ARRHYTHMIA RESEARCH TECHNOLOGY INC /DE/
Form 10-K
March 20, 2015

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, 2014
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
001-9731
(Commission file number)
ARRHYTHMIA RESEARCH TECHNOLOGY, INC.
(Name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation of organization)	72-0925679 (IRS Employer Identification Number)
25 Sawyer Passway, Fitchburg, MA (Address of principal executive offices)	01420 (Zip Code)
(978) 345-5000 (Registrant's telephone number)	

Securities Registered pursuant to Section 12 (b) of the Act:

Common Stock, $.01 par value (Title of Each Class)	NYSE MKT (Name of each exchange on which registered)

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 if the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers in response 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. o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. (Check one):

Large Accelerated filer o Accelerated filer o Non-Accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: $16,472,399.

On March 20, 2015, there were 2,779,439 shares of the registrant's common stock, par value $.01, outstanding, which is the only class of common or voting stock of the issuer.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days following the fiscal year ended December 31, 2014. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

Arrhythmia Research Technology, Inc.
TABLE OF CONTENTS

Part I	Item 1	Business	1
	Item 1A	Risk Factors	6
	Item 1B	Unresolved Staff Comments	10
	Item 2	Properties	10
	Item 3	Legal Proceedings	10
	Item 4	Mine Safety Disclosures	10
Part II	Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
	Item 6	Selected Financial Data	11
	Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
	Item 7A	Quantitative and Qualitative Disclosures about Market Risk	18
	Item 8	Financial Statements and Supplementary Data	18
	Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	18
	Item 9A	Controls and Procedures	18
	Item 9B	Other Information	19
Part III	Item 10	Directors, Executive Officers and Corporate Governance	20
	Item 11	Executive Compensation	20
	Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	20
	Item 13	Certain Relationships and Related Transactions and Director Independence	20
	Item 14	Principal Accountant Fees and Services	20
Part IV	Item 15	Exhibits and Financial Statement Schedules	20
		Signatures	21
Exhibit Index			22

PART I

Item 1. BUSINESS

OVERVIEW

Arrhythmia Research Technology®, Inc., a Delaware corporation ("ART"), through its wholly-owned Massachusetts subsidiary, Micron Products®, Inc. (“Micron” and together with ART, the "Company"), is a diversified contract manufacturing organization (“CMO”) that produces highly-engineered, innovative medical device technologies requiring precision machining and injection molding. The Company also manufactures components, devices and equipment for military, law enforcement, industrial and consumer product applications. The Company is engaged in the production and sale of silver/silver chloride coated and conductive resin sensors used as consumable component parts in the manufacture of integrated disposable electrophysiological sensors. These disposable medical devices are used worldwide in the monitoring of electrical signals in various medical applications. The Company's orthopedic implant manufacturing operation produces quick-turn, high volume and patient-specific finished orthopedic implants. The Company has custom thermoplastic injection molding capabilities as well, and provides a full array of design, engineering, production services and management. The Company competes globally, with nearly half of its revenue derived from exports. The Company was formed in 1986 and its shares have traded on the NYSE MKT (formerly AMEX) since 1992 under the symbol HRT.

Micron's strategy for growth is to build a best-in-class quality organization and capitalize on the Company's engineering design expertise and reliable, proprietary manufacturing processes to further penetrate the medical device contract manufacturing market.

ART's wholly-owned Pennsylvania subsidiary, RMDDxUSA Corp, ("RMDDxUSA") and that subsidiary's Prince Edward Island subsidiary, RMDDx Corporation ("RMDDx" and, collectively with RMDDxUSA, sometimes referred to as “WirelessDx”) discontinued operations in the third quarter of 2012 and filed a voluntary petition for relief under Chapter 7 (Liquidation) of the United States Bankruptcy Code in May 2014. It is anticipated that the trustee overseeing RMDDxUSA Corp’s bankruptcy estate will take the steps necessary to close the bankruptcy case in 2015. The results of WirelessDx are presented as discontinued operations throughout the financial statements and footnotes included elsewhere in this Form 10-K.

Products and Services

Sensors

Micron is a manufacturer and distributor of silver-plated and non-silver plated conductive resin sensors for use in the manufacture of disposable electrodes for electrocardiogram ("ECG") diagnostic, monitoring and related instrumentation. Micron's sensors consist of a molded plastic substrate plated with a silver/silver chloride surface, which is a highly sensitive conductor of electrical signals. Silver/silver chloride-plated disposable electrodes are utilized in coronary care units, telemetry units, and for other monitoring purposes. In addition to the traditional ECG tests, disposable electrodes incorporating Micron’s sensors are used in connection with stress tests, Holter monitoring, and event recorders.

Micron also manufactures sensors and conductive plastic studs used in the manufacture of radio translucent electrodes. The radio translucent conductive plastic studs are manufactured with uniquely engineered resin to enable electrical conductivity between the sensor and the recording instrument without the use of a metal snap. The radio translucent electrodes are virtually invisible to X-rays and are preferred in some medical environments such as nuclear medicine, cardiac catheterization laboratories, and certain stress procedures. Micron also manufactures the mating conductive resin snaps, which replace traditional metal snap fasteners in the radio translucent applications. These sensors and snaps have undergone testing and received a MR-Conditional certification in accordance with the American Society for Testing and Materials (ASTM) designations F2052-06e1, F2182-09 and F2119-07 from a licensed, accredited, independent testing laboratory. Other custom designed sensors are manufactured for specific unique applications in the electroencephalogram (EEG), electro-muscular stimulation (EMG) or thermo-electrical neural stimulation (TENS) markets.

Orthopedic Implant Components

The Company is a contract manufacturer of orthopedic implant components for full and partial knee replacements including femorals, tibial trays and inserts with capabilities that include investment castings (F-75), machining wrought bar (F-75 CrCo, F-136 Ti 6A-4V ELI), machining ultra-high-molecular-weight polyethylene (UHMWPE), medical grade finishing, ultrasonic cleaning and passivation. The manufacturing process includes computer aided design ("CAD") and computer numerical controlled ("CNC") metal machining of personalized orthopedic implant components as well as higher volume components of similar geometries. The Company deploys the latest technologies in computer aided design and computer aided manufacturing (CAD/CAM) with 5-axis CNC machining centers. These products involve complex programming and machining of wrought and cast cobalt-chromium-molybdenum alloy and titanium as well as high molecular weight polymers to customer specifications. The Company brings implant components to a highly polished state and offers sterilization and packaging services. The Company produces superior curved machined surfaces on high molecular weight polymers to complete the implant kit. From patient-specific,

---

where each implant is a different geometry, to standard-sized products, each requires precision, speed, and adherence to the most stringent of quality standards. Additional capabilities include laser marking, automated polishing and stereolithography.

Plastic Injection Molding

The Company's plastic injection molding services are especially suited to consumable medical products and medical device components. Micron's capabilities meet the needs of customers who require very high quality parts, clean room molding, and close tolerance specifications. The Company offers automation and in-cycle vision inspection. Micron's ITAR registration and Federal Firearms license assures military and defense customers that their stringent regulatory requirements can be met. The Company offers other value added services including packaging, assembly with outsourced and internally produced metal components, clean room manufacturing, and specialty coatings.

Other Products and Services

The Company provides its customers with key value added services, including the design, manufacture, and rehabilitation of injection molding tools. These capabilities leverage significant cost savings and speed by vertically integrating mold making and repair into the Company's sensor and custom injection molding businesses. The Company's engineers and mold designers work with customers' product development engineers to design and produce unique tooling for their products. The Company creates a sustainable partnership with the customers from prototyping to full scale production. The design and manufacture of tooling is an indicator of future product revenue.

The Company's product life cycle management program is focused on the integration of plastic and metal components into sub-assemblies. The value added service of in-house production capabilities combined with a network of subcontracted specialty coatings, metallurgical treatments, and unique production capabilities has enabled the Company to diversify its capabilities to include defense industry consumables and equipment sub-assemblies.

Customers and Net Sales

The Company offers its products and services to customers of all sizes, including large original equipment manufacturers (OEMs) and other manufacturers of medical devices and CMOs. The Company manufactures products upon receipt of purchase orders. The Company generally does not receive purchase volume commitments extending beyond several months; however, the Company has a track record of establishing long term relationships with customers that results in repeat business year over year.

During the year ended December 31, 2014, the Company had net sales to four customers constituting 15%, 13%, 12% and 10%, respectively, of total 2014 net sales. Accounts receivable from these four customers at December 31, 2014 were 11%, 9%, 15% and 14%, respectively, of the total accounts receivable balance at year end. During the year ended December 31, 2013, the Company had net sales to two customers constituting 16% and 15%, respectively, of total 2013 net sales. Accounts receivable from these two customers at December 31, 2013 was 16% and 10%, respectively, of the total accounts receivable balance at year end.

Net sales to the largest four customers accounted for 50% of total net sales in 2014 compared to 46% of total net sales in 2013. In 2014, the Company's largest four customers represented three of the Company's product lines as compared to the largest four customers in 2013 representing only two product lines.

The following table sets forth, for the periods indicated, the consolidated revenue from continuing operations and percentages of revenue derived from the sale of the Company's products and services in certain industries.

	Revenue for the Years Ended December 31,			
	2014	%	2013	%
Medical	$19,714,328	82	$17,459,309	82
Industrial	1,753,946	7	1,382,913	6
Military and Law Enforcement	1,358,568	6	1,499,428	7
Consumer Products	852,030	3	618,361	3
Other	391,420	2	381,041	2
Total	$24,070,292	100	$21,341,052	100

The following table sets forth, for the periods indicated, the consolidated revenue from continuing operations and percentages of revenue derived from the sales of all of the Company's products and services by geographic market.

2

	Revenue for the Years Ended December 31,			
	2014	%	2013	%
United States	$13,050,717	54	$11,642,242	55
Asia	5,168,283	21	3,676,854	17
Canada	3,791,229	16	3,625,470	17
Europe	1,344,098	6	1,639,986	8
Other	715,965	3	756,500	3
Total	$24,070,292	100	$21,341,052	100

While some risks exist in foreign markets, the Company’s customers have historically been based in stable regions. To reduce the risks associated with foreign shipment and currency exchange fluctuations, the title to most of the products are transferred to the customers when shipped, and payment is required in U.S. Dollars.

Marketing and Competition

The Company markets its capabilities and services to current and potential customers to provide full product life-cycle support to their product manufacturing needs. The Company's sales force leverages their long standing relationships, targeting new and potential customers through direct marketing, and regularly attending industry trade shows. The Company provides complex value added U.S. based manufacturing capabilities with plating/coating, injection molding, machining, mold making, maintenance and repair. Customers seek the Company's ability to produce complex products on their time lines and to their specifications. Micron’s ISO 13485:2003 and ISO 9001:2008, registrations, the international quality standards for medical devices and manufacturing, qualify Micron to further expand into products requiring tight controls and high standards. The Company’s International Traffic in Arms Regulation ("ITAR") registration with the U.S. Department of State ("State Department") allows the Company to compete in military and law enforcement applications restricted by export controls and the U.S. Department of Defense ("DOD"). Micron also holds a class 10 federal firearms license for manufacture of products for the military and law enforcement.

The Company's U.S. based manufacturing capabilities compete in a large global and highly competitive market. Free trade agreements increase global competition, making every company in the same manufacturing arena around the world a potential customer or competitor. To meet this challenge, the Company focuses its development efforts on complex engineered products. Some of these products require specialty material, such as engineered resins. The Company has over forty years of experience in some product areas with long customer relationships and has developed competitive advantages through decades of constant process improvement and utilization of Lean/Six Sigma principles. The Company competes on the basis of quality and speed to market. The Company also believes its expertise in manufacturing and processes to comply with governmental regulations governing medical devices provides a competitive advantage in the marketplace. To remain competitive and to expand market share, the Company invests in training and educating its workforce, expanding manufacturing capacity and automating processes to increase productivity.

Manufacturing and Suppliers

The Company has registered its facilities with the U.S. Food and Drug Administration ("FDA") as well as under the State Department's ITAR registration. Micron is ISO 13485:2003, 9001:2008, 14001:2010 and OHSAS 18001:2010 registered. Micron's injection molding machine capacity ranges from 15 to 300 tons and includes a class 10,000 clean room. Machining, mold making and tooling capabilities include 4 and 5 axis CNC, electrical discharge machining ("EDM"), milling, turning and grinding. Surface coating capabilities include electroplating, electroless plating, passivation and polishing. A skilled employee base provides expertise in engineering, complex manufacturing, materials, process control, quality, and automation.

While some customers may require highly engineered raw materials, the Company also uses commodity raw materials as the basis for its value-added manufacturing operations. Many of these commodities are widely available from multiple sources. Some specialty plastics are single sourced and, in a few cases, proprietary to the products the Company manufactures. The Company monitors the supply chain for commodity materials to manage availability in case of breaks in the global supply chain. For many products, the Company is one step in a complex supply chain for OEM customers. This requires coordination with upstream and downstream vendors in the supply chain. Coordination

of production scheduling is imperative to meeting customer expectations.
Inventory Requirements
The Company holds inventory of raw materials, work in process, and finished goods.
The Company manages inventory levels to balance customer delivery requirements, manufacturing production scheduling efficiencies and supply chain coordination from suppliers and to customers. In many cases, the Company produces to a purchase order in a single production run to optimize production efficiency and holds inventory for customers to support multiple delivery dates. The Company also has customers for whom it holds inventory as a part of its manufacturing agreement. Customers benefit

---

from Micron's ability to hold inventory on their behalf for just-in-time deliveries while the Company benefits from being able to optimize efficiencies of production scheduling and raw material volume purchasing.

Research and Development

Research and development efforts include the development of a unique process to improve silver coating during the manufacturing processes, including the design and testing of specific process improvements for certain medical device components. The Company also conducts customer funded research and development of new products in the military and law enforcement industry.

Patents and Proprietary Technology

The Company develops and utilizes proprietary manufacturing processes to establish and maintain a competitive advantage. By having internal engineering, mold making, automation and manufacturing expertise, the Company is able to develop specialized processes throughout the product development and product manufacturing cycle.

Government Regulation

The Company's operations are subject to government regulations which establish compliance standards. As a result, there may be additional costs incurred to comply with such regulations in order to participate in certain markets. The medical device industry in particular requires strict compliance with governmental standards. The Company believes its expertise in manufacturing and processes to comply with these regulations provides a competitive advantage in the marketplace. The FDA and the European Union equivalent ("CE Mark") promulgate quality systems requirements under which a medical device is to be developed, validated and manufactured. The DOD, Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) and the State Department also impose regulations on the production and transfer of certain goods and technical data. Because customers own the product designs, they may be directly subject to such regulations. The development or manufacture of such products must be managed in accordance with applicable regulatory requirements and any special controls required by customers. The Company's manufacturing facilities are subject to periodic inspections by the FDA to determine compliance with the quality system and medical device reporting regulations and other requirements.

Conflict Minerals

The Financial Reform Bill (H.R. 4173) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the Dodd-Frank Act, imposed reporting requirements relating to the use of a group of minerals extracted from the Democratic Republic of Congo ("DRC") and surrounding regions. These minerals are known as “Conflict Minerals” and include tin, tungsten, tantalum and gold. The Company uses tin in parts of its production and has confirmed with its suppliers that none of the tin or tin concentrates used by the Company in the production of products originate from the DRC or surrounding regions.

Environmental Regulation

The Company's operations involve use of hazardous and toxic materials and generate hazardous, toxic and other regulated wastes. Its operations are subject to federal, state and local laws, regulations and directives governing the use, storage, handling and disposal of such materials and certain waste products. In 2012, Micron was certified as having met the international standards of ISO 14001:2010 and OHSAS 18001:2007, demonstrating its commitment to and performance of the highest standards of environmental controls and occupational health and safety standards. Micron has developed a system of compliance under the ISO certification and has introduced many new initiatives including the use of solar energy to benefit from renewable energy generation and reduce overall costs associated with production. A program is in place to reduce the Company's environmental footprint. The Company also works closely with state and local officials to ensure compliance with current and proposed regulations while supporting a regulatory environment that allows complex manufacturing to be competitive globally.

Seasonality

In general, the Company does not experience significant seasonality in its business. However, as a component supplier within broad manufacturing supply chains, occasional seasonal adjustments to production schedules may impact timing of orders from customers and consequently result in quarterly fluctuations in revenue.

Employees

As of December 31, 2014, the Company had a total of 119 full time employees as compared to 108 at December 31, 2013. Management believes that continued success will depend on its ability to retain and recruit skilled personnel.

The Company has never had a work stoppage and none of the Company's employees are represented by a union. Management believes the Company has a good relationship with its employees.

Periodic Reporting and Financial Information

The Company registered its common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and has reporting obligations, including the requirement that it file annual and quarterly reports with the SEC. The public may

4

read and copy materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the hours of 10:00 am to 3:00 pm. You may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. The Company also makes available through its website the annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports as soon as reasonably practical after filing with the SEC. Its website address is http://www.arthrt.com. Information on the Company's website is not part of this Annual Report on Form 10-K.

Item 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating the Company and its business. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that the Company does not presently know or that are currently not deemed significant to the Company's business may also impair the Company's business, results of operations and financial condition.

The Company's operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of the Company's control. These factors include:

- the Company's ability to retain order volumes from customers who represent high proportions of revenue;
- the Company's ability to maintain the pricing model, offset higher costs with price increases and/or decrease the cost of sales;
- the variability of customer delivery requirements and the ability of the Company to anticipate and respond thereto;
- the level of sales of higher margin products and services and the Company's ability to increase such sales;
- the Company's ability to renew its credit facility and manage its level of debt which makes the Company sensitive to the effects of economic downturns; the Company's level of debt and provisions in the debt agreements could limit the Company's ability to react to changes in the economy or its industry;
- the Company's failure to comply with the financial and other covenants contained in its credit facility, including as a result of events beyond its control, which could result in an event of default, and adversely affect the Company's operating results and financial condition;
- volatility in commodity and energy prices and the Company's ability to offset higher costs with price increases;
- continued availability of supplies or materials used in manufacturing at competitive prices;
- the amount and timing of investments in capital equipment, sales and marketing, engineering and information technology resources;
- the Company's ability to attract and retain employees with the skills to meet the technically complex demands of manufacturing;
- entrance of competitive products and services in the Company's markets;
- the Company's ability to execute plans and motivate personnel in the execution of those plans;
- the Company's ability to protect and retain trade secrets related to the Company's manufacturing processes;
- adverse claims relating to the Company's intellectual property and product liability claims affecting the Company's products;
- adoption of new, or changes in, accounting principles; and passage of new, or changes in regulations;
- other risks referenced from time to time elsewhere in this report and in the Company's filings with the SEC;
- adverse regulatory developments specifically healthcare policy changes, environmental and other regulatory changes;
- the costs inherent with complying with statutes and regulations applicable to public reporting companies, such as the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;
- the Company's ability to efficiently integrate future acquisitions and new lines of business that the Company may enter in the future, if any;
- the Company's ability to maintain compliance with the NYSE MKT requirements for continued listing of the Company's common stock in which event the Company's securities may be delisted from the NYSE MKT which could limit investors' ability to effect transactions in the Company's securities and subject the stock to additional trading restrictions; and
- general economic conditions.

As a response to changes in the competitive environment, the Company may from time to time make certain pricing, service, technology or marketing decisions, or business or technology acquisitions, or experience fluctuations or reductions in customer orders that could have a material adverse effect on the quarterly and annual results. Due to all of these factors, the operating results may fall below the expectations of stockholders and investors in any future period and make period to period comparisons difficult.

The Company is dependent on a limited number of large customers. The loss of, or inability to retain order volumes from, one or more of these customers, could have an adverse effect on the Company's financial results.

During the year ended December 31, 2014, the Company had net sales to four customers constituting 15%, 13%, 12% and 10%, respectively, of total 2014 net sales. Accounts receivable from these four customers at December 31, 2014 were 11%, 9%, 15% and 14%, respectively, of the total accounts receivable balance at year end. During the year ended December 31, 2013, the Company had net sales to two customers constituting 16% and 15%, respectively, of total 2013 net sales. Accounts receivable from these two customers at December 31, 2013 was 16% and 10%, respectively, of the total accounts receivable balance at year end.

Sales to the largest four customers accounted for 50% of total net sales in 2014 compared to 46% of total net sales in 2013. Large corporations can change their demand for the Company's products and services with little or no warning making it

difficult to forecast beyond the current or next quarter. In the case of precious metal plating, customer purchase arrangements take into account the fluctuating price of precious metals.

The loss of, or significant reduction in order volume, from one or more of these customers, could have an adverse effect on the Company's financial results. One of these customers advised the Company to expect lower demand in 2015 versus 2014.

Quarter to quarter variables, such as customer mix and profitability by product line, can be expected to result in fluctuations in quarterly results and make quarter to quarter comparisons difficult.

In 2014, the Company continued its trend toward diversification of its largest customers. In 2014, the Company's four largest customers represented three of the Company's product lines as compared to the Company's four largest customers in 2013 representing only two product lines. This trend toward a broader customer mix results in additional variables which can affect operating results product mix, product line gross margins and customer ordering patterns. The Company believes that as it continues to develop its higher margin business and as its commodity products continue to see price compression and competitive pressures, the Company will continue to see fluctuations in quarterly revenue and earnings, which could make quarter to quarter and year over year comparisons difficult.

If the Company is unable to keep up with rapid technological changes, the processes or services it offers, or products it manufactures, may become obsolete or if the Company is no longer able to effectively manufacture, market and distribute these products, it could have a material adverse effect on the Company's financial condition.

In fiscal years 2014 and 2013, the Company derived 46% and 47%, respectively, of its net sales from a single product line. While the technology used in this product line has been used for many years, there is no assurance that a new patented or unpatented technology might not replace the existing technology. Any substantial technological advance that eliminates this product line could have a material adverse effect on the Company's operating results. The Company generally does not receive purchase volume commitments extending beyond several months. Large corporations can shift focus away from a need for the Company’s products and services with little or no warning. Additionally, should any of our large OEM customers decide to vertically integrate the manufacturing of the product line, or chose to limit the number of qualified suppliers, our operating results may be adversely impacted.

The Company's dependence on large OEM customers, which can change demand on short notice, adds to the unpredictability of quarterly sales and earnings.

The Company’s large OEM customers are not required to have purchase volume commitments extending beyond several months and often lack dependable long-term forecasts. In addition, the Company’s large OEM customers may change their demand schedule, either up or down, within a relatively short time horizon. Further, large OEM customers may choose to develop the capability of producing their own products. In addition, new customers may experience development delays, such as delays in FDA approvals, marketing delays in the development of sales channels or inadequate financing, any of which may delay the launch of new business and therefore may affect the timing of sales.

The Company's quarterly results have in the past and can be expected in the future to vary due to changes in demand within a quarter from large OEM customers. These changes in demand may also result in the Company incurring additional working capital costs and increased manufacturing unit cost due to these short-term fluctuations. The expense levels and inventory, to a large extent, are based on shipment expectations in the quarter. If sales levels fall below these expectations, through a delay in orders or otherwise, operating results are likely to be adversely affected. An inability to accurately predict customer requirements makes cost-saving measures more difficult to implement.

