \$5 million for the write down of property held for sale.

During the first and second quarters of 2015, the company recorded charges of \$1 million and \$1 million, respectively, related to headcount reductions, cost-out initiatives and the relocation of the company's European headquarters from Germany to Switzerland, as well as additional tax expense of \$2 million and \$1 million, respectively, related to this relocation. In addition, the first six months of 2015 included charges of \$1 million for business reorganization activities.

Corporate

During the first and second quarters of 2015, the company recorded charges of \$20 million and \$24 million, respectively, for professional services and other costs associated with the acquisition of Rexam announced in February 2015. Also during the first and second quarters of 2015, the company recognized losses of \$28 million and gains of \$96 million,

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

respectively, associated with its collar and option contracts entered into to reduce its exposure to currency exchange rate changes in connection with the British pound denominated cash portion of the acquisition of Rexam, further discussed in Note 4. Other charges in the first six months of 2015 included \$1 million for insignificant activities.

6. Receivables

(\$ in millions)	June 30, 2016	December 31, 2015
Trade accounts receivable	\$ 1,529	\$ 759
Less allowance for doubtful accounts	(5)	(5)
Net trade accounts receivable	1,524	754
Other receivables	386	131
	\$ 1,910	\$ 885

The company has entered into several regional committed and uncommitted accounts receivable factoring programs with various financial institutions for certain receivables of the company. The programs are accounted for as true sales of the receivables, without recourse to Ball, and had combined limits of approximately \$789 million at June 30, 2016. A total of \$748 million and \$479 million were sold under these programs as of June 30, 2016, and December 31, 2015, respectively. Included within other receivables is \$235 million of amounts due from Ardagh for the sale of the Divestment Business.

7. Inventories

(\$ in millions)	June 30, 2016	December 31, 2015
------------------	------------------	-------------------------

Raw materials and supplies	\$ 624	\$ 438
Work-in-process and finished goods	892	504
Less inventory reserves	(33)	(44)
	\$ 1,483	\$ 898

8. Property, Plant and Equipment

	June 30, 2016	December 31, 2015
(\$ in millions)		
Land	\$ 101	\$ 70
Buildings	1,201	1,023
Machinery and equipment	4,722	3,904
Construction-in-progress	508	408
	6,532	5,405
Accumulated depreciation	(2,136)	(2,719)
	\$ 4,396	\$ 2,686

Property, plant and equipment are stated at historical or acquired cost. Depreciation expense amounted to \$68 million and \$133 million for the three and six months ended June 30, 2016, respectively, and \$62 million and \$121 million for the comparable periods in 2015, respectively.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

9. Goodwill

(\$ in millions)	Metal Beverage Packaging, Americas & Asia	Metal Beverage Packaging, Europe	Food & Aerosol Packaging	Aerospace	Corporate & Other	Total
Balance at December 31, 2015	\$ 739	\$ 817	\$ 612	\$ 9	\$ —	\$ 2,177
Business acquisitions	—	—	—	31	3,767	3,798
Business dispositions	(31)	(783)	—	—	—	(814)
Effects of currency exchange rates	—	28	3	—	(9)	22
Balance at June 30, 2016	\$ 708	\$ 62	\$ 615	\$ 40	\$ 3,758	\$ 5,183

The increase in goodwill in the corporate and other segment is related to the acquisition of Rexam discussed in Note 4. The decrease of goodwill in business dispositions represents the sale of the Ball portion of the Divestment Business. As a result of the divestiture to Ardagh of certain Ball assets in Brazil and Europe, the company performed goodwill impairment tests of these reporting units before and after the divestment. No impairment was identified prior to, or after the divestiture.