Although the Company seeks to leverage its demonstrated product quality and expertise to expand its customer base and lessen its dependence on a few large customers, it can provide no assurance that it will be able to materially alter this dependency in the immediate future, if at all.

The failure to repay or renew the Company's credit facility upon maturity or to comply with financial and other covenants contained therein, including as a result of events beyond the Company's control, could result in an event of default, which, if incurred, could materially and adversely affect operating results and financial condition.

The Company's credit facility contains covenants that relate to various matters including debt and leverage ratios, further borrowings and security interests, merger or consolidation, acquisitions, guarantees, sales of assets other than

inventory or obsolete equipment in the normal course of business, changes in management or ownership and payment of dividends. If there were an event of default under any of the debt instruments that was not cured or waived, the holder of the defaulted debt could cause all amounts outstanding with respect to all debt owed to it to be due and payable immediately. The Company's ability to make payments on the indebtedness depends on the ability to generate cash in the future. If the Company does not generate sufficient cash flow to meet the debt service and working capital requirements, it may need to seek additional financing. Failure to generate sufficient cash flow may result in a violation of financial covenants under the Company's debt agreements and make it more difficult to obtain financing on terms that are acceptable, or at all. Management cannot assure that the Company's assets or cash

---

flow would be sufficient to fully repay borrowings under the outstanding debt instruments, either upon maturity or upon an event of default, or that the Company would be able to extend, refinance or restructure the payments on those debt instruments.
The level of debt makes the Company more sensitive to the effects of economic downturns; the level of debt and provisions in the debt agreements could limit the Company's ability to react to changes in the economy or industry.
The level of debt makes the Company more vulnerable to changes in the results of operations. The Company's level of debt could have other negative consequences, including the following:

- Limiting the Company's ability to borrow money or sell stock for working capital, capital expenditures, debt service requirements or other general corporate purposes;
- Limiting the Company's flexibility in planning for, or reacting to, changes in operations, business or the industry in which the Company competes; and
- Leverage may place the Company at a competitive disadvantage by limiting its ability to invest in the business or in further research and development.

In addition, the Company's credit facility contains covenants that limit the flexibility in planning for or reacting to changes in the business and industry, including limitations on incurring additional indebtedness, making investments, granting liens and merging or consolidating with other companies. Complying with these covenants may impair the Company's ability to finance the future operations or capital needs or to engage in other favorable business activities.

Medical devices are subject to extensive governmental regulations relating to the manufacturing, labeling and marketing of such products and failure to comply with such regulations may adversely impact the Company’s operations and results of operations.
The medical device components the Company manufactures for its customers are subject to regulation by the FDA in the United States and other governmental authorities internationally. The process of obtaining regulatory approvals to market a medical device can be costly and time consuming for the Company's customers and approvals might not be granted for future products on a timely basis, if at all. Any such approvals may delay the Company's ability to commence production of a new or modified product. Under FDA regulations such products and the Company's manufacturing facilities are subject to periodic inspections by the FDA to determine compliance with the quality system and medical device reporting regulations and other requirements. If the Company fails to fully comply with applicable regulatory requirements, the Company or its customers may be subject to a range of sanctions, including warning letters, product recalls and the suspension of product manufacturing, monetary fines and criminal prosecution.
Failure to comply with Quality System Regulations or industry standards could result in a material adverse effect on the Company's business and results of operations.
The Company's Quality Management System complies with the requirements of ISO 13485:2003, ISO 9001:2008, and its Environmental Health and Safety policies comply with ISO 14001:2010 and OHSAS 18001: 2010, respectively. In addition the Company has registered its manufacturing facilities under ITAR and with the FDA. If the Company were not able to comply with the Quality Management System or industry-defined standards, it may not be able to fill customer orders to the satisfaction of its customers. Failure to produce products compliant with these standards could lead to a loss of customers which would have an adverse impact on the Company's business and results of operations. Violations of the ITAR, FDA and other regulations may subject the Company to significant fines or penalties, which could have an adverse impact on the Company’s results of operations.
If trade secrets are not kept confidential, the secrets may be used by others to compete against the Company.
The Company relies on trade secrets to protect its proprietary processes and there are no assurances that others will not independently develop or acquire substantially equivalent technologies or otherwise gain access to the proprietary process. Ultimately the meaningful protection of such proprietary technology cannot be guaranteed. The Company relies on confidentiality agreements with its employees. Remedies for any breach by a party to these confidentiality agreements may not be adequate to prevent such actions. Failure to maintain trade secret protection, for any reason, could have a material adverse effect on the Company.

If the Company is unable to keep up with rapid technological changes, the processes or services it offers, or products it manufactures, may become obsolete and unmarketable which may adversely impact the demand for its products and services and the Company's future prospects.

The medical device industry is characterized by continual technological change. Although the Company attempts to expand technological capabilities in order to remain competitive, the Company may be unable to effectively develop and market competitive products, processes and services, or be able to meet the manufacturing needs related to new discoveries or developments by others, on a timely basis. This may make the Company's processes, products or services obsolete or uneconomical. If the Company cannot compete effectively in the marketplace, the Company's future prospects and financial results may be adversely impacted.

The Company is subject to stringent environmental regulations.

The Company's manufacturing operations are subject to a variety of federal, state and local requirements governing the protection of the environment. These environmental regulations include those related to the use, storage, handling, discharge and disposal of toxic or otherwise hazardous materials used in or resulting from the Company's manufacturing processes. Failure to comply with environmental laws could subject the Company to substantial liability or force the Company to significantly change its manufacturing operations. In addition, under some of these laws and regulations, the Company could be held financially responsible for remedial measures if its properties are contaminated, even if it did not cause the contamination.

A product liability suit could adversely affect the Company's operating results.

The testing, manufacture, marketing and sale of the customer's and Company's medical devices and/or components, including orthopedic implants, as well as components for the military and law enforcement industry, entail the inherent risk of liability claims or product recalls. If the Company's customers are involved in a lawsuit, it is possible that the Company would also be named. Although the Company maintains product liability insurance, coverage may not be adequate. Product liability insurance is expensive, and in the future may not be available on acceptable terms, if at all. In addition, the Company may incur significant legal expenses and damage to the Company’s reputation in the event of any such claim regardless of whether the Company is found to be liable. A successful product liability claim or product recall could have a material adverse effect on the business, financial condition, and ability to market the Company's products and services in the future.

The Company could become involved in litigation over intellectual property rights.

The medical device, software and services industries have been characterized by extensive litigation regarding patents and other intellectual property rights. Litigation, including interference proceedings in the U.S. Patent and Trademark Office, which would likely result in substantial cost to the Company, may be necessary to enforce any patents issued or licensed to the Company and/or to determine the scope and validity of others' proprietary rights. In particular, competitors and other third parties hold issued patents, which may result in claims of infringement against the Company or other patent litigation.

The Company may make acquisitions of companies, products or technologies that may disrupt the business and divert management’s attention, cause the Company to incur debt or issue equity securities and adversely impact its results of operations and financial condition.

The Company may make acquisitions of complementary companies, products or technologies from time to time. Any acquisitions will require the assimilation of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Further, such activities may divert management's attention and could result in an inability to realize the expected benefits, savings or synergies from the acquisition, the loss of key personnel of the acquired company, and exposure to unexpected liabilities of the acquired company. The Company also may have to, or choose to, incur debt or issue equity securities to pay for any future acquisitions and its working capital needs. Such financing may not be available to the Company or may be on terms that involve covenants and financial ratios that may restrict the Company's ability to operate its business. The issuance of equity securities in connection with an acquired business could be substantially dilutive to the stockholders’ holdings. The Company cannot give any assurance that any such acquisitions will become profitable or remain so or will not have a material unfavorable impact on it. The Company is not currently party to any agreements, written or oral, for the acquisition of any company, product or technology.

The Company may be exposed to potential risks relating to internal control over financial reporting.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”), the SEC adopted rules requiring public companies to include a report of management on the Company’s internal control over financial reporting in their annual reports, including Form 10-K. In addition, if a reporting company is an accelerated filer or a large accelerated filer (as defined by the Exchange Act), the independent registered public accounting firm auditing a company’s financial statements must also attest to and report on the Company’s internal control over financial reporting as well as the operating effectiveness of the company’s internal control. The Company was only subject to the management evaluation and review portion of these requirements for the fiscal year ended December 31, 2014. The Company's failure to satisfy the requirements of Section 404 of SOX on an ongoing, timely basis could result in the loss of

investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Failure to comply with filing requirements of the NYSE MKT Exchange could lead to the commencement of delisting proceedings in accordance the Exchange's Company Guide. Delisting could limit investors' ability to effect transactions in the Company's securities and subject the stock to additional trading restrictions.

The Company’s common stock is listed on the NYSE MKT, a national securities exchange, or the Exchange. To maintain such listing, the Company is required to meet the continued listing requirements of the Exchange as set forth in its Company

Guide. If the Company is unable to maintain the listing of its stock on the NYSE MKT or another exchange for failure to comply with the continued listing requirements, including timely filing of Exchange Act reports and compliance with the Exchange's corporate governance requirements, the Company and its security holders could face significant material adverse consequences including a limited availability of market quotations for its stock and a decreased ability to issue additional securities or obtain additional financing in the future.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The manufacturing facilities and offices of the Company are located in multiple buildings in an industrial area in Fitchburg, Massachusetts. The first building consists of an approximately 22,000 square foot, six story building. The second building is over 94,000 square feet. A third building of approximately 40,000 square feet and a fourth building of approximately 12,000 square feet in the complex are unoccupied opportunities for expansion. The Company also owns a vacant parcel between two of the buildings with ample parking for continued growth. The Company believes its current facilities are sufficient to meet current and future production needs through the fiscal year ending December 31, 2015.

Item 3. LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is involved in various legal proceedings involving a variety of matters. The Company does not believe there are any pending legal proceedings that will have a material impact on the Company’s financial position or results of operations.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock has been listed on the NYSE MKT, formerly the American Stock Exchange, since March 1992 and trades under the ticker symbol HRT.

The following table sets forth, for the periods indicated, the high and low sale prices per share of common stock as quoted by the NYSE MKT.

Year Ended December 31, 2014	High	Low
1st Quarter	$6.98	$3.27
2nd Quarter	6.84	4.60
3rd Quarter	8.00	6.29
4th Quarter	7.95	5.50
Year Ended December 31, 2013	High	Low
1st Quarter	$2.75	$2.20
2nd Quarter	2.75	2.13
3rd Quarter	2.78	2.26
4th Quarter	4.79	2.50

As of March 20, 2015 the number of holders of the Company's common stock is estimated to be in excess of 1,500, including beneficial and record holders of our common stock.

Dividend Policy

No dividends were declared or paid in 2014 or 2013. Future determination as to the payment of cash dividends, if any, will be at the discretion of the Board of Directors and will be dependent upon the Company’s financial condition, results of operations, capital requirements, potential acquisitions, and other such factors as the Board of Directors may deem relevant, including any restrictions under any credit facilities in place now or in the future. Inasmuch as the Company's credit facility provides that the Company shall not declare, pay or authorize any dividend, except dividends payable in stock, without prior notification of the payment of dividends, the Company does not anticipate

paying a dividend in 2015.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

None.

Item 6. SELECTED FINANCIAL DATA

Not Applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussions of the Company's results of operations and financial condition should be read in conjunction with the consolidated financial statements and notes pertaining to them that appear elsewhere in this Form 10-K. Any forward-looking statements made herein are based on current expectations of the Company that involve a number of risks and uncertainties and should not be considered as guarantees of future performance. These statements are made under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by the use of words such as "expect," "anticipate," "believe," "intend," "plans," "predict," or "wil
Although the Company believes that expectations are based on reasonable assumptions, management can give no assurance that the expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements. These factors include those contained in more detail in Item 1A,"Risk Factors". The Company is under no obligation and does not intend to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.

Results of Operations

The following table sets forth, for the periods indicated, the percentages of the net sales represented by certain items reflected in the Company's statements of operations.

	Years ended December 31,			
	2014		2013	
Net sales	100.0	%	100.0	%
Cost of sales	80.7		85.8	
Gross profit	19.3	%	14.2	%
Selling and marketing	4.2		4.4	
General and administrative	9.7		12.7	
Research and development	1.7		1.6	
Other expense	1.0		1.4	
Income (loss) before income tax provision and discontinued operations	2.7		(5.9	)
Income tax provision	—		10.6	
Income (loss) from continued operations	2.7		(16.5	)
Loss from discontinued operations	—		(0.1	)
Net income (loss)	2.7	%	(16.6	)%

Net Sales

The Company's consolidated net sales for 2014 were $24,070,292, an increase of $2,729,240, or 12.8%, from total net sales of $21,341,052 in 2013. The increase in net sales was due to a 36.2% increase in net sales of orthopedic implant components as well as a 10.3% increase in net sales of sensors. Net sales of orthopedic implant components were up as a result of increased orders from the Company's third largest customer. The increase in net sensor sales was due to increased volume from both new and existing customers of 23.4%.

The Company realized rapid growth in orthopedic implant components, largely due to a buildup by one large customer of consignment inventories as part of this customer's initial launch of its implant systems. As its end use customers consume implants and new hospitals and buyers are added by the customer, demand to build consignment inventory of implants and subsequent replenishment are expected to grow over the long term.

The Company is presently engaged in manufacturing validations of new implants and instruments for other existing and new customers in this higher margin product line. The Company expects to see long-term growth in the sales of orthopedic implant components; however, the Company may continue to experience fluctuations in quarter to quarter sales.

Gross Profit

Gross profit increased by $1,605,388 during 2014, from $3,032,663 in 2013 to $4,638,051 in 2014. Gross profit as a percentage of net sales increased 5.1 points, from 14.2% in 2013 to 19.3% in 2014. The increase in gross profit was

due primarily to sales growth as a result of increased order volumes, cost controls and production efficiencies, across all product lines.

Gross profit as a percentage of net sales in the higher margin contract manufacturing of orthopedic implant components for the year ended December 31, 2014 increased by 9.9 points due in large part to increased order volume for the buildup of a

12

customers' consignment inventories as discussed in "Net Sales" above. Improved gross profit was also the result of cost controls and improved efficiencies, in part due to capital investments.

Gross profit as a percentage of net sales in the Company's sensor product line for the year ended December 31, 2014 increased by 2.6 points due primarily to efficiencies gained from increased order volume of 23.4% as compared to the same period in 2013.

The Company's custom thermoplastic injection molding also experienced modest margin improvement of 3.1 points due primarily to investments in automation for some of the Company's customers in the automotive industry. These margin improvements were partially offset by lower margins in tooling, net of deferrals, and other costs of sales.

Other cost of sales for the periods ended December 31, 2014 and 2013 also reflects cost of sales support functions such as quality, engineering, tooling maintenance and material handling. Net other cost of sales as a percentage of net sales improved to 7.6% in 2014 as compared to 8.2% in 2013.

Selling and Marketing

The Company's consolidated selling and marketing expenses increased to $1,015,279, or 4.2% of net sales, in 2014 from $949,815, or 4.4% of net sales, in 2013; an increase of $65,464 or 6.9%. In 2014, marketing and trade show expenses increased $28,686 related to the orthopedic implant components product line. Additionally, sales commissions increased $29,628 due primarily to the increase in sales of orthopedic implant components.

General and Administrative Expenses

The Company's consolidated general and administrative expenses decreased to $2,322,795, or 9.7% of net sales, in 2014 compared to $2,704,957, or 12.7% of net sales, in 2013; a decrease of $382,162 or 14.1%.

The decreases in consolidated general and administrative expenses were due in part to decreased wages, taxes and benefits of $99,625 due largely to the impact of the resignation of the former CFO in 2013, partially offset by the hiring of a staff accountant. The decrease was also due in part to a decrease in severance and travel expenses of $107,488 due largely to the resignations of both the former Interim CEO and former CFO in 2013. General and administrative expenses also decreased $44,566 as a result of the reallocation of certain labor costs, in 2014, to research and development, related to the design and testing of specific process improvements for certain medical device components.

Accounting fees were lower by $178,502, due to the elimination of audit overruns. Directors' compensation decreased in 2014 by $77,460 due to the impact of the resignation of a director in 2013 as well as stock grants to the independent directors in December 2013. Additional decreases for 2014 occurred in bank fees of $27,516 due to lower outstanding debt and a decrease in depreciation and amortization of $28,941 due primarily to computer equipment becoming fully depreciated.

The above decreases were partially offset by company-wide employee year-end bonuses of $133,973, as well as an increase in expense of $58,583, due to the engagement of an investor relations firm. Additionally, the decreases were partially offset by amortization expense of $63,087 related to the impairment of certain patents pending.

Research and Development

The Company's consolidated research and development expenses increased to $408,867, or 1.7% of net sales, in 2014 from $335,309, 1.6% of net sales, in 2013; an increase of $73,558, or 21.9%. The increase is the result of increased investments in labor costs of $100,395 related to the development of a unique process to improve silver coating during the manufacturing processes, including the design and testing of specific process improvements for certain medical device components. This increase was partially offset by an increase in capitalized labor of $20,607 related to capital improvement projects. The Company also conducts customer-funded research and development of new products in the military and law enforcement industry.

Other Income (Expense)

Other expense, net, was $227,954 in 2014 compared to $293,749 in 2013, a decrease of $65,795 primarily due to lower interest expense. Interest expense was $274,138 in 2014 compared to $319,395 in 2013, a decrease of $45,257. The decrease in interest expense was primarily due to $111,989 of interest expense in 2013 from the payoff of equipment notes and operating leases as part of entering into the new credit facility in March 2013, partially offset by increased expense as a result of increased debt.

Income Tax Provision

The Company's combined federal and state effective income tax rate from continuing operations was 0.3% and (178.7)% in 2014 and 2013, respectively. The effective rate in 2014 includes the impact of the utilization of previously reserved deferred tax assets to offset the provision. The effective rate in 2013 includes the impact of a deferred tax expense of $2,267,969 associated with the establishment of a full valuation allowance of the Company's deferred tax assets.

In the second quarter of 2013, a triggering event occurred requiring the Company to evaluate the realizability of its deferred tax assets. Management evaluated and weighed all available evidence, both positive and negative, and determined that a full valuation allowance was required.

Loss from Discontinued Operations

In September 2012, the Board, on the recommendation of management, authorized the discontinuance of operations and disposition of the assets of WirelessDx. As a result, the operations of WirelessDx are presented as discontinued operations.

There was no revenue from discontinued operations for the years ended December 31, 2014 and 2013, respectively. Net loss from discontinued operations for the years ended December 31, 2014 and 2013 were $1,779 and $19,194, respectively. Activity during the above noted periods consisted primarily of legal and other fees incurred offset by minor reversals.

At December 31, 2013, the Company had a $1.0 million liability for an unmet performance obligation related to the discontinued operations. This performance obligation was secured by $1.0 million of restricted cash. The performance guarantee liability was carried on the balance sheet of continuing operations, as the liability was guaranteed by ART. In May 2014, $975,430 was drawn from the restricted cash, satisfying the guarantee on the performance obligation. The balance of $24,570 was returned to ART and recorded as other income on the consolidated statements of operations.

Earnings Per Share

The basic and diluted earnings per share from continuing operations were $0.24 and $0.23, respectively, in 2014, as compared to basic and diluted loss per share from continuing operations of $1.30 in 2013, an increase in basic and diluted earnings per share of $1.54 and $1.53 per share, respectively.

The increase in earnings per share is due to net income available for common stockholders of $659,209 for the year ended December 31, 2014, as compared to a loss of $3,538,330 for the year ended December 31, 2013.

Off-Balance Sheet Arrangements

In March 2013, all existing operating leases were paid in full and closed as part of the new credit facility. In 2014, the Company entered into two operating leases for office equipment. Lease expense under all operating leases was approximately $4,812 and $50,781 for the periods ended December 31, 2014 and 2013, respectively.

Liquidity and Capital Resources

Working capital was $1,308,472 as of December 31, 2014 as compared to $3,479,852 at year-end 2013. Net cash provided by operating activities of continuing operations was $1,781,851 in 2014, as compared to net cash used in operating activities of continuing operations of $212,163 in 2013.

Cash on hand was $209,398 and $749,766 at December 31, 2014, and 2013, respectively. Substantially all of these funds are maintained in bank deposit accounts.

Inventories were $2,514,241 at December 31, 2014 as compared to $2,335,291 as of the same date in 2013, an increase of $178,950. This increase was due primarily to the timing of certain shipments as well as increased work in process of orthopedic implants.

Capital equipment expenditures were $1,514,678 in 2014 as compared to $1,610,152 in 2013. In 2014, capital expenditures for machinery and equipment for the manufacture of orthopedic implants totaled $245,928 as compared to $1,390,863 in 2013. Additionally, in 2014, machinery and equipment related to custom molding and sensors were $542,821 and $438,767, respectively.

In March 2013, the Company entered into a multi-year credit facility with a Massachusetts based bank. The credit facility includes a revolving line of credit (the "revolver") of up to $4.0 million, a commercial term loan of $1.5 million and an equipment line of credit of $1.0 million and is secured by substantially all assets of the Company with the exception of real property. The credit facility was used to pay off the $800,000 outstanding balance on the $3.0 million demand line of credit which was to expire in April 2013, and term notes.

The revolver provides for borrowings up to 80% of eligible accounts receivable and 50% of eligible raw materials inventory. The interest rate on the revolver is calculated at the bank's prime rate plus 0.25% (3.50% at December 31, 2014). The outstanding balance on the revolver at December 31, 2014 is $2,071,495. The revolver has a maturity date of June 2015. The Company is actively working with the bank on renewing the terms of the revolver and the

Company expects the revolver to be renewed prior to the expiration date.

The commercial term loan from the bank was used to pay off existing debt and to fund other current liabilities of continuing operations. At December 31, 2014, the outstanding amount remaining on the commercial term loan is $1,009,977. The commercial term loan has a five year term with a maturity date of March 2018 and contains certain prepayment penalties. The interest rate on the commercial team loan is a fixed 4.25% per annum.

The Company had an equipment line of credit which allowed for advances of up to $1.0 million and included a one-year draw period during which payments were interest only. The draw period ended March 29, 2014 and the then outstanding balance on the equipment line of credit of $740,999 was converted to a five-year term loan with a maturity date of March 29, 2019 with monthly payments consisting of principal and interest at a fixed rate of 4.65%. The outstanding balance of the equipment term loan at December 31, 2014 was $640,734.

On June 26, 2014, the Company entered into a new equipment line of credit for $1.0 million under the Company's multi-year credit facility. This equipment line of credit is for the purchase of capital equipment. At December 31, 2014, no amounts had been drawn on the equipment line. The term of this equipment line is six years, maturing on June 26, 2020, inclusive of a maximum one year draw period. Repayment shall consist of monthly interest only payments, equal to the bank's prime rate plus 0.25% as to each advance commencing on the date of the loan through the earlier of: (i) one year from the date of the loan or (ii) the date upon which the equipment line of credit is fully advanced (the “Conversion Date”). On the Conversion Date, principal and interest payments will be due and payable monthly in an amount sufficient to pay the loan in full based upon an amortization schedule commensurate with the remaining term of the loan.

The bank facility contains both financial and non-financial covenants. The financial covenants include maintaining certain debt coverage and leverage ratios. The non-financial covenants relate to various matters including notice prior to executing further borrowings and security interests, mergers or consolidations, acquisitions, guarantees, sales of assets other than in the normal course of business, leasing, changes in ownership and payment of dividends.

In January 2013, the Company entered into two equipment notes totaling $272,500 with a financing company to acquire production equipment. The notes bear interest at 4.66% and require monthly payments of principal and interest over the term of five years. The outstanding balance of these equipment notes at December 31, 2014 was $170,385.

In December 2013, the Company completed a private offering in which the Company sold an aggregate of $500,000 in subordinated promissory notes. The notes are unsecured and require quarterly interest-only payments at a rate of 10% per annum. On the second anniversary following issuance, the interest rate increases to 12% per annum. The notes mature in December 2016 at which point the outstanding balance is due in full. The subordinated promissory notes may be prepaid by the Company at any time following the first anniversary thereof without penalty. The notes are subordinated to all indebtedness of the Company pursuant to its March 2013 multi-year bank credit facility.

In connection with the subordinated promissory notes, the Company issued 100,000 warrants to purchase the Company's common stock. In 2014, the Company received proceeds of $105,300 from the exercise of 30,000 warrants. The warrants are exercisable through December 2016 at an exercise price of $3.51 per share.

At December 31, 2013, the Company had a $1.0 million liability for an unmet performance obligation related to the discontinued operations. This performance obligation was secured by $1.0 million of restricted cash. The performance guarantee liability was carried on the balance sheet of continuing operations, as the liability was guaranteed by ART. In May 2014, $975,430 was drawn from the restricted cash, satisfying the guarantee on the performance obligation. The balance of $24,570 was returned to ART and recorded as other income (expense) on the consolidated statements of operations. At December 31, 2014 and December 31, 2013, the Company had $0 and $1,000,000 of restricted cash, respectively.

No dividends were declared or paid in 2014 or 2013.

The Company believes that cash flows from its operations, together with its existing working capital, the revolving line of credit and other resources, will be sufficient to fund operations at current levels and repay the next twelve months of debt obligations assuming the renewal, in June 2015, of its revolving line of credit. The Company is actively working with the bank on renewing the terms of the revolver and the Company expects the revolver to be renewed prior to the expiration date.

Summary of Changes in Cash Position

As of December 31, 2014, the Company had cash on hand related to continuing operations of $209,398, a decrease of $540,368 from December 31, 2013. Net cash provided by operating activities in 2014 totaled $1,780,342. Net cash provided by operating activities of continuing operations was $1,781,851, while net cash used in operating activities of discontinued operations was $1,509. Net cash used in investing activities in 2014 was $1,506,744, all from

continuing operations. Net cash used in financing activities in 2014 totaled $815,475 all from continuing operations.
As of December 31, 2013, the Company had cash on hand of $749,766, as compared to $477,708 as of December 31, 2012, an increase of $272,058. Net cash used in operating activities in 2013 was $489,528 comprised of net cash used in operating activities of continuing operations of $212,163, and net cash used in operating activities of discontinued operations of $277,365. Net cash used in investing activities in 2013 was $1,351,089 comprised of net cash used in investing activities of continuing operations of $1,599,081, partially offset by net cash provided by investing activities of discontinued operations of $247,992. Net cash provided by financing activities in 2013 was $2,083,302, all from continuing operations.

Operating Cash Flows

Net cash provided by operating activities in 2014 was $1,780,342 due in part to net income of $659,209 and a decrease in trade accounts receivable of $262,106, due in part to lower fourth quarter sales in 2014 as compared to 2013. Net cash provided by operating activities in 2014 was also due in part to the impact of non-cash add-backs, primarily for depreciation and amortization of $1,538,893.

These items were partially offset by net cash used in inventory of $178,950, due primarily to the timing of certain shipments as well as increased work in process of orthopedic implants. Additionally, net cash was used in trade payables in 2014 of $298,875 as well as accrued expenses and other current liabilities of $294,351. The decrease in other current liabilities was due primarily to a decrease in customer deposits due to final billings for tooling products. Additionally, an increase in other non-current liabilities in 2014 of $438,114, was largely offset by an increase in other non-current assets of $384,762, due to the completion of large tooling jobs which required deferral of the revenue and related costs of sales under the Company's revenue recognition policy in relation to multiple element arrangements.

Investing Cash Flows

Net cash used in investing activities in 2014 was $1,506,744. Net cash used in investing activities was primarily due to capital expenditures of $1,514,678, which relates primarily to the acquisition of machinery and equipment for the manufacture of orthopedic implant components of $245,928 as compared to $1,390,863 in 2013. In addition, in 2014, machinery and equipment related to custom molding and sensors were $542,821 and $438,767, respectively.

Financing Cash Flows

Net cash used in financing activities in 2014 was $815,475, due in part to net payments on the revolver of $703,000 as well as principal payments on long term debt of $435,372. These items were partially offset by proceeds from the equipment line of credit of $116,905 to finance purchases of machinery and equipment in the first quarter of 2014. Additionally, the Company received proceeds from the exercise of warrants of $105,300 as well as proceeds from the exercise of stock options of $100,692.

Inflation

The Company believes that inflation in the United States or international markets has not had a significant effect on its results of operations. However, there has been considerable volatility in both energy and commodity prices, particularly the cost of silver.

Environmental Matters

Like many industrial processes, the Company's manufacturing processes utilize hazardous and non-hazardous chemicals, the treatment and disposal of which are subject to federal and state regulation. Since its inception, the Company has expended significant funds to train its personnel, install waste treatment and recovery equipment and retain an independent environmental consulting firm to constantly review, monitor and upgrade its air and waste water treatment activities. The Company believes that the operations of its manufacturing facility are in compliance with currently applicable safety, health and environmental laws and regulations.

Based on the Company’s analysis, the Company does not expect future costs in connection with environmental matters to have a material adverse effect on its financial condition, result of operations or liquidity aside from cost of regulatory compliance and maintaining certifications and processes related to compliance with environmental regulations.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Note 2 of the Notes to Consolidated Financial Statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Some of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of the Company’s financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on the Company’s financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: 1) the Company is required to make assumptions about matters that are highly uncertain at the time of the estimate; and 2) different estimates the Company could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on the Company’s financial condition or

results of operations. Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the Company's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged

periods of time. These uncertainties are discussed in Item 1A, “Risk Factors” above. Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that the Company’s consolidated financial statements are fairly stated in accordance with generally accepted accounting principles, and present a meaningful presentation of the Company’s financial condition and results of operations.

Management believes that the following are critical accounting policies:

Revenue Recognition

Product revenue is recorded when all criteria for revenue recognition have been satisfied, which is generally when goods are shipped to the Company's customers. Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determined and collection is probable.

The Company enters into arrangements containing multiple elements which may include a combination of the sale of molds, tooling, engineering and validation services ("tooling") and production units. The Company has determined that certain tooling arrangements, and the related production units, represent one unit of accounting, based on an assessment of the respective standalone value. When the Company determines that an arrangement represents one unit of accounting, the revenue is deferred over the estimated product life-cycle, based upon historical knowledge of the customer, which is generally three years. The Company carries the sales and tooling costs, associated with the related arrangement, as deferred revenue and other current and non-current assets, respectively, on the Company's balance sheet. As the deferred revenue is amortized to sales, the associated prepaid tooling costs are amortized to cost of sales. The Company cannot effectively predict short-term or long-term production volume in a consistent and meaningful manner due to the nature of these molds and associated products. Therefore, the Company is unable to account for the transactions under the Units of Production method and management has determined the most appropriate amortization method to be the Straight-Line method.

The Company may from time to time, at the customer's request, enter into a bill and hold arrangement. The Company evaluates the nature of the arrangement including, but not limited to (i) the customer's business purpose, (ii) the transfer of risk of ownership to the customer and (iii) the segregation of inventory, along with other elements in accordance with the Company's revenue recognition policy and relevant accounting guidance.

Revenue related to software license sales is recognized when licenses are sold as the revenue cycle is completed with no warranty, returns or technical support to customers. Total revenue from software sales was immaterial in relation to consolidated revenue.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable represent amounts invoiced by the Company. Management maintains allowance for doubtful accounts based on information obtained regarding individual accounts and historical experience. Amounts deemed uncollectible are written off against the allowance for doubtful accounts. Bad debts have not had a significant impact on the Company’s financial position, results of operations and cash flows.

Inventory and Inventory Reserves

The Company values its inventory at the lower of average cost, first-in-first-out (FIFO) or net realizable value. The Company reviews its inventory for quantities in excess of production requirements, obsolescence and for compliance with internal quality specifications. Any adjustments to inventory would be equal to the difference between the cost of inventory and the estimated net market value based upon assumptions about future demand, market conditions and expected cost to distribute those products to market.

The Company reserves for excess, slow moving, and obsolete inventory. A review of inventory on hand is made at least annually and obsolete inventory may be disposed of and/or recycled. The review is based on several factors including an assessment of expected future orders, historical sales, and product obsolescence.

Deferred Tax Assets

The Company assesses the realization of its deferred tax assets based upon a more likely than not criteria. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances. The Company recognizes the benefits of a tax position if that position is more likely than not to be sustained on audit, based on the technical merit of the position.

In the second quarter of 2013, management reviewed the Company's ability to realize its deferred tax assets. After management's analysis of whether the realization of the deferred income tax assets is more likely than not, management concluded that a full valuation allowance was necessary for continuing operations and recorded a full valuation allowance of $2,267,969 in the second quarter of 2013.

Asset Impairment – Long-Lived Assets

The Company performs an assessment for impairment of long-lived assets and intangible assets with finite lives annually or whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. During 2014, as a result of these reviews, the Company impaired $63,087 of intangible assets, primarily due to patents pending related to the Ambulatory Physiological Monitoring with Remote Analysis no longer being patentable. The impairment charge is included as a component of general and administrative expense on the statement of operations and is reflected in the statement of cash flows within depreciation and amortization. In 2013, no impairment charges were recorded. Additionally, in 2014, the Company removed the fully-amortized gross and accumulated amortization balances for the discontinued operations of WirelessDx.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item may be found on pages F-1 through F-21 of this Annual Report on Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report the Company's management, with the participation of the Company's principal executive officer and principal financial officer (“the Certifying Officers”), conducted evaluations of the Company's disclosure controls and procedures as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon the evaluations, the Certifying Officers have concluded that as of December 31, 2014, the Company's disclosure controls and procedures were effective.

Management’s Report on Internal Control Over Financial Reporting

The Company's Certifying Officers are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act.

Internal control over financial reporting is a process designed by, or under the supervision of, the Certifying Officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. It is a process that involves human diligence and compliance and is subject to lapses in judgment or breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. While process safeguards can reduce risks, because of inherent limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company, under the supervision and with the participation of the Certifying Officers, has evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based upon the framework in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on such evaluations, the Certifying Officers have concluded that the

Company's internal control over financial reporting was effective as of December 31, 2014.
Changes in Internal Control Over Financial Reporting

18

There were no material changes in the Company’s internal control over financial reporting during fiscal 2014.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to directors and executive officers required under this item is incorporated by reference to the applicable information set forth in the Proxy Statement for the 2014 Annual Meeting of Stockholders.

Item 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated by reference to the applicable information set forth in the Proxy Statement for the 2014 Annual Meeting of Stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this item is incorporated by reference to the applicable information set forth in the Proxy Statement for the 2014 Annual Meeting of Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required under this item is incorporated by reference to the applicable information set forth in the Proxy Statement for the 2014 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this item is incorporated by reference to the applicable information set forth in the Proxy Statement for the 2014 Annual Meeting of Stockholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) We have filed the following documents as part of this report:

1. Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements:

Balance sheets

Statements of operations

Statements of changes in shareholders' equity

Statements of cash flows

Notes to consolidated financial statements

2. Financial Statement Schedules

All schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

3. Exhibits

The Company hereby furnishes the exhibits listed on the attached exhibit index. Exhibits, which are incorporated herein by reference, may be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at “http://www.sec.gov”. The Company maintains a web site that contains reports, proxy and information statements and other information electronically at the address “http://www.arthrt.com”. Information on our website is not a part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARRHYTHMIA RESEARCH TECHNOLOGY, INC.

By: /s/ Salvatore Emma, Jr.
Salvatore Emma, Jr.,
President and Chief Executive Officer
March 20, 2015

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

Signature	Capacity	Date
/s/ Salvatore Emma, Jr. Salvatore Emma, Jr.	President and Chief Executive Officer and Director (principal executive officer)	March 20, 2015
/s/ Derek T. Welch Derek T. Welch	Chief Financial Officer (principal financial and accounting officer)	March 20, 2015
/s/ E. P. Marinos E. P. Marinos	Chairman of the Board	March 20, 2015
/s/ Jason R. Chambers Jason R. Chambers	Director	March 20, 2015
/s/ Paul F. Walter, MD Paul F. Walter, MD	Director	March 20, 2015

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Page
3.0	Certificate of Incorporation	(a)
3.1	Amended and Restated By-laws	(b)
4.0	Form of Certificate evidencing shares of the Company's Common Stock.	(a)
4.6*	2001 Stock Option Plan	(c)
4.10*	2010 Equity Incentive Plan	(d)
4.11	Form of Subordinated Note	(e)
4.12	Form of Subordination Agreement	(e)
4.13	Form of Warrant to Purchase Common Stock	(e)
10.50	First Amendment and Loan Modification dated as of March 11, 2013 between the Company and RBS Citizens, National Association and RBS Asset Finance, Inc.	(f)
10.51	Loan and Security Agreement between UniBank for Savings and Arrhythmia Research Technology, Inc. and Micron Products, Inc. dated March 29, 2013.	(f)
10.52*	Agreement and Releases between Arrhythmia Research Technology, Inc. and Michael S. Gunter dated March 31, 2013.	(f)
10.53*	Employment Agreement between Arrhythmia Research Technology, Inc. and Salvatore Emma, Jr. dated as of March 28, 2013.	(f)
10.54*	Amendment No. 2 to Executive Employment Agreement between David A. Garrison and the Company dated as of June 7, 2013.	(g)
10.55*	Amended and Restated Agreement and Release between the Company and David A. Garrison entered into on September 12, 2013.	(h)
10.56*	Employment Agreement between the Company and Salvatore Emma, Jr. dated as of January 9, 2014	(i)
10.57*	Employment Agreement between the Company and Derek T. Welch dated as of January 9, 2014	(i)
10.58	Third Amendment to Loan and Security Agreement and Commercial Equipment Line of Credit Promissory Note dated June 26, 2014	(j)
10.59*	Employment Agreement between the Company and Salvatore Emma, Jr. dated as of January 20, 2015	X-1
10.60*	Employment Agreement between the Company and Derek T. Welch dated as of January 20, 2015	X-2
21.0	Subsidiaries	(k)
23.1	Consent of Wolf & Company, P.C.	X-4
31.1	Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	X-5
31.2	Certification of the CFO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	X-6
32.1	Certification of the CEO pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X-7
32.2	Certification of the CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X-8

* Indicates a management contract or compensatory plan required to be filed as an exhibit.

(a) Incorporated by reference to the Company’s Registration Statement on Form S-18 as filed with the Commission in April 1988, Registration Statement No. 33-20945-FW.

(b) Incorporated by reference to the Company’s Current Report on Form 8-K as filed with the Commission on July 1, 2011.

(c) Incorporated by reference to the Company’s Annual Report on Form 10-KSB for fiscal year ended December 31, 2001 as filed with the Commission on March 29, 2002.

(d) Incorporated by reference to the Company's Registration Statement on Form S-8 as filed with the Commission on May 6, 2010, Registration Statement No. 333-166600.
(e) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013.
(f) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on July 1, 2013.
(g) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on October 8, 2013.

(h) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on November 19, 2013.
(i) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on May 9, 2014.
(j) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Commission on August 7, 2014.
(k) Incorporated by reference to the Company's Form 10-K for fiscal year ended December 31, 2010 as filed with the Commission in March 2011.

† XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Arrhythmia Research Technology, Inc.
and Subsidiaries

Contents

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements:	
Consolidated balance sheets	F-3
Consolidated statements of operations	F-4
Consolidated statements of changes in shareholders' equity	F-5
Consolidated statements of cash flows	F-6
Notes to consolidated financial statements	F-8

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Arrhythmia Research Technology, Inc.

We have audited the accompanying consolidated balance sheets of Arrhythmia Research Technology, Inc. and its subsidiaries (collectively the “Company”) as of December 31, 2014 and 2013 and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arrhythmia Research Technology, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ WOLF & COMPANY, P.C.

Boston, Massachusetts
March 20, 2015

Arrhythmia Research Technology, Inc. and Subsidiaries
Consolidated Balance Sheets

December 31,	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$209,398	$749,766
Restricted cash	—	1,000,000
Trade accounts receivable, net of allowance for doubtful accounts of $45,000 and $40,000, at December 31, 2014 and 2013, respectively	3,536,747	3,803,853
Inventories	2,514,241	2,335,291
Prepaid expenses and other current assets	519,582	513,197
Assets from discontinued operations	—	1,509
Total current assets	6,779,968	8,403,616
Property, plant and equipment, net	7,618,901	7,579,556
Intangible assets, net	134,022	184,517
Other assets	570,357	185,595
Total assets	$15,103,248	$16,353,284
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving line of credit, current portion	$2,071,495	$—
Equipment line of credit, current portion	—	85,387
Term notes payable, current portion	490,341	335,760
Accounts payable	1,857,156	2,156,031
Accrued expenses	405,975	436,775
Customer deposits	98,110	341,465
Deferred revenue, current	228,363	248,559
Performance guarantee liability	—	1,000,000
Liabilities from discontinued operations	320,056	319,787
Total current liabilities	5,471,496	4,923,764
Long-term liabilities:		
Revolving line of credit, non-current portion	—	2,774,495
Equipment line of credit, non-current portion	—	538,707
Term notes payable, non-current portion	1,330,755	1,179,709
Subordinated promissory notes	445,452	417,769
Deferred revenue, non-current	610,430	172,316
Total long-term liabilities	2,386,637	5,082,996
Total liabilities	7,858,133	10,006,760
Commitments and Contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, $1 par value; 2,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value; 10,000,000 shares authorized; 3,926,491 issued, 2,778,339 and 2,722,239 outstanding at December 31, 2014 and 2013, respectively	39,265	39,265
Additional paid-in-capital	11,336,693	11,236,236
Treasury stock at cost, 1,148,152 and 1,204,252 shares at December 31, 2014 and 2013, respectively	(3,133,883)	(3,272,808)

Accumulated other comprehensive income	42,502	42,502
Accumulated deficit	(1,039,462)	(1,698,671)
Total shareholders’ equity	7,245,115	6,346,524
Total liabilities and shareholders’ equity	$15,103,248	$16,353,284

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc. and Subsidiaries
Consolidated Statements of Operations

Years ended December 31,	2014	2013
Net sales	$24,070,292	$21,341,052
Cost of sales	19,432,241	18,308,389
Gross profit	4,638,051	3,032,663
Selling and marketing	1,015,279	949,815
General and administrative	2,322,795	2,704,957
Research and development	408,867	335,309
Total operating expenses	3,746,941	3,990,081
Income (loss) from continuing operations	891,110	(957,418)
Other income (expense):		
Interest expense	(274,138)	(319,395)
Other income	46,184	25,646
Total other income (expense), net	(227,954)	(293,749)
Income (loss) from continuing operations before income taxes	663,156	(1,251,167)
Income tax provision	2,168	2,267,969
Net income (loss) from continuing operations	660,988	(3,519,136)
Discontinued Operations:		
Loss from discontinued operations, net of tax of $0 in both 2014 and 2013	(1,779)	(19,194)
Net Income (loss)	$659,209	$(3,538,330)
Earnings (loss) per share - basic		
Continuing operations	$0.24	$(1.30)
Discontinued operations	—	(0.01)
Earnings (loss) per share - basic	$0.24	$(1.31)
Earnings (loss) per share - diluted		
Continuing operations	$0.23	$(1.30)
Discontinued operations	—	(0.01)
Earnings (loss) per share - diluted	$0.23	$(1.31)
Weighted average common shares outstanding - basic	2,742,080	2,705,373
Weighted average common shares outstanding - diluted	2,863,098	2,705,373

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Additional paid-in capital	Treasury stock		Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Total
	Shares	Amount		Shares	Amount			
December 31, 2012	3,926,491	$39,265	$11,110,575	1,222,252	$(3,335,268)	$42,502	$1,839,659	$9,696,733
Share-based compensation - options			42,611					42,611
Issuance of common stock from treasury				(18,000)	62,460			62,460
Issuance of warrants			83,050					83,050
Net loss							(3,538,330)	(3,538,330)
December 31, 2013	3,926,491	39,265	11,236,236	1,204,252	(3,272,808)	42,502	(1,698,671)	6,346,524
Share-based compensation - options			33,390					33,390
Exercise of stock options from treasury			43,631	(26,100)	57,061			100,692
Exercise of warrants from treasury			23,436	(30,000)	81,864			105,300
Net Income							659,209	659,209
December 31, 2014	3,926,491	$39,265	$11,336,693	1,148,152	$(3,133,883)	$42,502	$(1,039,462)	$7,245,115

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

Years ended December 31,	2014	2013
Cash flows from operating activities:		
Net income (loss)	$659,209	$(3,538,330)
Loss from discontinued operations	1,779	19,194
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of property, plant and equipment	(21,000)	(4,780)
Amortization of deferred gain on lease	—	(8,934)
Depreciation and amortization	1,538,893	1,444,005
Non-cash interest expense	27,683	819
Change in allowance for doubtful accounts	5,000	(77,098)
Deferred income taxes	—	2,267,969
Share-based compensation expense	33,390	105,071
Changes in operating assets and liabilities:		
Accounts receivable	262,106	(545,034)
Inventories	(178,950)	79,813
Deposits, prepaid expenses and other assets	(6,385)	256,714
Other non-current assets	(384,762)	29,001
Accounts payable	(298,875)	(281,747)
Accrued expenses and other current liabilities	(294,351)	195,840
Other non-current liabilities	438,114	(154,666)
Net cash provided by (used in) operating activities of continuing operations	1,781,851	(212,163)
Net cash provided by (used in) operating activities of discontinued operations	(1,509)	(277,365)
Net cash provided by (used in) operating activities	1,780,342	(489,528)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,514,678)	(1,610,152)
Proceeds from sale of property, plant and equipment	24,500	44,337
Cash paid for patents and trademarks	(16,566)	(33,266)
Net cash provided by (used in) investing activities from continuing operations	(1,506,744)	(1,599,081)
Net cash provided by (used in) investing activities from discontinued operations	—	247,992
Net cash provided by (used in) investing activities	(1,506,744)	(1,351,089)
Cash flows from financing activities:		
(Payments on) proceeds from revolving line of credit, net	(703,000)	2,774,495
Payments on demand line of credit, net	—	(800,000)
Proceeds from equipment line of credit	116,905	624,094
Proceeds from term notes payable	—	1,500,000
Payments on term notes payable	(435,372)	(1,515,287)
Proceeds from subordinated promissory notes	—	500,000
Proceeds from stock option exercises	100,692	—
Proceeds from warrant exercises	105,300	—
Restricted cash	—	(1,000,000)
Net cash provided by (used in) financing activities from continuing operations	$(815,475)	2,083,302
Net cash provided by (used in) financing activities from discontinued operations	—	—
Net cash provided by (used in) financing activities	(815,475)	2,083,302

Net increase (decrease) in cash and cash equivalents	(541,877)	242,685
Cash and cash equivalents, beginning of year	751,275	508,590
Cash and cash equivalents, end of year	209,398	751,275
Less: cash and cash equivalents of discontinued operations at end of year	—	1,509
Cash and cash equivalents of continuing operations at end of year	$209,398	$749,766

See accompanying notes to consolidated financial statements.