The company's annual goodwill impairment test completed in the fourth quarter of 2015 indicated the fair value of the metal beverage packaging, Asia (Beverage Asia) reporting unit exceeded its carrying amount by approximately 25 percent. The current industry supply of metal beverage packaging exceeds demand in China, resulting in pricing pressure and negative impacts on the profitability of our Beverage Asia reporting unit. If it becomes an expectation that this oversupply situation will continue for an extended period of time, the company may be required to record a noncash impairment charge for some or all of the goodwill associated with the Beverage Asia reporting unit, the total balance of which was \$78 million at June 30, 2016.

10. Intangible Assets, net

Edgar Filing: BALL CORP - Form 10-Q

(\$ in millions)	June 30, 2016	December 31, 2015
Rexam customer relationships (net of accumulated amortization of \$0 million at June 30, 2016)	\$ 1,840	\$ —
Capitalized software (net of accumulated amortization of \$97 million at June 30, 2016, and \$116 million at December 31, 2015)	66	77
Other intangibles (net of accumulated amortization of \$136 million at June 30, 2016, and \$133 million at December 31, 2015)	146	118
	\$ 2,052	\$ 195

Total amortization expense of intangible assets amounted to \$10 million and \$20 million for the three and six months ended June 30, 2016, respectively, and \$9 million and \$19 million for the comparable periods in 2015, respectively.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

11. Other Assets

(\$ in millions)	June 30, 2016	December 31, 2015
Long-term deferred tax assets	\$ 557	\$ 60
Investments in affiliates	201	34
Company and trust-owned life insurance	154	137
Other	324	70
	\$ 1,236	\$ 301

12. Debt and Interest Costs

Long-term debt consisted of the following:

(\$ in millions)	June 30, 2016	December 31, 2015
Senior Notes		
5.25% due July 2025	\$ 1,000	\$ 1,000
4.375% due December 2020	1,000	1,000
4.00% due November 2023	1,000	1,000
4.375%, euro denominated, due December 2023	777	760
5.00% due March 2022	750	750
3.50%, euro denominated, due December 2020	444	435
Senior Credit Facilities, due March 2021 (at variable rates)		
Term A loan, due March 2021	1,400	—
Term A loan, euro denominated, due March 2021	1,222	—
Multi-currency euro revolver due March 2021 at variable rate	407	—
Multi-currency USD revolver due March 2021 at variable rate	205	—
Latapack-Ball Notes Payable, denominated in various currencies (2016 - 4.64 %; 2015 - 4.35%)	140	168

Edgar Filing: BALL CORP - Form 10-Q

Rexam		
4.15% due 2022	457	—
4.5% due 2022	176	—
4.30% due 2024	210	—
Euro Revolver	608	—
Subordinated bond	833	—
Rexam Other	489	—
Other (including debt issuance costs)	(83)	(85)
	11,035	5,028
Less: Current portion of long-term debt	(2,801)	(54)
	\$ 8,234	\$ 4,974

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Following is a summary of debt refinancing and other costs included in the unaudited condensed consolidated statements of earnings:

(\$ in millions)	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
Debt Refinancing and Other Costs:				
Interest expense on 3.5% and 4.375% senior notes	\$ (25)	\$ —	\$ (49)	\$ —
Economic hedge - interest rate risk	(4)	5	(20)	5
Refinance of bridge and revolving credit facilities	(17)	(5)	(30)	(5)
Amortization of unsecured, committed bridge facility financing fees	—	(5)	(7)	(7)
Redemption of 6.75% and 5.75% senior notes, due September 2020 and May 2021, respectively, and refinance of senior credit facilities	—	—	—	(58)
	\$ (46)	\$ (5)	\$ (106)	\$ (65)

At June 30, 2016, taking into account outstanding letters of credit and excluding availability under the accounts receivable securitization program, approximately \$854 million was available under the company's long-term, revolving credit facility. In addition to this facility, the company had approximately \$601 million of short-term uncommitted credit facilities available at June 30, 2016, of which \$324 million was outstanding and due on demand. At December 31, 2015, the company had \$24 million outstanding under short-term uncommitted credit facilities. Short-term debt and current portion of long-term debt on the balance sheet includes the company's borrowings under its existing accounts receivable securitization program. There were no amounts outstanding at June 30, 2016, or December 31, 2015. This program, which has been amended and extended from time to time, is scheduled to mature in June 2017 and allows the company to borrow against a maximum amount of accounts receivable that varies between \$90 million and \$140 million depending on the seasonal accounts receivable balances in the company's North American packaging businesses.