F-6

Arrhythmia Research Technology, Inc. and Subsidiaries
Consolidated Statements of Cash Flows Supplemental Information

Supplemental Cash Flow Information	2014	2013
Cash paid for interest	$228,255	$301,621
Cash received from tax refunds	$132	$198,791
Non-cash activities:		
Acquisition of equipment with equipment notes	$—	$272,500
Issuance of warrants	$—	$83,050
Equipment line of credit converted to term notes payable	$740,999	$—
Reduction of restricted cash offset by performance guarantee	$975,430	$—

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

1. Description of Business

Arrhythmia Research Technology, Inc., ("ART"), through its wholly-owned subsidiary, Micron Products, Inc. ("Micron", and collectively with ART, the "Company") is a diversified contract manufacturing organization that produces highly-engineered, innovative medical device technologies requiring precision machining and injection molding. The Company also manufactures components, devices and equipment for military, law enforcement, industrial and consumer products applications. The Company's capabilities include molding and silver plating of medical sensors, thermoplastic injection molding, customer-specific quick-turn orthopedic implant component manufacturing and custom products for military and law enforcement applications. The Company competes globally, with nearly half of its revenue derived from exports.

ART was founded in 1986 and completed an initial public offering in 1988 and its shares were listed on the American Stock Exchange (now the NYSE MKT) in 1992. Its stock trades under the symbol HRT. The Company has grown organically and through acquisitions. Today, the Company has diversified manufacturing capabilities with the capacity to participate in full product life-cycle activities from early stage development and engineering and prototyping to full scale manufacturing as well as packaging and product fulfillment services.

The Company's subsidiary, RMDDxUSA Corp. and its Prince Edward Island subsidiary RMDDx Corporation (collectively "WirelessDx"), discontinued operations in the third quarter of 2012 (see Note 12).

Operating matters and liquidity

The revolver under the Company's credit facility has a maturity date of June 2015 (see Note 5). At December 31, 2014, the outstanding balance on the revolver was $2,071,495 and is classified as a current liability on the Company's balance sheet. The Company is actively working with the bank on renewing the terms of the revolver and expects the revolver to be renewed prior to the expiration date. Should the Company be unable to renew the revolver, it could have a material adverse effect on operations.

The Company believes that cash flows from its operations, together with its existing working capital, the renewed revolver and other resources, will be sufficient to fund operations at current levels and repay debt obligations over the next twelve months and beyond; however, there can be no assurance that the Company will be able to do so.

2. Accounting Policies

Principles of consolidation

The consolidated financial statements (the "financial statements") include the accounts of ART, Micron and WirelessDx. WirelessDx is presented herein as discontinued operations. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition

Product revenue is recorded when all criteria for revenue recognition have been satisfied, which is generally when goods are shipped to the Company's customers. Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determined and collection is probable.

The Company enters into arrangements containing multiple elements which may include a combination of the sale of molds, tooling, engineering and validation services ("tooling") and production units. The Company has determined that certain tooling arrangements, and the related production units, represent one unit of accounting, based on an assessment of the respective standalone value. When the Company determines that an arrangement represents one unit of accounting, the revenue is deferred over the estimated product life-cycle, based upon historical knowledge of the

customer, which is generally three years. The Company carries the sales and tooling costs, associated with the related arrangement, as deferred revenue and other current and non-current assets, respectively, on the Company's balance sheet. As the deferred revenue is amortized to sales, the associated prepaid tooling costs are amortized to cost of sales. The Company cannot effectively predict short-term or long-term production volume in a consistent and meaningful manner due to the nature of these molds and associated products. Therefore, the Company is unable to account for the transactions

under the Units of Production method and management has determined the most appropriate amortization method to be the Straight-Line method.

The Company may from time to time, at the customer's request, enter into a bill and hold arrangement. The Company evaluates the nature of the arrangement including, but not limited to (i) the customer's business purpose, (ii) the transfer of risk of ownership to the customer and (iii) the segregation of inventory, along with other elements in accordance with relevant accounting guidance to determine the appropriate method of revenue recognition for each arrangement.

Revenue for software license sales is recognized when licenses are sold as the revenue cycle is completed with no warranty, returns or technical support to customers. Total revenue from software sales was immaterial in relation to consolidated revenues.

Fair value of financial instruments

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term nature of such instruments. The carrying value of debt approximates fair value since it provides for market terms and interest rates.

Concentration of credit risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of accounts receivable and cash and cash equivalents. It is the Company’s policy to place its cash in high quality financial institutions. The Company does not believe significant credit risk exists above federally insured limits with respect to these institutions.

Accounts receivable are customer obligations due under normal trade terms. A large portion of the Company's products are sold to large diversified medical, military and law enforcement product manufacturers. The Company does not generally require collateral for its sales; however, the Company believes that its terms of sale provide adequate protection against credit risk.

During the year ended December 31, 2014, the Company had net sales to four customers constituting 15%, 13%, 12% and 10%, respectively, of total 2014 net sales. Accounts receivable from these four customers at December 31, 2014 were 11%, 9%, 15% and 14%, respectively, of the total accounts receivable balance at year end. During the year ended December 31, 2013, the Company had sales to two customers constituting 16% and 15%, respectively, of total 2013 net sales. Accounts receivable from these two customers at December 31, 2013 was 16% and 10%, respectively, of the total accounts receivable balance at year end.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on deposit in high quality financial institutions with maturities of three months or less at the time of purchase.

Restricted cash

Restricted cash consists of cash on deposit at the Bank of Nova Scotia, at December 31, 2013, in lieu of a letter of credit associated with a performance guarantee liability. At December 31, 2014, the balance of restricted cash was zero (see Note 12).

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable represent amounts invoiced by the Company. Management maintains an allowance for doubtful accounts based on information obtained regarding individual accounts and historical experience. Amounts deemed uncollectible are written off against the allowance for doubtful accounts. Bad debts have not had a significant impact on the Company’s financial position, results of operations and cash flows.

Inventories

The Company values its inventory at the lower of average cost, first-in-first-out (FIFO) or net realizable value. The Company reviews its inventory for quantities in excess of production requirements, obsolescence and for compliance with internal quality specifications. Any adjustments to inventory would be equal to the difference between the cost of inventory and the estimated net market value based upon assumptions about future demand, market conditions and

expected cost to distribute those products to market. The Company records adjustments to account for potential scrap during normal manufacturing operations or potential obsolesce for slow moving inventory.

Property, plant and equipment

Property, plant and equipment are recorded at cost and include expenditures which substantially extend their useful lives. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to earnings as incurred. When equipment is retired or sold, the resulting gain or loss is reflected in earnings.

Arrhythmia Research Technology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Long-lived and intangible assets

The Company performs an assessment for impairment of long-lived assets and intangible assets with finite lives annually or whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. During 2014, as a result of these reviews, the Company impaired $63,087 of intangible assets, primarily patents pending related to the Ambulatory Physiological Monitoring with Remote Analysis which were no longer patentable. The impairment charge is included as a component of general and administrative expense on the statement of operations and is reflected in the statement of cash flows within depreciation and amortization. In 2013, no impairment charges were recorded. Additionally, in 2014, the Company removed the fully-amortized gross and accumulated amortization balances for the discontinued operations of WirelessDx.

Intangible assets consist of the following:

		December 31, 2014			December 31, 2013		
	Estimated Useful Life (in years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents and trademarks	11	$414,436	$(394,371)	$20,065	$476,390	$(454,566)	$21,824
Patents and trademarks pending	—	97,447	—	97,447	143,968		143,968
Trade names	7	33,250	(16,740)	16,510	33,250	(14,525)	18,725
Total intangible assets		$545,133	$(411,111)	$134,022	$653,608	$(469,091)	$184,517

Amortization expense related to intangible assets, excluding the above noted impairment charge, was $3,974 and $4,840 in 2014 and 2013, respectively. Estimated future annual amortization expense for currently amortizing intangible assets is expected to approximate $4,000.

Income taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse.

The Company files income tax returns in the U.S. Federal jurisdiction, Canadian jurisdiction and various state jurisdictions. The Company follows accounting guidance regarding the recognition, measurement, presentation and disclosure of uncertain tax positions in the financial statements. Tax positions taken or expected to be taken in the course of preparing the Company’s tax returns are required to be evaluated to determine whether the tax positions are “more-likely-than-not” to be upheld under regulatory review. The resulting tax impacts of these tax positions, if any, are recognized in the financial statements based on the results of this evaluation. The Company did not recognize any tax liabilities associated with uncertain tax positions, nor have they recognized any interest or penalties related to unrecognized tax positions. Generally, the Company is no longer subject to federal and state tax examinations by tax authorities for years before fiscal years ending December 31, 2011.

Share-based compensation

Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period (generally the vesting period of the share-based grant).

Comprehensive income

The Company has accumulated other comprehensive income of $42,502 from changes in currency valuations with our Canadian operations as of December 31, 2014 and 2013. In the years ended December 31, 2014 and 2013, comprehensive income (loss) equaled net income (loss) and there were no changes in accumulated other comprehensive income.

Earnings per share data

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding. The computation of diluted earnings (loss) per share is similar to the computation of basic earnings (loss) per share except that the denominator is increased to include the average number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, the numerator is adjusted for any changes in net income (loss) that would result from the assumed conversions of those potential shares.

Arrhythmia Research Technology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Research and development
Research and development expenses include costs directly attributable to conducting research and development programs primarily related to the development of a unique process to improve silver coating during the manufacturing processes, including the design and testing of specific process improvements for certain medical device components. Such costs include salaries, payroll taxes, employee benefit costs, materials, supplies, depreciation on research equipment, and services provided by outside contractors. All costs associated with research and development programs are expensed as incurred.
Reclassification of prior period balances
Amounts in prior year financial statements are reclassified when necessary to conform to the current year presentation.
3. Inventories, net
Inventories consist of the following:

December 31,	2014	2013
Raw materials	$ 873,306	$ 947,765
Work-in-process	370,220	266,431
Finished goods	1,270,715	1,121,095
Total	$ 2,514,241	$ 2,335,291

The cost of silver in our inventory as raw materials, in work-in-process or as a plated surface on finished goods had an estimated cost of $439,800 and $382,332 in 2014 and 2013, respectively.
4. Property, Plant and Equipment, Net
Property, plant and equipment consist of the following:

December 31,	Asset Lives (in years)	2014	2013
Machinery and equipment	3 to 15	$ 14,608,949	$ 13,734,528
Building and improvements	20	4,360,114	4,303,156
Vehicles	3 to 5	90,713	94,227
Furniture, fixtures, computers and software	3 to 5	1,349,931	1,317,189
Land		202,492	202,492
Construction in process		568,234	177,473
Total property, plant and equipment		21,180,433	19,829,065
Less: accumulated depreciation		(13,561,532)	(12,249,509)
Property, plant and equipment, net		$ 7,618,901	$ 7,579,556

For the year ended December 31, 2014, the Company recorded $1,471,832 of depreciation expense compared to $1,439,165 for the year ended December 31, 2013. There are no commitments related to the completion of construction in process as of December 31, 2014.
5. Debt
The following tables set forth the items which comprise debt for the Company:

December 31,	2014	2013
Revolving line of credit	$ 2,071,495	$ 2,774,495
Equipment line of credit	$ —	$ 624,094
Subordinated promissory notes	$ 445,452	$ 417,769
Term notes payable:		
Commercial term loan	1,009,977	1,293,378
Equipment term loan	640,734	—
Equipment notes	170,385	222,091
Total term notes payable	$ 1,821,096	$ 1,515,469

Equity earnings and gains related to acquisitions, net of tax						(9.2)
Net earnings attributable to Ball Corporation before above transactions (Comparable Earnings)	$	489.6	$	483.0	$	459.6
Per diluted share from continuing operations, as reported	$	2.73	$	2.57	$	2.64
Per diluted share (comparable basis)	$	3.28	$	3.06	$	2.73

Free Cash Flow

Management internally uses a free cash flow measure: (1) to evaluate the company s operating results, (2) to evaluate strategic investments, (3) to plan stock buyback and dividend levels and (4) to evaluate the company s ability to incur and service debt. Free cash flow is not a defined term under U.S. GAAP, and it should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company defines free cash flow as cash flow from operating activities less capital expenditures. Free cash flow is typically derived directly from the company s consolidated statement of cash flows; however, it may be adjusted for items that affect comparability between periods.

Based on the above definition, our consolidated free cash flow is summarized as follows:

	Years Ended December 31,					
($ in millions)		**2013**		**2012**		**2011**
Total cash provided by operating activities	$	839.0	$	853.2	$	948.4
Capital expenditures, including discontinued operations		(378.3)		(305.0)		(443.8)
Free cash flow	$	460.7	$	548.2	$	504.6

Based on information currently available, we estimate cash flows from operating activities for 2014 to be in the range of $925 million, capital expenditures to be approximately $375 million and free cash flow to be in the range of $550 million. In 2014, we intend to utilize our operating cash flow to fund our stock repurchases, dividend payments, growth capital projects and, to the extent available, acquisitions that meet our various criteria. Of the total 2014 estimated capital expenditures, approximately $100 million was contractually committed as of December 31, 2013.

Table of Contents

Commitments

Cash payments required for long-term debt maturities, rental payments under noncancellable operating leases, purchase obligations and other commitments in effect at December 31, 2013, are summarized in the following table:

		Payments Due By Period (a)			
($ in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt, including capital leases	$ 3,552.5	$ 370.0	$ 132.1	$ 299.1	$ 2,751.3
Interest payments on long-term debt *(b)*	1,181.0	152.6	298.5	288.3	441.6
Purchase obligations *(c)*	6,866.8	2,465.6	3,061.4	1,070.7	269.1
Operating leases	121.5	38.4	44.6	23.2	15.3
Total payments on contractual obligations	$ 11,721.8	$ 3,026.6	$ 3,536.6	$ 1,681.3	$ 3,477.3

(a) Amounts reported in local currencies have been translated at year-end 2013 exchange rates.

(b) For variable rate facilities, amounts are based on interest rates in effect at year end and do not contemplate the effects of any hedging instruments utilized by the company.

(c) The company s purchase obligations include contracted amounts for aluminum, steel and other direct materials. Also included are commitments for purchases of natural gas and electricity, expenses related to aerospace and technologies contracts and other less significant items. In cases where variable prices and/or usage are involved, management s best estimates have been used. Depending on the circumstances, early termination of the contracts may or may not result in penalties and, therefore, actual payments could vary significantly.

The table above does not include $78.3 million of uncertain tax positions, the timing of which is unknown at this time.

Contributions to the company s defined benefit pension plans, not including the unfunded German plans, are expected to be in the range of $65 million in 2014. This estimate may change based on changes in the Pension Protection Act and actual plan asset performance and available company cash flow, among other factors. Benefit payments related to these plans are expected to be $81.1 million, $84.5 million, $88.0 million, $92.5 million and $96.6 million for the years ending December 31, 2014 through 2018, respectively, and a total of $536.6 million for the years 2019 through 2023. Payments to participants in the unfunded German plans are expected to be between $21 million and $23 million in each of the years 2014 through 2018 and a total of $100 million for the years 2019 through 2023.

Based on changes in return on asset and discount rate assumptions, as well as revisions based on plan experience studies, total pension expense in 2014 is anticipated to be approximately $10 million lower than in 2013, excluding curtailment expenses. A reduction of the expected return on pension assets assumption by one quarter of a percentage point would result in an estimated $3.9 million increase in the 2014 pension expense, while a quarter of a percentage point reduction in the discount rate applied to the pension liability would result in an estimated $6.5 million of additional pension expense in 2014. Additional information regarding the company s pension plans is provided in Note 14 accompanying the consolidated financial statements within Item 8 of this annual report.

Due to the U.S. tax status of certain of Ball s subsidiaries in Canada and the PRC, the company annually provides U.S. taxes on foreign earnings in those subsidiaries, net of any estimated foreign tax credits. The company also provides deferred taxes on the undistributed earnings in its Brazil investment related to its 10 percent indirectly held investment. Net U.S. taxes provided for Brazil, Canada and PRC earnings in 2013, 2012 and 2011 were $26.4 million, $7.3 million and $22.3 million, respectively. For the foreseeable future, anticipated cash flow from the U.S. operations should be sufficient to meet the domestic operational needs, including capital expenditures, dividends, share repurchases and debt service, including minimal near term debt maturities over the next few years. Should domestic cash flow gaps arise due to unforeseen events, Ball can access funds in the U.S. to bridge those gaps from its committed revolving credit facility, from public bond markets, from cash deposits in the PRC on earnings for which U.S. taxes have been provided and from repayment of outstanding U.S. loans to foreign subsidiaries. Consequently, management s intention is to indefinitely reinvest undistributed earnings of Ball s remaining foreign investments and, as a result, no U.S. income or federal withholding tax provision has been made. It is not practical to estimate the additional taxes that may become payable upon the eventual remittance of these foreign earnings; however, repatriation of these earnings would result in a relatively high incremental tax rate.

Table of Contents

Contingencies

The company is routinely subject to litigation incident to operating its businesses, and has been designated by various federal and state environmental agencies as a potentially responsible party, along with numerous other companies, for the cleanup of several hazardous waste sites. The company believes that the matters identified will not have a material adverse effect upon the liquidity, results of operations or financial condition of the company. Details of the company s legal proceedings are included in Note 21 to the consolidated financial statements within Item 8 of this annual report.

CRITICAL AND SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

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

FORWARD-LOOKING STATEMENTS

The company has made or implied certain forward-looking statements in this report which are made as of the end of the time frame covered by this report. These forward-looking statements represent the company s goals, and results could vary materially from those expressed or implied. From time to time we also provide oral or written forward-looking statements in other materials we release to the public. As time passes, the relevance and accuracy of forward-looking statements may change. Some factors that could cause the company s actual results or outcomes to differ materially from those discussed in the forward-looking statements include, but are not limited to: fluctuation in customer and consumer growth, demand and preferences; loss of one or more major customers or changes to contracts with one or more customers; insufficient production capacity; changes in senior management; uncertainty concerning economic recovery in parts of Europe and its effects on liquidity, credit risk, asset values and the economy; overcapacity in foreign and domestic metal container industry production facilities and its impact on pricing; failure to achieve anticipated productivity improvements or cost reductions, including those associated with capital expenditures; changes in climate and weather; fruit, vegetable and fishing yields; power and natural resource costs; difficulty in obtaining supplies and energy, such as gas, electric power and diesel fuel; availability and cost of raw materials, as well as the increases in steel, aluminum and energy costs, and the ability or inability to include or pass on to customers changes in raw material costs; changes in the pricing of the company s products and services; competition in pricing and the possible decrease in, or loss of, sales resulting therefrom; insufficient or reduced cash flow; the number and timing of the purchases of the company s common shares; the effects of restrictive legislation, including with respect to packaging, such as recycling laws; interest rates affecting our debt; labor strikes; increases and trends in various employee benefits and labor costs, including pension, medical and health care costs; rates of return projected and earned on assets and discount rates used to measure future obligations and expenses of the company s defined benefit retirement plans; antitrust, intellectual property, consumer and other litigation; maintenance and capital expenditures; goodwill impairment; changes in generally accepted accounting principles or their interpretation; the authorization, funding, availability and returns of contracts for the aerospace and technologies segment and the nature and continuation of those contracts and related services provided thereunder; delays, extensions and technical uncertainties, as well as schedules of performance associated with such segment contracts; political and economic instability, including periodic sell-off on global equity markets, sanctions and the devaluation or revaluation of certain currencies; business risks with respect to changes in currency exchange rates; terrorist activity or war that disrupts the company s production or supply; regulatory action or laws affecting the company or its customers or suppliers, or any of their respective products, including tax, environmental, health and workplace safety, including in respect of climate change, or chemicals or substances used in raw materials or in the manufacturing process, particularly publicity concerning Bisphenol-A, or BPA, a chemical used in the manufacture of epoxy coatings applied to many types of containers (including certain of those produced by the company); technological developments and innovations; successful or unsuccessful acquisitions, joint ventures or divestitures and the integration activities associated therewith; changes to unaudited results due to statutory audits of our financial statements or management s evaluation of the company s internal control over financial reporting; ongoing uncertainties surrounding sovereign debt of various European countries, as well as ratings agency downgrades of various

governments debt; ongoing uncertainties and other effects surrounding the U.S. government budget, funding, cutbacks and debt limit, as well as the recent government shutdown and any potential future shutdowns; and loss contingencies related to income and other tax matters, including those arising from audits performed by national and local tax authorities. If the company is unable to achieve its goals, then the company s actual performance could vary materially from those goals expressed or implied in the forward-looking statements. The company currently does not intend to publicly update forward-looking statements except as it deems necessary in quarterly or annual earnings reports. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-K, 10-Q and 8-K reports to the SEC.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments and Risk Management

The company employs established risk management policies and procedures, which seek to reduce the company s commercial risk exposure to fluctuations in commodity prices, interest rates, currency exchange rates and prices of the company s common stock with regard to common share repurchases and the company s deferred compensation stock plan. However, there can be no assurance that these policies and procedures will be successful. Although the instruments utilized involve varying degrees of credit, market and interest risk, the counterparties to the agreements are expected to perform fully under the terms of the agreements. The company monitors counterparty credit risk, including lenders, on a regular basis, but Ball cannot be certain that all risks will be discerned or that its risk management policies and procedures will always be effective. Additionally, in the event of default under the company s master derivative agreements, the nondefaulting party has the option to set-off any amounts owed with regard to open derivative positions. Further details are available in Note 18 to the consolidated financial statements within Item 8 of this annual report.

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

Commodity Price Risk

Aluminum

We manage commodity price risk in connection with market price fluctuations of aluminum ingot through two different methods. First, we enter into container sales contracts that include aluminum ingot-based pricing terms that generally reflect the same price fluctuations included in commercial purchase contracts for aluminum sheet. The terms include fixed, floating or pass-through aluminum ingot component pricing. Second, we use derivative instruments such as option and forward contracts as economic and cash flow hedges of commodity price risk where there is not an arrangement in the sales contract to match underlying purchase volumes and pricing with sales volumes and pricing.

Steel

Most sales contracts involving our steel products either include provisions permitting us to pass through some or all steel cost changes incurred, or they incorporate annually negotiated steel prices. We anticipate at this time that we will be able to pass through the majority of any steel price changes that may occur in 2014.

Considering the effects of derivative instruments, the company s ability to pass through certain raw material costs through contractual provisions, the market s ability to accept price increases and the company s commodity price exposures under its contract terms, a hypothetical 10 percent adverse change in the company s steel and aluminum prices could result in an estimated $5.7 million after-tax reduction in net earnings over a one-year period. Additionally, the company has currency exposures on raw materials, and the effect of a 10 percent adverse change is included in the total currency exposure discussed below. Actual results may vary based on actual changes in market prices and rates.

Other

The company is also exposed to fluctuations in prices for natural gas and electricity, as well as the cost of diesel fuel as a component of freight cost. A hypothetical 10 percent increase in our natural gas and electricity prices could result in an estimated $7.5 million after-tax reduction of net earnings over a one-year period. A hypothetical 10 percent increase in diesel fuel prices could result in an estimated $0.5 million after-tax reduction of net earnings over the same period. Actual results may vary based on actual changes in market prices and rates.

Table of Contents

Interest Rate Risk

Our objective in managing exposure to interest rate changes is to manage the impact of interest rate changes on earnings and cash flows and to minimize our overall borrowing costs. To achieve these objectives, we may use a variety of interest rate swaps, collars and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at December 31, 2013, included pay-fixed interest rate swaps, which effectively convert variable rate obligations to fixed-rate instruments.

Based on our interest rate exposure at December 31, 2013, assumed floating rate debt levels throughout the next 12 months and the effects of derivative instruments, a 100-basis point increase in interest rates could result in an estimated $4.3 million after-tax reduction in net earnings over a one-year period. Actual results may vary based on actual changes in market prices and rates and the timing of these changes.

Currency Exchange Rate Risk

Our objective in managing exposure to currency fluctuations is to limit the exposure of cash flows and earnings from changes associated with currency exchange rate changes through the use of various derivative contracts. In addition, at times Ball manages earnings translation volatility through the use of currency option strategies, and the change in the fair value of those options is recorded in the company s net earnings. Our currency translation risk results from the currencies in which we transact business. The company faces currency exposures in our global operations as a result of various factors including intercompany loans denominated in various currencies, selling our products in various currencies, purchasing raw materials in various currencies and tax exposures not denominated in the functional currency. Sales contracts are negotiated with customers to reflect cost changes and, where there is not an exchange pass-through arrangement, the company uses forward and option contracts to manage currency exposures.

Considering the company s derivative financial instruments outstanding at December 31, 2013, currency exposures and currency exposures from the purchase and sale of raw materials, a hypothetical 10 percent reduction (U.S. dollar strengthening) in currency exchange rates compared to the U.S. dollar could result in an estimated $46.7 million after-tax reduction in net earnings over a one-year period. This hypothetical adverse change in currency exchange rates would also reduce our forecasted average debt balance by $27.1 million. Actual changes in market prices or rates may differ from hypothetical changes.

Common Stock Price Risk

The company s deferred compensation stock program is subject to variable plan accounting and, accordingly, is marked to fair value using the company s closing stock price at the end of a reporting period. Based on current share levels in the program, each $1 change in the company s stock price has an impact of $1.4 million on pretax earnings. During March and September 2011, the company entered into total return swaps to mitigate the company s exposure to these fair value fluctuations that, after renewals, will be outstanding until March 2015 and September 2014, respectively. The swaps have a notional value of 1 million shares and 300,000 shares, respectively.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ball Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under 15(a)(1) present fairly, in all material respects, the financial position of Ball Corporation and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
Denver, Colorado
February 24, 2014

33

Table of Contents

Consolidated Statements of Earnings

Ball Corporation and Subsidiaries

Net sales	$ 8,468.1	$ 8,735.7	$ 8,630.9
Costs and expenses			
Cost of sales (excluding depreciation and amortization)	(6,875.4)	(7,174.0)	(7,081.2)
Depreciation and amortization	(299.9)	(282.9)	(301.1)
Selling, general and administrative	(418.6)	(385.5)	(381.4)
Business consolidation and other activities	(78.8)	(102.8)	(30.3)
	(7,672.7)	(7,945.2)	(7,794.0)
Earnings before interest and taxes	795.4	790.5	836.9
Interest expense	(183.8)	(179.8)	(177.1)
Debt refinancing costs	(28.0)	(15.1)	
Total interest expense	(211.8)	(194.9)	(177.1)
Earnings before taxes	583.6	595.6	659.8
Tax provision	(149.6)	(165.0)	(201.3)
Equity in results of affiliates, net of tax	0.6	(1.3)	10.1
Net earnings from continuing operations	434.6	429.3	468.6
Discontinued operations, net of tax	0.4	(2.8)	(2.3)
Net earnings	435.0	426.5	466.3
Less net earnings attributable to noncontrolling interests	(28.2)	(23.0)	(22.3)
Net earnings attributable to Ball Corporation	$ 406.8	$ 403.5	$ 444.0
Amounts attributable to Ball Corporation:			
Continuing operations	$ 406.4	$ 406.3	$ 446.3
Discontinued operations	0.4	(2.8)	(2.3)
Net earnings	$ 406.8	$ 403.5	$ 444.0
Earnings per share:			
Basic - continuing operations	$ 2.79	$ 2.63	$ 2.70
Basic - discontinued operations		(0.02)	(0.01)
Total basic earnings per share	$ 2.79	$ 2.61	$ 2.69
Diluted - continuing operations	$ 2.73	$ 2.57	$ 2.64
Diluted - discontinued operations		(0.02)	(0.01)
Total diluted earnings per share	$ 2.73	$ 2.55	$ 2.63
Weighted average shares outstanding *(000s)*:			
Basic	145,943	154,648	165,275
Diluted	149,223	158,084	168,590
Cash dividends declared and paid, per share	$ 0.52	$ 0.40	$ 0.28

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

Table of Contents

Consolidated Statements of Comprehensive Earnings

Ball Corporation and Subsidiaries

Net earnings	$	435.0	$	426.5	$	466.3
Other comprehensive earnings:						
Foreign currency translation adjustment		62.4		32.9		(38.1)
Pension and other postretirement benefits *(a)*		79.2		(79.5)		(93.7)
Effective financial derivatives *(b)*		(29.7)		29.1		(110.8)
Mark-to-market adjustments on available for sale securities *(c)*						(10.2)
Total comprehensive earnings		546.9		409.0		213.5
Less comprehensive earnings attributable to noncontrolling interests		(28.4)		(22.7)		(22.6)
Comprehensive earnings attributable to Ball Corporation	$	518.5	$	386.3	$	190.9

(a) Net of tax (expense) benefit of $65.6 million, $40.1 million and $56.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(b) Net of tax (expense) benefit of $2.5 million, $(22.3) million and $58.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(c) Net of tax (expense) benefit of $6.6 million for the year ended December 31, 2011.

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

Table of Contents

Consolidated Balance Sheets

Ball Corporation and Subsidiaries

($ in millions)	December 31, 2013		2012	
Assets				
Current assets				
Cash and cash equivalents	$	416.0	$	174.1
Receivables, net		859.4		930.1
Inventories, net		1,028.3		1,044.4
Deferred taxes and other current assets		162.0		190.8
Total current assets		2,465.7		2,339.4
Non-current assets				
Property, plant and equipment, net		2,372.3		2,276.7
Goodwill		2,404.3		2,359.4
Intangibles and other assets, net		577.5		531.6
Total assets	**$**	**7,819.8**	**$**	**7,507.1**
Liabilities and Shareholders Equity				
Current liabilities				
Short-term debt and current portion of long-term debt	$	422.6	$	219.8
Accounts payable		998.8		946.9
Accrued employee costs		241.3		278.4
Other current liabilities		264.7		240.7
Total current liabilities		1,927.4		1,685.8
Non-current liabilities				
Long-term debt		3,182.5		3,085.3
Employee benefit obligations		1,033.0		1,238.1
Deferred taxes and other liabilities		285.6		207.9
Total liabilities		6,428.5		6,217.1
Shareholders equity				
Common stock (330,240,265 shares issued - 2013; 329,014,589 shares issued - 2012)		1,078.4		1,026.3
Retained earnings		3,913.8		3,580.8
Accumulated other comprehensive earnings (loss)		(240.7)		(352.4)
Treasury stock, at cost (188,122,102 shares - 2013; 179,285,288 shares - 2012)		(3,551.6)		(3,140.1)
Total Ball Corporation shareholders equity		1,199.9		1,114.6
Noncontrolling interests		191.4		175.4
Total shareholders equity		1,391.3		1,290.0
Total liabilities and shareholders equity	**$**	**7,819.8**	**$**	**7,507.1**

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

Table of Contents

Consolidated Statements of Cash Flows

Ball Corporation and Subsidiaries

Cash Flows from Operating Activities			
Net earnings	$ 435.0	$ 426.5	$ 466.3
Discontinued operations, net of tax	(0.4)	2.8	2.3
Adjustments to reconcile net earnings to cash provided by (used in) continuing operating activities:			
Depreciation and amortization	299.9	282.9	301.1
Business consolidation and other activities	78.8	102.8	30.3
Deferred tax provision	(1.6)	14.0	28.4
Other, net	(34.1)	(25.3)	64.7
Working capital changes, excluding effects of acquisitions:			
Receivables	80.2	0.6	(4.1)
Inventories	21.4	29.1	27.5
Other current assets	4.3	1.5	34.8
Accounts payable	50.9	55.9	111.1
Accrued employee costs	(36.0)	10.5	(20.4)
Other current liabilities	(55.0)	(55.8)	(54.8)
Other, net	(2.1)	12.8	(30.5)
Cash provided by (used in) continuing operating activities	841.3	858.3	956.7
Cash provided by (used in) discontinued operating activities	(2.3)	(5.1)	(8.3)
Total cash provided by (used in) operating activities	839.0	853.2	948.4
Cash Flows from Investing Activities			
Capital expenditures	(378.3)	(305.0)	(443.8)
Business acquisitions, net of cash acquired	(14.2)	(71.2)	(295.2)
Other, net	13.4	20.2	1.0
Cash provided by (used in) investing activities	(379.1)	(356.0)	(738.0)
Cash Flows from Financing Activities			
Long-term borrowings	1,643.1	1,486.4	827.3
Repayments of long-term borrowings	(1,294.9)	(1,071.6)	(815.8)
Net change in short-term borrowings	(57.6)	(337.0)	295.3
Proceeds from issuances of common stock	32.9	53.1	39.3
Acquisitions of treasury stock	(431.7)	(547.2)	(513.2)
Common dividends	(75.2)	(61.8)	(45.7)
Other, net	(20.6)	(8.8)	(4.0)
Cash provided by (used in) financing activities	(204.0)	(486.9)	(216.8)
Effect of exchange rate changes on cash	(14.0)	(2.0)	20.2
Change in cash and cash equivalents	241.9	8.3	13.8
Cash and cash equivalents - beginning of year	174.1	165.8	152.0
Cash and cash equivalents - end of year	**$ 416.0**	**$ 174.1**	**$ 165.8**

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

Table of Contents

Consolidated Statements of Shareholders Equity

Ball Corporation and Subsidiaries

	Ball Corporation and Subsidiaries							
	Common Stock		Treasury Stock			Accumulated Other		Total
($ in millions; share amounts in thousands)	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Noncontrolling Interest	Shareholders Equity
Balance at December 31, 2010	325,423	$ 893.4	(153,265)	$ (2,123.1)	$ 2,829.8	$ (82.1)	$ 140.1	$ 1,658.1
Net earnings					444.0		22.3	466.3
Other comprehensive earnings, net of tax						(253.1)	0.3	(252.8)
Common dividends, net of tax benefits					(45.5)			(45.5)
Treasury stock purchases			(13,998)	(513.3)				(513.3)
Treasury shares reissued			575	20.7				20.7
Shares issued and stock compensation for stock options and other stock plans, net of shares exchanged	1,581	42.7						42.7
Tax benefit on option exercises		5.6						5.6
Acquisition of equity affiliate							6.0	6.0
Dividends paid to noncontrolling interests							(9.8)	(9.8)
Balance at December 31, 2011	327,004	941.7	(166,688)	(2,615.7)	3,228.3	(335.2)	158.9	1,378.0
Net earnings					403.5		23.0	426.5
Other comprehensive earnings, net of tax						(17.2)	(0.3)	(17.5)
Common dividends, net of tax benefits					(60.3)			(60.3)
Treasury stock purchases			(13,148)	(547.1)				(547.1)
Treasury shares reissued			551	22.7				22.7
Shares issued and stock compensation for stock options and other stock plans, net of shares exchanged	2,011	63.3						63.3
Tax benefit on option exercises		21.3						21.3
Dividends paid to noncontrolling interests							(7.6)	(7.6)
Other activity					9.3		1.4	10.7
Balance at December 31, 2012	329,015	1,026.3	(179,285)	(3,140.1)	3,580.8	(352.4)	175.4	1,290.0
Net earnings					406.8		28.2	435.0
Other comprehensive earnings, net of tax						111.7	0.2	111.9
Common dividends, net of tax benefits					(73.8)			(73.8)
Treasury stock purchases			(9,322)	(433.9)				(433.9)
Treasury shares reissued			485	22.4				22.4
Shares issued and stock compensation for stock options and other stock plans, net of shares exchanged	1,225	40.2						40.2
Tax benefit on option exercises		11.9						11.9
Dividends paid to noncontrolling interests							(12.9)	(12.9)
Other activity							0.5	0.5
Balance at December 31, 2013	330,240	$ 1,078.4	(188,122)	$ (3,551.6)	$ 3,913.8	$ (240.7)	$ 191.4	$ 1,391.3

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

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies

The preparation of Ball Corporation s (collectively, Ball, the company, we or our) consolidated 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 present the results of the periods presented.

Critical Accounting Policies

The company considers certain accounting policies to be critical, as their application requires management s judgment about the impacts of matters that are inherently uncertain. Detailed below is a discussion of the accounting policies the company considers critical to our consolidated financial statements.

Acquisitions

The company records acquisitions resulting in the consolidation of an enterprise using the purchase method of accounting. Under this method, the acquiring company records the assets acquired, including intangible assets that can be identified and named, and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price in excess of the fair value of the assets acquired and liabilities assumed is recorded as goodwill. If the assets acquired, net of liabilities assumed, are greater than the purchase price paid then a bargain purchase has occurred and the company will recognize the gain immediately in earnings. Among other sources of relevant information, the company uses independent appraisals and actuarial or other valuations to assist in determining the estimated fair values of the assets and liabilities. Various assumptions are used in the determination of these estimated fair values including discount rates, market and volume growth rates, product selling prices, production costs and other prospective financial information. Transaction costs associated with acquisitions are expensed as incurred and included in the business consolidation and other activities line of the consolidated statement of earnings.

For acquisitions where the company already owns an equity investment in the acquired company, the company will recognize in earnings, upon the completion of the acquisition, a gain or loss related to the company s existing equity investment. This gain or loss is calculated based on the fair value of the equity investment as compared to the carrying value of the existing equity investment on the date of acquisition.

Exit and Other Closure Costs (Business Consolidation Costs)

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

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies ***(continued)***

Recoverability of Goodwill and Intangible Assets

On an annual basis and at interim periods when circumstances require, the company tests the recoverability of its goodwill and indefinite-lived intangible assets. The company utilized the two-step impairment analysis and elected not to use the qualitative assessment or step zero approach. In the two-step impairment analysis, the company compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its implied fair value. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each reporting unit and incorporate various assumptions related to discount and growth rates specific to the reporting unit to which they are applied. The company s discounted cash flows are based upon reasonable and appropriate assumptions, which are weighted for their likely probability of occurrence, about the underlying business activities of the company s reporting units.

For this evaluation, our reporting units are consistent with our reportable segments identified in Note 3 except that assets within metal beverage packaging, North America, are tested separately from those in metal beverage packaging, Asia, and Latapack-Ball Embalagens Ltda. Additionally, assets in the Aerocan S.A.S. reporting unit are tested separately from the remainder of the metal food and household products packaging segment. These reporting units have been identified based on the level at which discrete financial information is reviewed by segment management. When a business within a reporting unit is disposed of, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology. During 2013, the company determined that the fair value of each of the reporting units of the company was significantly in excess of its respective carrying value.

Amortizable intangible assets are tested for impairment, when deemed necessary, based on undiscounted cash flows and, if impaired, are written down to fair value based on either discounted cash flows or appraised values.

Defined Benefit Pension Plans and Other Employee Benefits

The company has defined benefit plans that cover a significant portion of its employees. The company also has postretirement plans that provide certain medical benefits and life insurance for retirees and eligible dependents and, to a lesser extent, participates in multi-employer defined benefit plans for which Ball is not the sponsor. For the company sponsored plans, the relevant accounting guidance requires that management make certain assumptions relating to the long-term rate of return on plan assets, discount rates used to determine the present value of future obligations and expenses, salary inflation rates, health care cost trend rates, mortality rates and other assumptions. The company believes that the accounting estimates related to our pension and postretirement plans are critical accounting estimates, because they are highly susceptible to change from period to period based on the performance of plan assets, actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation, as well as

independent studies of trends performed by the company s actuaries. However, actual results may differ substantially from the estimates that were based on the critical assumptions.

The company recognizes the funded status of each defined benefit pension plan and other postretirement benefit plan in the consolidated balance sheet. Each overfunded plan is recognized as an asset, and each underfunded plan is recognized as a liability. Pension plan liabilities are revalued annually based on updated assumptions and information about the individuals covered by the plan. For pension plans, accumulated actuarial gains and losses in excess of a 10 percent corridor, the prior service cost and the transition asset are amortized on a straight-line basis from the date recognized over the average remaining service period of active participants. For other postemployment benefits, the 10 percent corridor is not used. The majority of costs related to defined benefit and other postretirement plans are included in cost of sales; the remainder is included in selling, general and administrative expenses.

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

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies ***(continued)***

Income Taxes

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

Deferred tax assets, including operating loss, capital loss and tax credit carryforwards, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that any portion of these tax attributes will not be realized. In addition, from time to time, management must assess the need to accrue or disclose uncertain tax positions for proposed adjustments from various federal, state and foreign tax authorities who regularly audit the company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions. The accounting guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The company records the related interest expense and penalties, if any, as tax expense in the tax provision.

Derivative Financial Instruments

The company uses derivative financial instruments for the purpose of hedging commercial risk exposures to fluctuations in interest rates, currency exchange rates, raw material costs, inflation rates and common share prices. The company s derivative instruments are recorded in the consolidated balance sheets at fair value. The company values each derivative financial instrument either by using a single valuation technique based on observable market inputs performed internally or by obtaining valuation information from a reliable and observable market source. For a derivative designated as a cash flow hedge, the effective portion of the derivative s mark to fair value is initially recorded as a component of accumulated other comprehensive earnings and subsequently reclassified into earnings when the hedged item affects earnings. The ineffective portion of the mark to fair value associated with all hedges is recorded in earnings immediately. Derivatives that do not qualify for hedge accounting are marked to fair value with gains and losses immediately recorded in earnings. In the consolidated statements of cash flows, derivative activities are classified based on the items being hedged.

Realized gains and losses from hedges are classified in the consolidated statements of earnings consistent with the accounting treatment of the items being hedged. Upon the early dedesignation of an effective derivative contract, the gains or losses are deferred in accumulated other comprehensive earnings until the originally hedged item affects earnings. Any gains or losses incurred after the dedesignation date are recorded in earnings immediately.

Revenue Recognition in the Aerospace and Technologies Segment

Sales under long-term contracts in the aerospace and technologies segment are primarily recognized using percentage-of-completion under the cost-to-cost method of accounting. The three types of long-term sales contracts used in the current year are (1) cost-type sales contracts, which represent approximately 63 percent of segment net sales; (2) fixed price sales contracts, which represent 35 percent of segment net sales; and (3) time and material contracts, which account for the remainder. A cost-type sales contract is an agreement to perform the contract for cost plus an agreed upon profit component, fixed price sales contracts are completed for a fixed price and time and material contracts involve the sale of engineering labor at fixed rates per hour. Cost-type sales contracts can have different types of fee arrangements, including fixed fee, cost, milestone and performance incentive fees, award fees or a combination thereof.

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

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Contingencies

The company is subject to various legal proceedings and claims, including those that arise in the ordinary course of business. The company records loss contingencies when it determines that the outcome of the future event is probable of occurring and when the amount of the loss can be reasonably estimated. Gain contingencies are recognized in the financial statements when they are realized.

The determination of a reserve for a loss contingency is based on management s judgment of probability and estimates with respect to the likelihood of an outcome and valuation of the future event. Liabilities are recorded or adjusted when events or circumstances cause these judgments or estimates to change. In assessing whether a loss is probable, Ball may consider the following factors, among others: the nature of the litigation, claim or assessment; available information, opinions or views of legal counsel and other advisors; and the experience gained from similar cases by the company and others. The company provides disclosures for material contingencies when there is a reasonable possibility that a loss or an additional loss may be incurred. Actual amounts realized upon settlement of contingencies may be different than amounts recorded and disclosed and could have a significant impact on the company s consolidated financial statements. See Note 21 to the consolidated financial statements within Item 8 of this annual report for further details.

Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Ball, its subsidiaries, and variable interest entities in which the company is considered to be the primary beneficiary. Equity investments in which the company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method of accounting. Investments in which the company does not exercise significant influence over the investee are accounted for using the cost method of accounting. Intercompany transactions are eliminated.

Reclassifications

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market using either the first-in, first-out (FIFO) cost method of accounting or the average cost method. Inventory cost is calculated for each inventory component taking into consideration the appropriate cost factors including fixed and variable overhead, material price volatility and production levels.

Depreciation and Amortization

Property, plant and equipment are carried at the cost of acquisition or construction and depleted over the estimated useful lives of the assets. Assets are depreciated and amortized using the straight-line method over their estimated useful lives, generally 5 to 40 years for buildings and improvements and 2 to 20 years for machinery and equipment. Finite-lived intangible assets, including capitalized software costs, are generally amortized over their estimated useful lives of 3 to 23 years.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies ***(continued)***

During 2012, the company utilized a third party appraiser to assist in the evaluation of the estimated useful lives of its drawn and ironed container and related end production equipment used to make beverage containers and ends and two-piece food containers. This evaluation was performed as a result of the global alignment of the company s use and maintenance practices for this equipment and the company s experience with the duration over which this equipment can be utilized. As a result, the company revised the estimated useful lives of this type of equipment utilized throughout the company, which resulted in a net reduction in depreciation expense and cost of sales of $34.9 million ($22.3 million after tax, or $0.14 per diluted share) for the year ended December 31, 2012, as compared to the amount of depreciation expense and cost of sales that would have been recognized by utilizing the prior depreciable lives. The company has also evaluated its estimates of the accounting for tooling, spare parts and dunnage, as well as the related obsolescence, and aligned its practices for all operations, resulting in a one-time increase in cost of sales and depreciation expense of $11.0 million ($6.7 million after tax, or $0.04 per diluted share) for the year ended December 31, 2012, primarily attributable to the immediate recognition of expense as items are placed in service.