In connection with the acquisition, Ball assumed Rexam debt of approximately \$2.8 billion. Subsequent to June 30, 2016, approximately \$2.7 billion of the debt was extinguished.

The fair value of long-term debt was estimated to be \$11 billion at June 30, 2016, which approximated its carrying value of \$11 billion. The fair value was estimated to be \$5.2 billion at December 31, 2015, which approximated its carrying value of \$5.1 billion. The fair value reflects the market rates at each period end for debt with credit ratings similar to the company's ratings and is classified as Level 2 within the fair value hierarchy. 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 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. Note 20 contains further details, as well as required unaudited condensed consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries as defined in the senior notes agreements.

The U.S. note agreements, bank credit agreement, and accounts receivable securitization agreement contain certain restrictions relating to dividend payments, share repurchases, investments, financial ratios, guarantees and the incurrence of additional indebtedness. The most restrictive of the company's debt covenants requires the company to maintain a leverage ratio (as defined) of no greater than 5.5, and changes to 5.0 on December 31, 2016, and to 4.0 on December 31, 2017. The company was in compliance with all loan agreements and debt covenants at June 30, 2016, and December 31, 2015, and has met all debt payment obligations. As of June 30, 2016, the amounts disclosed as available under the company's long-term multi-currency committed revolving facilities and the short-term uncommitted credit facilities are fully available without violating our existing debt covenants.

In February 2015, Ball entered into the 2018 Revolver to replace its then existing approximate \$1 billion revolving credit facility, repay its \$93 million Term C loan, repay the outstanding balance on the existing revolving credit facility,

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

redeem the 2020 and 2021 senior notes and repay the existing private placement debt of Rexam upon closing of the acquisition of Rexam. The 2018 Revolver would have expired in February 2018 and accrued interest at LIBOR plus an applicable margin based on the net leverage ratio of the company, which varies from 1.25 percent to 1.75 percent. In June 2015, Ball issued \$1 billion of 5.25 percent senior notes due in July 2025. Ball used the net proceeds of this offering and other available cash to repay borrowings under the 2018 Revolver and reduce the borrowing capacity under the 2018 Revolver from \$3 billion to \$2.25 billion.

Also in February 2015, the company entered into a £3.3 billion Bridge Facility, pursuant to which lending institutions agreed, subject to limited conditions, to provide financing necessary to pay the cash portion of the purchase price payable to Rexam shareholders upon consummation of the acquisition of Rexam and related fees and expenses. The interest rate for the Bridge Facility can vary, not to exceed 7.0 percent per annum. In December 2015, the availability under the Bridge Facility was reduced to £1.9 billion.

In March 2015, Ball redeemed its outstanding 6.75 percent senior notes and 5.75 percent senior notes due in September 2020 and May 2021, respectively, at a price per note of 103.375 percent and 106.096 percent, respectively, of the outstanding principal amounts, plus accrued interest.

In December 2015, the company issued \$1 billion of 4.375 percent senior notes, €400 million of 3.5 percent senior notes, all due in December 2020, and €700 million of 4.375 percent senior notes, due in December 2023. Subsequent to June 30, 2016, the company used the proceeds to pay a portion of the cash purchase price payable in the Rexam acquisition. The company elected to restrict these proceeds in an escrow account, which enabled the reduction of its Bridge Facility capacity from £3.3 billion to £1.9 billion. Until the Rexam acquisition was consummated, interest on these senior notes was being recorded in debt refinancing and other costs.