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

Under certain business consolidation activities, accelerated depreciation may be required over the remaining useful life for designated assets to be scrapped or abandoned. The accelerated depreciation related to facility closures is disclosed as part of the business consolidation costs in the appropriate period.

Environmental Reserves

The company estimates the liability related to environmental matters based on, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. The company records the best estimate of a loss when the loss is considered probable. As additional information becomes available, the company assesses the potential liability related to pending matters and revises the estimates.

Revenue Recognition in the Packaging Segments

The company recognizes sales of products in the packaging segments when the four basic criteria of revenue recognition are met: delivery has occurred; title has transferred; there is persuasive evidence of an agreement or arrangement and the price is fixed and determinable; and collection is reasonably assured.

Fair Value Measurements

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value using the following definitions (from highest to lowest priority):

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2 Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

- Level 3 Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Stock-Based Compensation

Ball has a variety of restricted stock and stock option plans, and the related stock-based compensation is primarily reported as part of selling, general and administrative expenses in the consolidated statements of earnings. The compensation expense associated with restricted stock grants is calculated using the fair value at the date of grant (closing stock price) and is amortized over the restriction period. For stock options and stock-settled appreciation rights (SSARs), the company has elected to use the Black-Scholes valuation model and amortizes the estimated fair value on a straight-line basis over the requisite service period (generally the vesting period). The company s deferred compensation stock program is subject to variable plan accounting and, accordingly, is marked to the closing price of the company s common stock at the end of each reporting period. Tax benefits associated with option exercises are reported in financing activities in the consolidated statements of cash flows. Further details regarding the expense calculated under the fair value based method are provided in Note 16.

Research and Development

Research and development costs are expensed as incurred in connection with the company s programs for the development of products and processes. Costs incurred in connection with these programs, the majority of which are included in cost of sales, amounted to $31.2 million, $26.8 million and $22.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Currency Translation

Assets and liabilities of foreign operations with a functional currency other than the U.S. dollar are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive earnings as a component of shareholders equity.

2. Accounting Pronouncements

Recently Adopted Accounting Standards

In July 2013, accounting guidance was issued to provide for inclusion of the Overnight Index Swap Rate (OIS, also referred to as the Fed Funds Effective Swap Rate) as a benchmark interest rate for hedge accounting purposes. Prior to this guidance, in the United States (U.S.) only interest rates on direct U.S. Treasury obligations and the London Interbank Offered Rate (LIBOR) swap rate were considered benchmark interest rates for hedge accounting purposes. The guidance was effective for Ball prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The guidance did not have a material effect on the company s consolidated financial statements.

In February 2013, amendments to the existing accounting guidance were issued requiring the company to present, either on the face of the financial statements or in the notes, the effect of significant amounts reclassified in their entirety from each component of accumulated other comprehensive earnings based on the source into net earnings during the reporting period. For amounts not required to be reclassified in their entirety, the company is required to cross-reference to other disclosures that provide additional details about those reclassifications. The new guidance was effective for Ball prospectively on January 1, 2013, and the additional required disclosures are included in Note 15.

In December 2011, accounting guidance was issued requiring disclosures to help reconcile differences in the offsetting requirements under U.S. GAAP and international financial reporting standards (IFRS). The new disclosure requirements mandate that companies disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. Further guidance was issued in January 2013 to clarify the intended scope of the required disclosures. The guidance was effective for Ball on January 1, 2013, and did not have a material effect on the company s consolidated financial statements.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

2. Accounting Pronouncements *(continued)*

New Accounting Guidance

In July 2013, accounting guidance was issued to eliminate diversity in practice for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. In general, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless certain exceptions exist. The guidance is effective for Ball on January 1, 2014, and is not expected to have a material effect on the company s consolidated financial statements.

In May 2013, the Committee of Sponsoring Organization of the Treadway Commission (COSO) issued the 2013 Internal Control Integrated Framework (Framework). The 2013 Framework is expected to: (1) help companies design and implement internal controls in light of the changes in business and operating environments since the issuance of the original Framework, (2) broaden the application of internal controls in addressing operating and reporting objectives and (3) clarify the requirements for determining what constitutes effective internal controls. Implementation of the 2013 Framework is effective for Ball for the year ended December 31, 2014. During the transitional period, companies can continue to use the original Framework but should disclose whether the original or the 2013 Framework was utilized. Ball is continuing to use the original Framework issued in 1992 and does not expect the implementation of the 2013 Framework to have a material effect on the company s established internal controls around financial reporting.

In March 2013, accounting guidance was issued to clarify that a company should release the cumulative translation adjustment into net earnings if the parent ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. The guidance also affects entities that lose a controlling financial interest in an investment in a foreign entity and those that acquire a business in stages by increasing an investment in a foreign entity from one accounted for under the equity method to one accounted for as a consolidated investment. The guidance will be effective for Ball prospectively on January 1, 2014, and is not expected to have a material effect on the company s 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. On January 1, 2013, the company implemented changes to its management and internal reporting structure. As a result, the European extruded aluminum business, which was previously included in the metal beverage packaging, Europe, segment is now included in the metal food and household products packaging segment. The segment results and disclosures for the years ended December 31, 2012 and 2011, and the financial position at December 31, 2012, have been retrospectively adjusted to conform to the current year presentation.

Metal beverage packaging, Americas and Asia: Consists of the metal beverage packaging, Americas, operations in the U.S., Canada and Brazil, and the metal beverage packaging, Asia, operations in the People s Republic of China (PRC). 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, and also manufacture and sell non-beverage plastic containers in the PRC.

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

Metal food and household products packaging: Consists of operations in the U.S., Europe, Canada, Mexico and Argentina, which manufacture and sell steel food, aerosol, paint, general line and decorative specialty containers, as well as extruded aluminum beverage and aerosol containers and aluminum slugs.

Aerospace and technologies: 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.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

3. Business Segment Information *(continued)*

The accounting policies of the segments are the same as those in the consolidated financial statements and are discussed in Note 1. The company also has investments in companies in 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.

Major Customers

Net sales to major customers, as a percentage of consolidated net sales, were as follows:

	2013	2012	2011
Coca-Cola Bottlers Sales & Services Company LLC	11%	11%	11%
MillerCoors LLC and SABMiller plc	9%	9%	11%

Summary of Net Sales by Geographic Area

($ in millions)	U.S.	Foreign (a)	Consolidated
2013	$ 5,103.9	$ 3,364.2	$ 8,468.1
2012	5,463.2	3,272.5	8,735.7
2011	5,370.3	3,260.6	8,630.9

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

($ in millions)	U.S.	Germany (c)	Brazil	Other (a)	Consolidated
2013	$ 2,135.8	$ 1,313.4	$ 599.3	$ 1,305.6	$ 5,354.1
2012	2,084.3	1,226.6	565.0	1,291.8	5,167.7

(a) Includes intercompany eliminations.

(b) Net long-lived assets primarily consist of property, plant and equipment; goodwill and other intangible assets.

(c) For financial reporting purposes only, Ball Packaging Europe s goodwill and intangible assets have been allocated to Germany. The total amounts allocated were $1,037.2 million and $993.2 million at December 31, 2013 and 2012, respectively.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

3. Business Segment Information *(continued)*

Summary of Business by Segment

	Years Ended December 31,		
($ in millions)	**2013**	**2012**	**2011**
Net sales			
Metal beverage packaging, Americas & Asia	$ 4,193.4	$ 4,541.7	$ 4,415.8
Metal beverage packaging, Europe	1,828.3	1,771.3	1,837.6
Metal food & household products packaging	1,558.6	1,559.9	1,604.3
Aerospace & technologies	897.1	876.8	784.6
Corporate and intercompany eliminations	(9.3)	(14.0)	(11.4)
Net sales	$ 8,468.1	$ 8,735.7	$ 8,630.9
Net earnings			
Metal beverage packaging, Americas & Asia	$ 511.8	$ 522.5	$ 481.7
Business consolidation and other activities	(3.6)	(52.4)	(11.0)
Total metal beverage packaging, Americas & Asia	508.2	470.1	470.7
Metal beverage packaging, Europe	182.6	182.3	206.7
Business consolidation and other activities	(10.6)	(9.6)	(14.1)
Total metal beverage packaging, Europe	172.0	172.7	192.6
Metal food & household products packaging	177.4	167.8	170.7
Business consolidation and other activities	(63.7)	(27.5)	(1.9)
Total metal food & household products packaging	113.7	140.3	168.8
Aerospace & technologies	80.1	86.6	79.6
Business consolidation and other activities	(0.2)	(1.9)	
Total aerospace & technologies	79.9	84.7	79.6
Segment earnings before interest and taxes	873.8	867.8	911.7
Undistributed and corporate expenses and intercompany eliminations, net	(77.7)	(65.9)	(71.5)
Business consolidation and other activities	(0.7)	(11.4)	(3.3)
Total undistributed and corporate expenses and intercompany eliminations, net	(78.4)	(77.3)	(74.8)
Earnings before interest and taxes	795.4	790.5	836.9
Interest expense	(183.8)	(179.8)	(177.1)
Debt refinancing costs	(28.0)	(15.1)	
Total interest expense	(211.8)	(194.9)	(177.1)

Tax provision		(149.6)		(165.0)		(201.3)
Equity in results of affiliates, net of tax		0.6		(1.3)		10.1
Net earnings from continuing operations		434.6		429.3		468.6
Discontinued operations, net of tax		0.4		(2.8)		(2.3)
Net earnings		435.0		426.5		466.3
Less net earnings attributable to noncontrolling interests		(28.2)		(23.0)		(22.3)
Net earnings attibutable to Ball Corporation	**$**	**406.8**	**$**	**403.5**	**$**	**444.0**

47

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

3. Business Segment Information *(continued)*

Summary of Business by Segment *(continued)*

	Years Ended December 31,		
($ in millions)	**2013**	**2012**	**2011**
Depreciation and Amortization			
Metal beverage packaging, Americas & Asia	$ 121.9	$ 116.9	$ 124.9
Metal beverage packaging, Europe	87.0	82.4	93.2
Metal food & household products packaging	59.4	54.6	56.4
Aerospace & technologies	24.1	21.9	22.4
Segment depreciation and amortization	292.4	275.8	296.9
Corporate	7.5	7.1	4.2
Depreciation and amortization	$ 299.9	$ 282.9	$ 301.1
Capital Expenditures			
Metal beverage packaging, Americas & Asia	$ 224.0	$ 173.9	$ 283.9
Metal beverage packaging, Europe	75.4	45.6	63.5
Metal food & household products packaging	43.0	36.3	54.5
Aerospace & technologies	29.4	43.7	32.0
Segment capital expenditures	371.8	299.5	433.9
Corporate	6.5	5.5	9.9
Capital expenditures	$ 378.3	$ 305.0	$ 443.8

	December 31,	
($ in millions)	**2013**	**2012**
Total Assets		
Metal beverage packaging, Americas & Asia	$ 3,425.2	$ 3,227.5
Metal beverage packaging, Europe	2,380.1	2,299.8
Metal food & household products packaging	1,560.9	1,568.9
Aerospace & technologies	346.1	332.8
Segment assets	7,712.3	7,429.0
Corporate assets, net of eliminations	107.5	78.1
Total assets	**$ 7,819.8**	**$ 7,507.1**
Investments in Affiliates		
Metal beverage packaging, Americas & Asia	$ 30.6	$ 30.4
Metal beverage packaging, Europe	0.4	0.2
Corporate assets, net of eliminations	2.7	1.6
Total investments in affiliates	**$ 33.7**	**$ 32.2**

48

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

4. Acquisitions

Envases del Plata S.A. de C.V.

In December 2012, the company acquired a leading producer of extruded aluminum aerosol packaging in Mexico with a single manufacturing facility in San Luis Potosí, for cash of $57.7 million, net of cash acquired, and assumed debt of $72.7 million. The facility produces extruded aluminum aerosol containers for personal care and household products for customers in North, Central and South America and employs approximately 150 people. The acquisition provides a platform to grow the company s existing North American extruded aluminum business and new end market for the company s products, including the company s ReAlTM technology that enables the use of recycled material and meaningful lightweighting in the manufacture of extruded aluminum packaging. Based on the final purchase price allocation, goodwill of $64.0 million was recorded at December 31, 2013. This acquisition is not material to the metal food and household products packaging segment.

Tubettificio Europeo S.p.A. (Tubettificio)

In August 2012, the company acquired Tubettificio, a small regional manufacturer of metal beverage packaging containers in Italy for cash of approximately $15.3 million and consolidated it into other existing facilities. This acquisition is not material to the metal beverage packaging, Europe, segment.

Qingdao M.C. Packaging Ltd. (QMCP)

In October 2011, Ball acquired the remaining 60 percent interest in a joint venture metal beverage container facility in Qingdao, PRC. As a result of purchase accounting, the company recorded a gain of $9.2 million in equity in results of affiliates, related to the previously held interest in the joint venture. The acquisition of the remaining interest is not material to the metal beverage packaging, Americas and Asia, segment.

Aerocan S.A.S. (Aerocan)

In January 2011, the company acquired Aerocan for 221.7 million ($295.2 million) in cash and assumed debt, net of $26.2 million of cash acquired. Aerocan is a leading European manufacturer of extruded aluminum aerosol containers, and the aluminum slugs used to make them, for customers in the personal care, pharmaceutical, beverage and food industries. It operates three aerosol container manufacturing facilities one each in the Czech Republic, France and the United Kingdom and is a 51 percent owner of a joint venture aluminum slug facility in France. The

acquisition of Aerocan allows Ball to expand into a new product category that is growing faster than other parts of our business, while aligning with a new customer base at returns that meet or exceed the company s cost of capital.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

5. Business Consolidation and Other Activities

Following is a summary of business consolidation and other activity (charges)/gains included in the consolidated statements of earnings:

($ in millions)	Years Ended December 31, 2013	2012	2010
Metal beverage packaging, Americas & Asia	$ (3.6)	$ (52.4)	$ (11.0)
Metal beverage packaging, Europe	(10.6)	(9.6)	(14.1)
Metal food & household products packaging	(63.7)	(27.5)	(1.9)
Aerospace & technologies	(0.2)	(1.9)	
Corporate and other	(0.7)	(11.4)	(3.3)
	$ (78.8)	$ (102.8)	$ (30.3)

2013

Metal Beverage Packaging, Americas and Asia

During July 2013, the company signed a compensation agreement for approximately $72 million pretax with the PRC government to close the Shenzhen manufacturing facility and relocate the production capacity. Proceeds from the compensation agreement offset costs related to the closure and relocation of the Shenzhen facility and are composed of compensation for the disposal of the land and building, the disposal and transfer of machinery and equipment, business interruption losses and severance. Any compensation received in excess of expenses or losses incurred by the company is reflected in business consolidation and other activities. As of December 31, 2013, the company has received and recorded the following: (1) $34.0 million of compensation for land and buildings, resulting in income of $26.2 million for the excess compensation over net book value; (2) $26.8 million of compensation for machinery and equipment, including removal costs, of which $3.8 million was used to offset 2013 costs and $23.0 million was deferred in the balance sheet to offset capital expenditures for the relocation of capacity; (3) $6.2 million of compensation for business interruption, of which $4.1 million was recognized in cost of sales in 2013 and $2.1 million will be recognized in 2014; (4) $7.2 million of expense for severance costs, the compensation for which will be received in 2014 and (5) $1.6 million for other costs that will not be compensated under the agreement.

In 2013, Ball eliminated 12-ounce beverage can production from the company s Milwaukee, Wisconsin, facility. In connection with the line shut down, the company recorded charges of $9.7 million, composed of $4.6 million for accelerated depreciation, $2.1 million for severance and other employee benefits and $3.0 million for other costs. In addition, the company recorded net charges of $11.3 million, primarily for ongoing costs related to the previously announced closures of Ball s Columbus, Ohio, and Gainesville, Florida, facilities and voluntary separation programs, as well as other insignificant costs.

Metal Beverage Packaging, Europe, and Corporate

The company recorded charges of $11.3 million, primarily for headcount reductions, cost-out initiatives and the relocation of the company s European headquarters from Germany to Switzerland.

Metal Food and Household Products Packaging

During the fourth quarter, the company announced that it will close its Danville, Illinois, steel aerosol packaging facility in the second half of 2014 and recorded charges of $4.9 million in connection with this planned closure. Additional charges of approximately $5 million are expected to be recorded in 2014. The Danville facility produces steel aerosol cans and ends for household products customers, which will be supplied by other North American metal food and household products packaging facilities.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

5. Business Consolidation and Other Activities *(continued)*

The company recorded an accounts receivable provision of $27.0 million as a result of the October 28, 2013, bankruptcy filing of a metal food and household products packaging segment customer. This provision represents the company s estimate of the most likely potential loss of value it expects to incur on the approximately $46.5 million accounts receivable balance as a result of the customer s bankruptcy. In October 2013, the company entered into an agreement with the customer s second lien lenders to provide, among other things, that if such lenders were the successful bidder for the customer s assets out of bankruptcy, the company would supply the lenders can and end requirements under a new long-term contract. On February 6, 2014, the lenders were selected as the successful bidder for the customer s assets and such selection was approved by the U.S. Bankruptcy Court on February 12, 2014. No change in the company s valuation is currently considered necessary; however, if certain facts and circumstances change as a result of future events, the potential loss may materially change.

The company closed its Elgin, Illinois, metal food and household products packaging facility in December 2013 and recorded total charges of $29.0 million during the year composed of $16.0 million for severance, pension and other employee benefits; $4.2 million for the write down of the land and building to net realizable value; and $8.8 million for the accelerated depreciation on assets to be abandoned and other closure costs. The Elgin facility produced steel aerosol and specialty cans, as well as flat steel sheet used by other Ball facilities, which are now supplied by other North American metal food and household products packaging facilities.

During 2013 the company also recorded: (1) a charge of $5.9 million to migrate certain hourly employees from a multi-employer defined benefit pension plan as of January 1, 2014, to a Ball-sponsored defined benefit pension plan; (2) income of $3.5 million to accrue for the reimbursement of funds paid in 2012 for the settlement of certain Canadian defined benefit pension liabilities related to previously closed facilities and (3) charges of $0.4 million for other insignificant costs.

2012

Metal Beverage Packaging, Americas and Asia

In August 2012, Ball announced plans to close its Columbus, Ohio, beverage container manufacturing facility and its Gainesville, Florida, end facility. The two facilities were closed in order to consolidate the company s 12-ounce beverage container and end production capacity to meet changing market demand. In connection with the closures and a related voluntary separation program completed within the segment, the company recorded charges of $50.2 million, of which $20.4 million represented severance, pension and other employee benefits; $19.9 million represented accelerated depreciation on abandoned assets, $5.3 million represented the write down of real property to net realizable value and $4.6 million represented the obsolescence of tooling and spares.

Also included in 2012 were net charges of $2.2 million related to previously closed facilities and other insignificant costs.

Metal Beverage Packaging, Europe

Charges of $6.3 million were recorded in the segment in connection with the relocation of the company s European headquarters from Germany to Switzerland in 2012.

The company also recorded charges of $1.7 million related to a fire at one of the company s metal beverage container plants in the United Kingdom and net charges of $1.6 million related to previously closed facilities and other insignificant costs.

Metal Food and Household Products Packaging

In November 2012, the company purchased annuities with pension trust assets to settle the liabilities in certain of its Canadian defined benefit pension plans. In connection with the final settlement, the company recorded charges of $26.7 million, which primarily represented previously unrecognized losses included in accumulated other comprehensive earnings (loss).

Also included in 2012 were net charges of $0.8 million related to previously closed facilities and other insignificant costs.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

5. Business Consolidation and Other Activities *(continued)*

Corporate and Aerospace and Technologies

The company incurred costs of $6.2 million at the corporate headquarters in connection with the relocation of the company s European headquarters from Germany to Switzerland discussed above. The year also included charges of $2.9 million for transaction costs related to the acquisition of Envases in December 2012 and $3.4 million for a voluntary separation program offered to corporate headquarters and aerospace and technologies employees. Additionally, net charges of $0.8 million were recorded to reflect other individually insignificant costs.

2011

Metal Beverage Packaging, Americas and Asia

In January 2011, Ball announced plans to close its Torrance, California, beverage container manufacturing facility; relocate a 12-ounce container line from the Torrance facility to its Whitby, Ontario, Canada, facility; and expand specialty container production in its Fort Worth, Texas, facility. The company recorded charges of $14.2 million in connection with the closure of the Torrance facility, of which $10.1 million represented severance, pension and other employee benefits; $2.4 million represented accelerated depreciation; and $1.7 million represented other costs. Ball also recorded a net gain of $6.8 million in 2011 for the sale of tangible assets from the Torrance facility less costs of closing the facility.

Also included in 2011 was a charge of $1.7 million for severance costs related to capacity reduction at the Columbus, Ohio, facility and a net charge of $1.9 million to reflect individually insignificant charges related to previously announced facility closures.

Metal Beverage Packaging, Europe

In 2011, the company recorded charges of $9.6 million for the write down of the Lublin, Poland, facility to net realizable value, as well as charges of $1.6 million incurred in connection with the planned relocation of the company s European headquarters from Germany to Switzerland in 2012. In connection with the acquisition of Aerocan discussed in Note 4, the company recorded charges totaling $2.9 million for transaction costs, which were expensed as incurred.

Metal Food and Household Products Packaging

In September 2011, the company discontinued production of certain products in a facility and recorded a charge of $1.4 million in connection with this discontinuance. Also during 2011, Ball recorded net charges of $0.5 million associated with previously closed facilities.

Corporate and Other Costs

Corporate and other costs included an additional $2.5 million for the planned relocation of the company s European headquarters from Germany to Switzerland. Additionally, net charges of $0.8 million were recorded to reflect individually insignificant charges related to previously announced facility closures.

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

5. Business Consolidation and Other Activities *(continued)*

Summary

Detailed below is a summary by segment of the activity in the restructuring reserves for the years ended December 31, 2013 and 2012. The reserve balances are included in other current liabilities on the consolidated balance sheets.