In March 2016, Ball refinanced in full the Bridge Facility with a \$1.4 billion term A loan facility available to Ball and a €1.1 billion term A loan facility available to a subsidiary of Ball (collectively, the Term Loans), and refinanced in full the 2018 Revolver with the 2021 Revolver, in each case under a secured, five-year credit agreement.

Fees paid in connection with obtaining financing, which totaled \$32 million during six months ended June 30, 2016, are classified as other, net in cash flows from financing activities in the unaudited condensed consolidated statements of cash flows.

13. Employee Benefit Obligations

(\$ in millions)	June 30, 2016	December 31, 2015
Underfunded defined benefit pension liabilities	\$ 1,178	\$ 705
Less current portion and prepaid pension assets	(208)	(17)
Long-term defined benefit pension liabilities	970	688
Retiree medical and other postemployment benefits	251	148
Deferred compensation plans	263	281
Other	43	30
	\$ 1,527	\$ 1,147

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

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

(\$ in millions)	Three Months Ended June 30,			2015		
	2016 U.S.	Foreign	Total	U.S.	Foreign	Total
Ball-sponsored plans:						
Service cost	\$ 12	\$ 3	\$ 15	\$ 13	\$ 4	\$ 17
Interest cost	15	5	20	14	4	18
Expected return on plan assets	(18)	(5)	(23)	(20)	(5)	(25)
Recognized net actuarial loss	8	1	9	10	2	12
Settlements/curtailments/special termination	—	80 (a)	80	—	—	—
Net periodic benefit cost for Ball-sponsored plans	17	84	101	17	5	22
Net periodic benefit cost for multiemployer plans	—	—	—	1	—	1
Total net periodic benefit cost	\$ 17	\$ 84	\$ 101	\$ 18	\$ 5	\$ 23

(a) Amount relates to plans transferred to the Divestment Business.

(\$ in millions)	Six Months Ended June 30,			2015		
	2016 U.S.	Foreign	Total	U.S.	Foreign	Total
Ball-sponsored plans:						
Service cost	\$ 24	\$ 6	\$ 30	\$ 26	\$ 7	\$ 33
Interest cost	30	9	39	29	9	38
Expected return on plan assets	(36)	(9)	(45)	(40)	(10)	(50)
Amortization of prior service cost	(1)	—	(1)	(1)	—	(1)
Recognized net actuarial loss	16	3	19	20	5	25
Settlements/curtailments/special termination	—	80 (a)	80	—	—	—
Net periodic benefit cost for Ball-sponsored plans	33	89	122	34	11	45
Net periodic benefit cost for multi-employer plans	1	—	1	1	—	1
Total net periodic benefit cost	\$ 34	\$ 89	\$ 123	\$ 35	\$ 11	\$ 46

(a) Amount relates to plans transferred in the Divestment Business.

Contributions to the company's defined benefit pension plans, not including the unfunded German plans, were \$28 million in the first six months of 2016 and insignificant in the first six months of 2015, and are expected to be in the range of \$260 million for the full year of 2016. This estimate may change based on any changes to the U.S. Pension Protection Act and actual plan asset performance, among other factors. Payments to participants in the unfunded German plans were \$9 million in the first six months of 2016 and are expected to be in the range of \$18 million for the full year of 2016.

Ball acquired 11 pension plans and 2 retiree medical plans in the Rexam acquisition, and divested existing plans both in the US and in certain foreign countries. Rexam agreed to establish and fund an escrow cash account in the amount of \$173 million, on behalf of the acquired Rexam UK pension plan and which was contributed into the UK pension plan in July, 2016. This escrow cash account has been included in the June 30, 2016 balance sheet as long-term restricted cash in noncurrent assets.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

14. Shareholders' Equity and Comprehensive Earnings

Accumulated Other Comprehensive Earnings (Loss)

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

		Pension and		
	Foreign	Other	Effective	Accumulated
	Currency	Postretirement	Derivatives	Other
(\$ in millions)	Translation	(Net of Tax)	(Net of Tax)	Comprehensive