($ in millions)	Metal Beverage Packaging, Americas & Asia	Metal Food & Household Products Packaging	Aerospace & Technologies	Corporate & Other Costs	Total
Balance at December 31, 2011	$ 2.7	$ 5.8	$	$ 4.1	$ 12.6
Charges to earnings	15.4	0.7	1.9	5.6	23.6
Cash payments and other activity	(1.7)	(3.5)		(5.9)	(11.1)
Balance at December 31, 2012	16.4	3.0	1.9	3.8	25.1
Charges to earnings	(3.2)	19.9		0.2	16.9
Cash payments and other activity	(11.3)	(8.2)	(1.9)	(4.0)	(25.4)
Balance at December 31, 2013	$ 1.9	$ 14.7	$	$	$ 16.6

The carrying value of assets held for sale in connection with facility closures was approximately $20.4 million and $31.4 million at December 31, 2013 and 2012, respectively.

6. Receivables

($ in millions)	December 31, 2013	2012
Trade accounts receivable	$ 835.2	$ 878.3
Less allowance for doubtful accounts	(36.3)	(13.7)
Net trade accounts receivable	798.9	864.6
Other receivables	60.5	65.5
	$ 859.4	$ 930.1

The allowance for doubtful accounts at December 31, 2013, includes a provision recorded in the third quarter of 2013 as a result of the October 28, 2013, bankruptcy filing of a metal food and household products packaging segment customer. Additional details are available in

Note 5.

Net accounts receivable under long-term contracts, due primarily from agencies of the U.S. government and their prime contractors, were $144.8 million and $155.9 million for the years ended December 31, 2013 and 2012, respectively, and included $99.2 million and $75.5 million at each period end, respectively, representing the recognized sales value of performance that was not yet billable to customers. The average length of the long-term contracts is approximately 2.7 years, and the average length remaining on those contracts at December 31, 2013, was 10 months. Approximately $140.9 million of unbilled receivables at December 31, 2013, is expected to be collected within the next year and is related to customary fees and cost withholdings that will be paid upon milestone or contract completions, as well as final overhead rate settlements.

The company has several regional 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 $248 million at December 31, 2013. A total of $137.5 million and $75.0 million were sold under these programs as of December 31, 2013 and 2012, respectively. Latapack-Ball also commenced a non-recourse uncommitted accounts receivable factoring program in 2013 with a financial institution, which is limited to the total of eligible Latapack-Ball receivables, as defined in the agreement. A total of $6.0 million was sold under this program as of December 31, 2013.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

7. Inventories

($ in millions)	December 31, 2013	December 31, 2012
Raw materials and supplies	$ 465.6	$ 426.7
Work-in-process and finished goods	609.6	664.5
Less inventory reserves	(46.9)	(46.8)
	$ 1,028.3	$ 1,044.4

8. Property, Plant and Equipment

($ in millions)	December 31, 2013	December 31, 2012
Land	$ 67.6	$ 67.9
Buildings	980.9	934.3
Machinery and equipment	3,647.8	3,407.6
Construction-in-progress	232.9	240.6
	4,929.2	4,650.4
Accumulated depreciation	(2,556.9)	(2,373.7)
	$ 2,372.3	$ 2,276.7

Property, plant and equipment are stated at historical or acquired cost. Depreciation expense amounted to $261.3 million, $248.3 million and $268.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

9. Goodwill

($ in millions)	Metal Beverage Packaging, Americas & Asia	Metal Beverage Packaging, Europe	Metal Food & Household Products Packaging	Aerospace & Technologies	Total
Balance at December 31, 2011	$ 740.7	$ 963.9	$ 542.5	$	$ 2,247.1
Business acquisitions and related opening balance sheet adjustments		9.7	79.8		89.5
Effects of currency exchange rates		19.6	3.2		22.8
Balance at December 31, 2012	740.7	993.2	625.5		2,359.4

Business acquisitions and related opening balance sheet adjustments			(15.1)	8.6	(6.5)
Effects of currency exchange rates		44.0	7.4		51.4
Balance at December 31, 2013	$ 740.7	$ 1,037.2	$ 617.8	$ 8.6	$ 2,404.3

On January 1, 2013, the company implemented changes to its management and internal reporting structure. As a result, the European extruded aluminum reporting unit, which was previously included in the metal beverage packaging, Europe, segment, is now included in the metal food and household products packaging segment. Goodwill by segment has been retrospectively adjusted to conform to the current year presentation. No impairment charges were considered necessary or recorded for the company s existing reporting units.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

10. Intangibles and Other Assets

($ in millions)	December 31, 2013	2012
Investment in affiliates	$ 33.7	$ 32.2
Intangible assets (net of accumulated amortization of $93.7 million and $68.1 million at December 31, 2013 and 2012, respectively)	166.1	162.9
Capitalized software (net of accumulated amortization of $91.3 million and $78.4 million at December 31, 2013 and 2012, respectively)	65.0	50.4
Company and trust-owned life insurance	150.9	114.7
Deferred financing costs	46.2	37.3
Other	115.6	134.1
	$ 577.5	$ 531.6

Total amortization expense of intangible assets amounted to $38.6 million, $34.6 million and $32.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. Based on intangible asset values and currency exchange rates as of December 31, 2013, total annual intangible asset amortization expense is expected to be $41.5 million, $37.5 million, $33.2 million, $28.8 million and $24.8 million for the years 2014 through 2018, respectively, and $62.4 million combined for all years thereafter.

11. Leases

The company leases warehousing and manufacturing space and certain equipment in the packaging segments and office and technical space in the aerospace and technologies segment. Certain of the company s leases in effect at December 31, 2013, include renewal options and/or escalation clauses for adjusting lease expense based on various factors. During 2010 and 2005, we entered into aircraft leases that qualify as operating leases for book purposes and capital leases for tax purposes. Under these lease arrangements, Ball has the option to purchase the leased equipment at the end of the lease term, or if we elect not to do so, to compensate the lessors for the difference between the guaranteed minimum residual values totaling $12.0 million and the fair market value of the assets, if less.

Total noncancellable operating leases in effect at December 31, 2013, require rental payments of $38.4 million, $26.5 million, $18.1 million, $13.5 million and $9.7 million for the years 2014 through 2018, respectively, and $15.3 million combined for all years thereafter. Lease expense for all operating leases was $73.2 million, $70.2 million and $67.3 million in 2013, 2012 and 2011, respectively.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

12. Debt and Interest Costs

Long-term debt and interest rates in effect consisted of the following:

	December 31,							
	2013				2012			
($ in millions)	In Denominated Currency		In U.S. $		In Denominated Currency		In U.S. $	
Notes Payable								
7.125% Senior Notes, due September 2016	$		$		$	375.0	$	375.0
7.375% Senior Notes, due September 2019	$	315.4		315.4	$	325.0		325.0
6.75% Senior Notes, due September 2020	$	500.0		500.0	$	500.0		500.0
5.75% Senior Notes, due May 2021	$	500.0		500.0	$	500.0		500.0
5.00% Senior Notes, due March 2022	$	750.0		750.0	$	750.0		750.0
4.00% Senior Notes, due November 2023	$	1,000.0		1,000.0	$			
Senior Credit Facilities, due June 2018 (at variable rates)								
Term A Loan, U.S. dollar denominated (2012 - 1.96%)	$				$	125.0		125.0
Term B Loan, British sterling denominated (2013 - 2.11%; 2012 - 2.24%)	£	36.8		60.8	£	46.5		75.2
Term C Loan, euro denominated (2013 - 1.86%; 2012 - 1.86%)		80.6		111.2		91.3		120.6
Multi-currency revolver, due June 2018		70.0		96.6		159.0		210.1
Latapack-Ball Notes Payable								
(2013 - 3.58%; 2012 - 3.70%)	$	215.8		215.8	$	176.1		176.1
Other (including discounts and premiums)	Various			(2.0)	Various			32.4
				3,547.8				3,189.4
Less: Current portion of long-term debt and callable long-term debt				(365.3)				(104.1)
			$	3,182.5			$	3,085.3

The senior credit facilities bear interest at variable rates and include the term loans described in the table above, as well as a long-term, multi-currency committed revolving credit facility that provides the company with up to the U.S. dollar equivalent of $1 billion. In June 2013, the company amended the senior credit facilities and extended the term from December 2015 to June 2018. In connection with the amendment, the company recorded a charge of $0.4 million for the write off of unamortized financing costs. The charge is included as a component of interest expense in the consolidated statement of earnings.

In May 2013, Ball: (1) issued $1 billion of 4.00 percent senior notes due in November 2023; (2) tendered for the redemption of its 7.125 percent senior notes originally due in September 2016 in the amount of $375 million, at a redemption price per note of 105.322 percent of the

outstanding principal amount plus accrued interest; and (3) repaid the $125 million Term A loan, which was a component of the senior credit facilities. The redemption of the senior notes, all of which occurred in the second quarter, and the early repayment of the Term A loan resulted in charges of $26.5 million for the tender and call premiums, as well as the write off of unamortized financing costs and issuance discounts. These charges are included as a component of interest expense in the consolidated statement of earnings.

At December 31, 2013, taking into account outstanding letters of credit and excluding availability under the accounts receivable securitization program, approximately $887 million was available under the company s long-term, multi-currency committed revolving credit facilities, which are available until June 2018. In addition to these facilities, the company had approximately $818 million of short-term uncommitted credit facilities available at December 31, 2013, of which $57.3 million was outstanding and due on demand. At December 31, 2012, the company had $148.6 million outstanding under short-term uncommitted credit facilities. The weighted average interest rate of the outstanding short-term facilities was insignificant at December 31, 2013, and 2.3 percent at December 31, 2012.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

12. Debt and Interest Costs ***(continued)***

On December 9, 2013, Ball announced the redemption of its outstanding 7.375 percent senior notes due in September 2019. The redemption occurred on January 10, 2014, at a price per note of 108.01 percent of the outstanding principal amount plus accrued interest. The redemption of the bonds will result in a pretax charge in the first quarter of 2014 of approximately $33 million for the call premium and the write off of unamortized financing costs and premiums.

On March 9, 2012, Ball issued $750 million of 5.00 percent senior notes due in March 2022. On the same date, the company tendered for the redemption of its 6.625 percent senior notes originally due in March 2018 in the amount of $450 million, at a redemption price per note of 102.583 percent of the outstanding principal amount plus accrued interest. The company redeemed $392.7 million during the first quarter of 2012, and the remaining $57.3 million was redeemed during the second quarter. The redemption of the bonds resulted in a charge of $15.1 million for the call premium and the write off of unamortized financing costs and premiums. The charge is included as a component of interest expense in the consolidated statement of earnings.

In August 2011, the company entered into an accounts receivable securitization agreement for a term of three years, as amended from time to time. The maximum the company can borrow under the amended agreement can vary between $85 million and $210 million depending on the seasonal accounts receivable balances in the company s North American packaging businesses. There were no accounts receivable sold under this agreement at December 31, 2013 or 2012. Borrowings under the securitization agreement, if any, are included within the short-term debt and current portion of long-term debt line on the balance sheet.

The fair value of the long-term debt was estimated to be $3.5 billion at December 31, 2013, which approximated the carrying value of $3.5 billion. The fair value was $3.4 billion at December 31, 2012, compared to a carrying value of $3.2 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.

Long-term debt obligations outstanding at December 31, 2013, have maturities of $370.0 million, $61.9 million, $70.2 million, $145.2 million and $153.9 million in the years ending December 31, 2014 through 2018, respectively, and $2,751.3 million thereafter. Ball provides letters of credit in the ordinary course of business to secure liabilities recorded in connection with certain self-insurance arrangements. Letters of credit outstanding at December 31, 2013 and 2012, were $16.5 million and $17.3 million, respectively. Interest payments were $187.5 million, $177.3 million and $177.9 million in 2013, 2012 and 2011, respectively.

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 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 require the company to maintain an interest coverage ratio (as defined in the agreements) of no less than 3.50 and a leverage ratio (as defined) of no greater than 4.00. The company was in compliance with all loan agreements and debt covenants at December 31, 2013 and 2012, and has met all debt payment obligations.

The Latapack-Ball debt facilities contain various covenants and restrictions but are non-recourse to Ball Corporation and its wholly owned subsidiaries.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

13. Taxes on Income

The amount of earnings before income taxes is:

	Years Ended December 31,		
($ in millions)	**2013**	**2012**	**2011**
U.S.	$ 242.9	$ 295.8	$ 313.6
Foreign	340.7	299.8	346.2
	$ 583.6	$ 595.6	$ 659.8

The provision for income tax expense is:

	Years Ended December 31,		
($ in millions)	**2013**	**2012**	**2011**
Current			
U.S.	$ 47.2	$ 54.7	$ 61.3
State and local	3.6	15.0	15.0
Foreign	100.4	81.3	96.6
Total current	151.2	151.0	172.9
Deferred			
U.S.	28.5	19.7	48.0
State and local	(0.7)	3.8	7.7
Foreign	(29.4)	(9.5)	(27.3)
Total deferred *(a)*	(1.6)	14.0	28.4
Tax provision	$ 149.6	$ 165.0	$ 201.3

(a) Amounts do not include tax benefits (expense) related to discontinued operations of $(0.2) million, $1.7 million and $1.5 million in 2013, 2012 and 2011, respectively.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

13. Taxes on Income *(continued)*

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

	Years Ended December 31,		
($ in millions)	**2013**	**2012**	**2011**
Statutory U.S. federal income tax	$ 204.3	$ 208.5	$ 230.9
Increase (decrease) due to:			
Foreign tax rate differences	(45.5)	(36.9)	(51.0)
U.S. state and local taxes, net	1.6	12.2	14.0
U.S. taxes on foreign earnings, net of tax credits	26.4	7.3	22.3
U.S. manufacturing deduction	(4.3)	(7.1)	(6.5)
U.S. research and development tax credits	(17.9)	(5.3)	(5.6)
Basis differences for asset sales			(5.0)
Uncertain tax positions, including interest	(3.4)	(10.3)	4.7
Company and trust-owned life insurance	(6.3)	(5.5)	(1.6)
Other, net	(5.3)	2.1	(0.9)
Provision for taxes	$ 149.6	$ 165.0	$ 201.3
Effective tax rate expressed as a percentage of pretax earnings	25.6%	27.7%	30.5%

The 2013 full year effective income tax rate was 25.6 percent compared to 2012 of 27.7 percent. The lower tax rate in 2013 was primarily the result of the retroactive extension of the U.S. research and development tax credit, a lower U.S. state and local effective tax rate and a higher foreign tax rate differential, partially offset by higher U.S. taxes on foreign earnings and the 2012 releases of uncertain tax positions which exceeded those occurring in 2013.

The decrease in the 2012 full year effective income tax rate of 27.7 percent as compared to 2011 of 30.5 percent was primarily the net result of the release of various income tax reserves effectively settled with taxing jurisdictions, lower U.S. taxes on foreign earnings and an increased tax benefit related to company and trust-owned life insurance.

Ball s Serbian subsidiary was granted an income tax holiday that applies to only a portion of earnings and will expire at the end of 2015. In addition, in 2010 the Serbian subsidiary was granted a tax credit equal to 80 percent of additional local investment with a ten-year period that will expire in 2019. The credit may be used to offset tax on earnings not covered by the initial tax holiday and has $24.6 million remaining as of December 31, 2013. In 2011 and 2012, Ball s Brazilian joint venture was granted two tax holidays expiring in 2021 and 2022. Under the terms of the holidays, a certain portion of Brazil earnings receive a 19 percent tax exemption. Ball s Czech Republic subsidiary was granted a tax holiday that began in 2009. The tax holiday provides foreign annual abatement of tax not to exceed $24.5 million over its 10-year term. At December 31, 2013, the remaining tax holiday is $6.7 million.

Due to the U.S. tax status of certain Ball subsidiaries in Canada and the PRC, the company annually provides U.S. taxes on foreign earnings in those subsidiaries, net of any estimated foreign tax credits. The company also provides deferred taxes on the undistributed earnings in its Brazil investment related to its 10 percent indirectly held investment. Current taxes are also provided on certain other undistributed earnings that are currently taxed in the U.S. Net U.S. taxes primarily provided for Brazil, Canada and PRC earnings in 2013, 2012 and 2011 were $26.4 million, $7.3 million and $22.3 million, respectively. Management s intention is to indefinitely reinvest undistributed earnings of Ball s remaining foreign investments and, as a result, no U.S. income or federal withholding tax provision has been made. The indefinite reinvestment assertion is supported by both long-term and short-term forecasts and U.S. financial requirements, including, but not limited to, operating cash flows, capital expenditures, debt maturities and dividends. It is not practical to estimate the additional taxes that may become payable upon the eventual remittance of these foreign earnings; however, repatriation of these earnings would result in a relatively high incremental tax rate.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

13. Taxes on Income *(continued)*

Net income tax payments were $111.4 million, $143.9 million and $148.0 million in 2013, 2012 and 2011, respectively.

The significant components of deferred tax assets and liabilities were:

	December 31,			
($ in millions)		**2013**		**2012**
Deferred tax assets:				
Deferred compensation	$	104.1	$	99.9
Accrued employee benefits		130.0		125.4
Plant closure costs		15.2		10.0
Accrued pensions		99.3		193.6
Inventory and other reserves		24.3		24.1
Net operating losses, foreign tax credits and other tax attributes		96.0		82.0
Unrealized losses on currency exchange and derivative transactions		29.3		21.3
Other		30.0		23.0
Total deferred tax assets		528.2		579.3
Valuation allowance		(89.5)		(76.5)
Net deferred tax assets		438.7		502.8
Deferred tax liabilities:				
Depreciation		(262.0)		(268.0)
Goodwill and other intangible assets		(144.0)		(130.4)
Other		(31.7)		(43.6)
Total deferred tax liabilities		(437.7)		(442.0)
Net deferred tax asset (liability)	$	1.0	$	60.8

The net deferred tax asset (liability) was included in the consolidated balance sheets as follows:

	December 31,			
($ in millions)		**2013**		**2012**
Deferred taxes and other current assets	$	78.0	$	80.4
Intangibles and other assets, net		36.6		44.7
Other current liabilities		(3.0)		(8.8)
Deferred taxes and other liabilities		(110.6)		(55.5)
Net deferred tax asset	$	1.0	$	60.8

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

13. Taxes on Income *(continued)*

At December 31, 2013, Ball Packaging Europe and its subsidiaries had net operating loss carryforwards, with no expiration date, of $51.6 million with a related tax benefit of $12.2 million. Ball s Canadian subsidiaries had net operating loss carryforwards, expiring between 2027 and 2033, of $95.1 million with a related tax benefit of $25.2 million. Ball s Mexican subsidiary had net operating loss carryforwards of $20.0 million with a related tax benefit of $6.0 million expiring between 2019 and 2022. In addition, Ball s Argentine subsidiary had a net operating loss carryforward of $0.5 million, expiring between 2014 and 2018, with a related tax benefit of $0.2 million. Due to the uncertainty of ultimate realization, the European, Canadian and Argentine benefits have been fully offset by valuation allowances while the Mexican net operating losses are expected to be fully utilized. The company also had $1.4 million of miscellaneous tax net operating losses fully offset by valuation allowances. At December 31, 2013, the company had foreign tax credit carryforwards of $54.3 million expiring between 2014 and 2023; however, due to the uncertainty of realization of the entire foreign tax credit, a valuation allowance of $50.5 million has been applied to reduce the carrying value of this credit to $3.8 million.

A rollforward of the unrecognized tax benefits related to uncertain income tax positions at December 31 follows:

($ in millions)		**2013**		**2012**		**2011**
Balance at January 1	$	76.6	$	57.4	$	52.3
Additions based on tax positions related to the current year		1.7		31.3		0.7
Additions for tax positions of prior years		5.5		6.2		6.1
Reductions for settlements		(7.2)		(19.8)		
Reductions due to lapse of statute of limitations		(0.2)				(1.3)
Effect of foreign currency exchange rates		1.9		1.5		(0.4)
Balance at December 31	$	78.3	$	76.6	$	57.4

The annual provisions for income taxes included tax benefits, net of interest, of $3.4 million and $10.3 million in 2013 and 2012, respectively, and tax expense plus interest, of $4.7 million in 2011.

At December 31, 2013, the amount of unrecognized tax benefits that, if recognized, would reduce tax expense was $87.7 million. Within the next 12 months, it is reasonably possible that unrecognized tax benefits may decrease by as much as $18.1 million as a result of settlements with various taxing jurisdictions. The company or one of its subsidiaries files income tax returns in the U.S. federal, various states and foreign jurisdictions. The U.S. federal statute of limitations is closed for years prior to 2010. With a few exceptions, the company is no longer subject to state and local or foreign examinations by tax authorities for years prior to 2007. The company s significant non-U.S. filings are in Germany, France, the United Kingdom, the Netherlands, Poland, Serbia, the PRC, Canada, Brazil, the Czech Republic, Mexico and Argentina. At December 31, 2013, the company had ongoing examinations by tax authorities in Germany, the United Kingdom, Hong Kong and Canada.

The company recognizes the accrual of interest and penalties related to unrecognized tax benefits in income tax expense. Ball recognized $2.7 million, $2.8 million and $3.0 million of additional income tax expense in 2013, 2012 and 2011, respectively, for potential interest on these items. At December 31, 2013 and 2012, the accrual for uncertain tax positions included potential interest expense of $10.4 million and $11.1 million, respectively. No penalties have been accrued.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations

($ in millions)	December 31, 2013	2012
Underfunded defined benefit pension liabilities	$ 601.9	$ 820.2
Less current portion and prepaid pension assets	(21.4)	(25.0)
Long-term defined benefit pension liabilities	580.5	795.2
Retiree medical and other postemployment benefits	165.9	177.0
Deferred compensation plans	257.1	237.8
Other	29.5	28.1
	$ 1,033.0	$ 1,238.1

The company s pension plans cover U.S., Canadian and European employees meeting certain eligibility requirements. The defined benefit plans for salaried employees, as well as those for hourly employees in Germany and the United Kingdom, provide pension benefits based on employee compensation and years of service. Plans for North American hourly employees provide benefits based on fixed rates for each year of service. While the German plans are not funded, the company maintains book reserves, and annual additions to the reserves are generally tax deductible. With the exception of the German plans, our policy is to fund the plans in amounts at least sufficient to satisfy statutory funding requirements taking into consideration what is currently deductible under existing tax laws and regulations.

The company also participates in multi-employer defined benefit plans for which Ball is not the sponsor. The aggregated annual 2013 expense for these plans of $2.6 million, which approximated the total annual funding, is included in the summary of net periodic benefit cost. Certain of the company s multi-employer defined benefit plans are reported to have significant underfunded liabilities. These plans include: the Graphic Communications Conference of the International Brotherhood of Teamsters National Pension Fund, the IAM National Pension Plan and the Western Conference of Teamsters Pension Plan. Pension-related legislation requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, the company contributions to these plans are subject to increases in the future, however, any increases in contribution levels are not expected to significantly impact the company s liquidity.

The risks of participating in multi-employer pension plans are different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. In the event that Ball withdraws from participation in one of these plans, then applicable law could require the company to make additional lump-sum contributions to the plan. The company s withdrawal liability for any multi-employer defined benefit pension plan would depend on the extent of the plan s funding of vested benefits. Additionally, if a multi-employer defined benefit pension plan fails to satisfy certain minimum funding requirements, the IRS may impose a nondeductible excise tax of 5 percent on the amount of the accumulated funding deficiency for those employers contributing to the plan.

Certain management employees may elect to defer the payment of all or a portion of their annual incentive compensation into the company s deferred compensation plan and/or the company s deferred compensation stock plan. The employee becomes a general unsecured creditor of the

company with respect to amounts deferred. Amounts deferred into the deferred compensation stock plan receive a 20 percent company match with a maximum match of $20,000 per year. Amounts deferred into the stock plan are represented in the participant s account as stock units, with each unit having a value equivalent to one share of Ball s common stock. Participants in the stock plan are allowed to reallocate a prescribed number of units to other notional investment funds subject to specified time constraints.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employment Benefit Obligations *(continued)*

Defined Benefit Pension Plans

An analysis of the change in benefit accruals for 2013 and 2012 follows:

	December 31,					
		2013			2012	
($ in millions)	**U.S.**	**Foreign**	**Total**	**U.S.**	**Foreign**	**Total**
Change in projected benefit obligation:						
Benefit obligation at prior year end	$ 1,373.6	$ 660.0	$ 2,033.6	$ 1,220.9	$ 609.8	$ 1,830.7
Service cost	48.7	12.1	60.8	47.0	7.9	54.9
Interest cost	55.2	24.0	79.2	56.5	28.7	85.2
Benefits paid	(75.4)	(32.2)	(107.6)	(58.4)	(34.3)	(92.7)
Net actuarial (gains) losses	(122.2)	18.3	(103.9)	103.4	85.7	189.1
Effect of exchange rates		19.2	19.2		18.8	18.8
Settlements/curtailments/special termination	3.5	1.7	5.2		(56.6)	(56.6)
Plan amendments and other	0.8	1.5	2.3	4.2		4.2
Benefit obligation at year end	1,284.2	704.6	1,988.8	1,373.6	660.0	2,033.6
Change in plan assets:						
Fair value of assets at prior year end	952.0	261.4	1,213.4	824.9	274.2	1,099.1
Actual return on plan assets	76.2	6.6	82.8	79.6	21.6	101.2
Employer contributions	157.5	16.3	173.8	106.8	26.1	132.9
Contributions to unfunded German plans *(a)*		22.5	22.5		21.9	21.9
Benefits paid	(75.4)	(32.2)	(107.6)	(58.4)	(34.3)	(92.7)
Effect of exchange rates		1.8	1.8		9.8	9.8
Settlements	(0.8)		(0.8)	(0.9)	(56.6)	(57.5)
Other		1.0	1.0		(1.3)	(1.3)
Fair value of assets at end of year	1,109.5	277.4	1,386.9	952.0	261.4	1,213.4
Underfunded status	$ (174.7)	$ (427.2)*(a)*	$ (601.9)	$ (421.6)	$ (398.6)*(a)*	$ (820.2)

(a) The German plans are unfunded and the liability is included in the company s consolidated balance sheets. Benefits are paid directly by the company to the participants. The German plans represented $370.3 million and $359.6 million of the total unfunded status at December 31, 2013 and 2012, respectively.

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

	December 31,					
	2013			2012		
($ in millions)	**U.S.**	**Foreign**	**Total**	**U.S.**	**Foreign**	**Total**
Prepaid pension cost	$	$ 2.3	$ 2.3	$	$ 1.0	$ 1.0
Defined benefit pension liabilities	(174.7)	(429.5)	(604.2)	(421.6)	(399.6)	(821.2)
	$ (174.7)	$ (427.2)*(a)*	$ (601.9)	$ (421.6)	$ (398.6)	$ (820.2)

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

	December 31,					
	2013			2012		
($ in millions)	**U.S.**	**Foreign**	**Total**	**U.S.**	**Foreign**	**Total**
Net actuarial loss	$ 462.9	$ 153.0	$ 615.9	$ 626.8	$ 128.1	$ 754.9
Net prior service cost (credit)	13.9	(2.4)	11.5	14.6	(2.8)	11.8
Tax effect and currency exchange rates	(187.0)	(47.3)	(234.3)	(251.5)	(47.1)	(298.6)
	$ 289.8	$ 103.3	$ 393.1	$ 389.9	$ 78.2	$ 468.1

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

The accumulated benefit obligation for all U.S. defined benefit pension plans was $1,236.7 million and $1,327.2 million at December 31, 2013 and 2012, respectively. The accumulated benefit obligation for all foreign defined benefit pension plans was $628.2 million and $598.7 million at December 31, 2013 and 2012, respectively. Following is the information for defined benefit plans with an accumulated benefit obligation in excess of plan assets:

	December 31,					
	2013			2012		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total
Projected benefit obligation	$ 1,284.1	$ 415.2	$ 1,699.3	$ 1,373.6	$ 403.6	$ 1,777.2
Accumulated benefit obligation	1,236.7	393.4	1,630.1	1,327.2	383.8	1,711.0
Fair value of plan assets	1,109.5	40.1*(a)*	1,149.6	952.0	39.6*(a)*	991.6

(a) The German plans are unfunded and, therefore, there is no fair value of plan assets associated with them. The unfunded status of those plans was $370.3 million and $359.6 million at December 31, 2013 and 2012, respectively.

Components of net periodic benefit cost were:

	Years Ended December 31,								
	2013			2012			2011		
($ in millions)	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Ball-sponsored plans:									
Service cost	$ 48.7	$ 12.1	$ 60.8	$ 47.0	$ 7.9	$ 54.9	$ 43.2	$ 7.8	$ 51.0
Interest cost	55.2	24.0	79.2	56.5	28.7	85.2	57.6	30.8	88.4
Expected return on plan assets	(77.3)	(16.7)	(94.0)	(73.9)	(16.9)	(90.8)	(72.1)	(17.1)	(89.2)
Amortization of prior service cost		(0.4)	(0.4)	0.9	(0.4)	0.5	1.2	(0.4)	0.8
Recognized net actuarial loss	42.5	7.8	50.3	33.7	7.0	40.7	21.5	5.7	27.2
Curtailment and settlement losses, including special termination benefits	6.1	1.7	7.8	(0.1)	25.7	25.6	6.5		6.5
	75.2	28.5	103.7	64.1	52.0	116.1	57.9	26.8	84.7

Net periodic benefit cost for Ball-sponsored plans									
Multi-employer plans:									
Net periodic benefit cost, excluding curtailment loss	2.6		2.6	2.7		2.7	2.7		2.7
Curtailment loss *(a)*	9.8		9.8						
Net periodic benefit cost for multi-employer plans	12.4		12.4	2.7		2.7	2.7		2.7
Total net periodic benefit cost	$ 87.6	$ 28.5	$ 116.1	$ 66.8	$ 52.0	$ 118.8	$ 60.6	$ 26.8	$ 87.4

(a) Curtailment losses in 2013 are related to the closure of the company s Elgin, Illinois, facility and the migration of certain of the company s Weirton, West Virginia, hourly employees from a multi-employer defined benefit pension plan to a Ball-sponsored defined benefit pension plan as of January 1, 2014. Further details are available in Note 5.

In November 2012, the company purchased annuities with pension trust assets to settle the liabilities in certain of its Canadian defined benefit pension plans. In connection with the settlements, the company recorded a charge in the fourth quarter of $27.1 million, which primarily represents previously unrecognized losses included in accumulated other comprehensive earnings (loss).

The estimated actuarial net gain (loss) and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive earnings (loss) into net periodic benefit cost during 2014 are a loss of $37.1 million and a gain of $0.5 million, respectively.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

Contributions to the company s defined benefit pension plans, not including the unfunded German plans, are expected to be in the range of $65 million in 2014. This estimate may change based on changes in the Pension Protection Act and actual plan asset performance and available company cash flow, among other factors. Benefit payments related to these plans are expected to be $81.1 million, $84.5 million, $88.0 million, $92.5 million and $96.6 million for the years ending December 31, 2014 through 2018, respectively, and a total of $536.6 million for the years 2019 through 2023. Payments to participants in the unfunded German plans are expected to be approximately $21 million to $23 million in each of the years 2014 through 2018 and a total of $100 million for the years 2019 through 2023.

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

		U.S.			Canada	
	2013	2012	2011	2013	2012	2011
Discount rate	5.00%	4.13%	4.75%	4.25%	4.00%	4.05%
Rate of compensation increase	4.80%	4.80%	4.80%	3.00%	3.00%	3.00%

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

		United Kingdom			Germany	
	2013	2012	2011	2013	2012	2011
Discount rate	4.50%	4.50%	5.00%	3.25%	3.25%	5.00%
Rate of compensation increase	4.25%	3.75%	3.90%	2.75%	2.75%	2.75%
Pension increase	3.40%	2.90%	3.05%	1.75%	1.75%	1.75%

The discount and compensation increase rates used above to determine the benefit obligations at December 31, 2013, will be used to determine net periodic benefit cost for 2014. A reduction of the expected return on pension assets assumption by one quarter of a percentage point would result in an approximate $3.9 million increase in the 2014 pension expense, while a quarter of a percentage point reduction in the discount rate applied to the pension liability would result in estimated additional pension expense of $6.5 million in 2014.

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

		U.S.			Canada	
	2013	2012	2011	2013	2012	2011

Discount rate	4.13%	4.75%	5.55%	4.00%	4.05%	4.75%
Rate of compensation increase	4.80%	4.80%	4.80%	3.00%	3.00%	3.25%
Expected long-term rate of return on assets	7.63%	7.75%	8.00%	4.55%	4.53%	5.14%

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

	United Kingdom			Germany		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Discount rate	4.50%	5.00%	5.50%	3.25%	5.00%	5.00%
Rate of compensation increase	3.75%	3.90%	4.25%	2.75%	2.75%	2.75%
Pension increase	2.90%	3.05%	3.40%	1.75%	1.75%	1.75%
Expected long-term rate of return on assets	7.00%	7.00%	7.00%	N/A	N/A	N/A

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations ***(continued)***

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

In selecting the U.S. discount rate for December 31, 2013, several benchmarks were considered, including Moody s long-term corporate bond yield for A bonds, the Citigroup Pension Liability Index, the JP Morgan 15+ year corporate bond yield for A bonds and the Merrill Lynch 15+ year corporate bond yield for A bonds. In addition, the expected cash flows from the plans were modeled relative to the Citigroup Pension Discount Curve and matched to cash flows from a portfolio of bonds rated A or better. When determining the appropriate discount rate, the company contemplated the impact of lump sum payment options under its U.S. plans when considering the appropriate yield curve. In Canada the markets for locally denominated high-quality, longer term corporate bonds are relatively thin. As a result, the approach taken in Canada was to use yield curve spot rates to discount the respective benefit cash flows and to compute the underlying constant bond yield equivalent. The Canadian discount rate at December 31, 2013, was selected based on a review of the expected benefit payments for each of the Canadian defined benefit plans over the next 60 years and then discounting the resulting cash flows to the measurement date using the AA corporate bond spot rates to determine the equivalent level discount rate. In the United Kingdom and Germany, the company and its actuarial consultants considered the applicable iBoxx 15+ year AA corporate bond yields for the respective markets and determined a rate consistent with those expectations. In all countries, the discount rates selected for December 31, 2013, were based on the range of values obtained from cash flow specific methods, together with the changes in the general level of interest rates reflected by the benchmarks.

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

The expected long-term rates of return on assets were calculated by applying the expected rate of return to a market related value of plan assets at the beginning of the year, adjusted for the weighted average expected contributions and benefit payments. The market related value of plan assets used to calculate expected return was $1,238.5 million for 2013, $1,179.8 million for 2012 and $1,201.6 million for 2011.

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

Defined Benefit Pension Plan Assets

Policies and Allocation Information

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

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

Target asset allocations in the U.S. and Canada are set using a minimum and maximum range for each asset category as a percent of the total funds market value. Assets contributed to the United Kingdom plans are invested using established percentages. Following are the target asset allocations established as of December 31, 2013:

	U.S.	Canada	United Kingdom (c)
Cash and cash equivalents	0-10%	0-2%	
Equity securities	10-75%*(a)*	8-12%	25%
Fixed income securities	25-70%*(b)*	88-92%	60%
Absolute return investments			8%
Alternative investments	0-35%		7%

(a) Equity securities may consist of: (1) up to 25 percent large cap equities, (2) up to 10 percent mid cap equities, (3) up to 10 percent small cap equities, (4) up to 35 percent foreign equities and (5) up to 35 percent special equities. Holdings in Ball Corporation common stock or Ball bonds cannot exceed 5 percent of the trust s assets.

(b) Debt securities may include up to 10 percent non-investment grade bonds, up to 10 percent bank loans and up to 15 percent international bonds.

(c) The percentages provided reflect the asset allocation percentage at December 31, 2013. The portfolio mix is expected to be adjusted over time toward more fixed income securities.

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

	2013	2012
Cash and cash equivalents	6%	2%
Equity securities	37%	39%
Fixed income securities	49%	53%
Alternative investments	8%	6%
	100%	100%

Fair Value Measurements of Pension Plan Assets

Following is a description of the valuation methodologies used for pension assets measured at fair value:

Cash and cash equivalents: Cash and cash equivalents consist of cash on deposit with brokers and short-term U.S. Treasury money market funds and are net of receivables and payables for securities traded at the period end but not yet settled. All cash and cash equivalents are stated at cost, which approximates fair value.

Corporate equity securities: Valued at the closing price reported on the active market on which the individual security is traded.

U.S. government and agency securities: Valued using the pricing of similar agency issues, live trading feeds from several vendors and benchmark yields.

Corporate bonds and notes: Valued using market inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data including market research publications. Inputs may be prioritized differently at certain times based on market conditions.

Mutual funds: Valued at the net asset value (NAV) of shares held by the plans at year end.

Limited partnerships and other: Certain of the partnership investments receive fair market valuations on a quarterly basis. Certain other partnerships invest in market-traded securities, both on a long and short basis. These investments are valued using quoted market prices. For the partnership that invests in timber properties, a detailed valuation is performed by an independent appraisal firm every three years. In the interim years, the investment manager updates the independently prepared valuation for property value changes, timber growth, harvesting, etc.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The company s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The levels assigned to the defined benefit plan assets are summarized in the tables below:

	December 31, 2013			
($ in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. pension assets, at fair value:				
Cash and cash equivalents	$ 0.5	$ 149.8	$	$ 150.3
Corporate equity securities:				
Industrials	54.7			54.7
Information technology	55.3			55.3
Other	156.7	30.8		187.5
U.S. government and agency securities:				
FHLMC mortgage backed securities		17.5		17.5
FNMA mortgage backed securities		43.1		43.1
Other	35.7	15.6		51.3
Corporate bonds and notes:				
Financials		105.2		105.2
Utilities		37.4		37.4
Private placement		45.4		45.4
Other	0.2	108.2		108.4
Commingled funds	23.2	111.5		134.7
Limited partnerships and other		66.8	51.9	118.7
Total assets	$ 326.3	$ 731.3	$ 51.9	$ 1,109.5

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

($ in millions)	December 31, 2012			
	Level 1	Level 2	Level 3	Total
U.S. pension assets, at fair value:				
Cash and cash equivalents	$ 16.4	$ 57.6	$	$ 74.0
Corporate equity securities:				
Industrials	39.6			39.6
Information Technology	33.4			33.4
Other	108.3	44.8		153.1
U.S. government and agency securities:				
FHLMC mortgage backed securities		27.1		27.1
FNMA mortgage backed securities		65.2		65.2
Other	23.6	11.0		34.6
Corporate bonds and notes:				
Financials		105.4		105.4
Utilities		35.3		35.3
Private placement		35.3		35.3
Other		124.1		124.1
Commingled funds	13.8	86.5		100.3
Limited partnerships and other		75.7	48.9	124.6
Total assets	$ 235.1	$ 668.0	$ 48.9	$ 952.0

The following is a reconciliation of the U.S. Level 3 assets for the two years ended December 31, 2013 (dollars in millions):

Balance at December 31, 2011	$ 55.9
Actual return on plan assets relating to assets still held at the reporting date	3.5
Purchases	9.0
Sales	(5.5)
Transfers to Level 2 *(a)*	(14.0)
Balance at December 31, 2012	48.9
Actual return on plan assets relating to assets still held at the reporting date	2.0
Purchases	5.9
Sales	(4.9)
Balance at December 31, 2013	$ 51.9

(a) *Transfers from Level 3 to Level 2 were made as a result of additional observable inputs becoming available.*

	December 31,			
	2013		2012	
Canadian pension assets, at fair value (all Level 2) ($ in millions):				
Equity commingled funds	$	4.2	$	6.4
Fixed income commingled funds		35.6		36.4
Fixed income securities		9.5		11.5
Total assets	$	49.3	$	54.3

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

	December 31,			
	2013		2012	
U.K. pension assets, at fair value (all Level 2) ($ in millions):				
Cash and cash equivalents	$		$	9.8
Equity commingled funds		56.2		114.0
Fixed income commingled funds		134.9		83.3
Absolute return funds		18.0		
Alternative investments		15.8		
Net assets	$	224.9	$	207.1

Other Postemployment Benefits

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

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

An analysis of the change in other postretirement benefit accruals for 2013 and 2012 follows:

($ in millions)	2013		2012	
Change in benefit obligation:				
Benefit obligation at prior year end	$	168.2	$	165.1
Service cost		1.7		1.6
Interest cost		6.6		7.4
Benefits paid		(12.5)		(10.0)
Net actuarial (gain) loss		(9.1)		3.5
Special termination benefits		1.9		

Effect of exchange rates and other		(1.4)		0.6
Benefit obligation at year end		155.4		168.2
Change in plan assets:				
Fair value of assets at prior year end				
Benefits paid		(12.5)		(11.1)
Employer contributions		12.5		10.0
Medicare Part D subsidy				1.1
Fair value of assets at end of year				
Funded status	$	(155.4)	$	(168.2)

70

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

14. Employee Benefit Obligations *(continued)*

Components of net periodic benefit cost were:

($ in millions)		Years Ended December 31, 2013		2012		2011
Service cost	$	1.7	$	1.6	$	2.3
Interest cost		6.6		7.4		9.7
Amortization of prior service cost		(0.5)		(0.1)		
Recognized net actuarial loss (gain)		(0.6)		(1.0)		0.7
Special termination benefits		1.9				1.9
Net periodic benefit cost	$	9.1	$	7.9	$	14.6

Approximately $1.4 million of estimated net actuarial gain and $0.5 million of prior service benefit will be amortized from accumulated other comprehensive earnings (loss) into net period benefit cost during 2014.

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

For the U.S. health care plans at December 31, 2013, an 8 percent health care cost trend rate was used for pre-65 and post-65 benefits, and trend rates were assumed to decrease to 5 percent in 2021 and remain at that level thereafter. For the Canadian plans, a 4 percent health care cost trend rate was used, which was assumed to decrease to 5 percent by 2018 and remain at that level in subsequent years. Benefit payment caps exist in many of the company s health care plans.

Health care cost trend rates can have an effect on the amounts reported for the health care plan. A one-percentage point increase in assumed health care cost trend rates would increase the total of service and interest cost by $0.3 million and the postretirement benefit obligation by $4.9 million. A one-percentage point decrease would decrease the total of service and interest cost by $0.2 million and the postretirement benefit obligation by $4.4 million.

Other Benefit Plans

The company matches U.S. salaried employee contributions to the 401(k) plan with shares of Ball common stock up to 100 percent of the first 3 percent of a participant s salary plus 50 percent of the next 2 percent. The expense associated with the company match amounted to $23.5 million, $21.8 million and $20.8 million for 2013, 2012 and 2011, respectively.

In addition, substantially all employees within the company s aerospace and technologies segment who participate in Ball s 401(k) plan may receive a performance-based matching cash contribution of up to 4 percent of base salary. The company recognized $9.2 million and $8.3 million of additional compensation expense related to this program for the years 2012 and 2011, respectively. There was no additional compensation expense recognized in 2013.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

15. Shareholders Equity

At December 31, 2013, the company had 550 million shares of common stock and 15 million shares of preferred stock authorized, both without par value. Preferred stock includes 550,000 authorized but unissued shares designated as Series A Junior Participating Preferred Stock.

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

The company s share repurchases, net of issuances, totaled $398.8 million in 2013, $494.1 million in 2012 and $473.9 million in 2011. From January 1 through February 14, 2014, the company has repurchased an additional $100.1 million.

In February 2012, in a privately negotiated transaction, Ball entered into an accelerated share repurchase agreement to buy $200 million of its common shares using cash on hand and available borrowings. The company advanced the $200 million on February 3, 2012, and received 4,584,819 shares, which represented 90 percent of the total shares as calculated using the closing price on January 31, 2012. The agreement was settled in May 2012, and the company received an additional 334,039 shares, which represented a weighted average price of $40.66 for the contract period.

In October 2011, in a privately negotiated transaction, Ball entered into an accelerated share repurchase agreement to buy $100 million of its common shares using cash on hand and available borrowings. The company advanced the $100 million on November 2, 2011, and received 2,523,836 shares, which represented 90 percent of the total shares as calculated using the closing price on October 28, 2011. The agreement was settled in January 2012, and the company received an additional 361,615 shares, which represented a weighted average price of $34.66 for the contract period.

In August 2011, in a privately negotiated transaction, Ball entered into an accelerated share repurchase agreement to buy $125 million of its common shares using cash on hand and available borrowings. The company advanced the $125 million on August 5, 2011, and received 3,077,976 shares, which represented 90 percent of the total shares as calculated using the previous day s closing share price. The agreement was settled in September 2011, and the company received an additional 526,532 shares, which represented a weighted average price of $34.68 for the contract period.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

15. Shareholders Equity *(continued)*

Accumulated Other Comprehensive Earnings (Loss)

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

($ in millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits (Net of Tax)	Effective Derivatives (Net of Tax)	Accumulated Other Comprehensive Earnings (Loss)
December 31, 2011	$ 84.7	$ (381.5)	$ (38.4)	$ (335.2)
Change	32.8	(79.5)	29.5	(17.2)
December 31, 2012	117.5	(461.0)	(8.9)	(352.4)
Other comprehensive earnings (loss) before reclassifications	62.4	48.6	(51.3)	59.7
Amounts reclassified from Accumulated other comprehensive earnings (loss)		30.6	21.4	52.0
December 31, 2013	$ 179.9	$ (381.8)	$ (38.8)	$ (240.7)

The following table provides additional details of the amounts recognized into net earnings from accumulated other comprehensive earnings (loss):

($ in millions)	Year Ended December 31, 2013
Gains (losses) on cash flow hedges:	
Commodity contracts recorded in net sales	$ 8.4
Commodity contracts and currency exchange contracts recorded in cost of sales	(35.9)
Interest rate contracts recorded in interest expense	(1.0)
Total before tax effect	(28.5)
Tax benefit (expense) on amounts reclassified into earnings	7.1
Recognized gain (loss)	$ (21.4)
Amortization of pension and other postretirement benefits (a):	
Prior service income (cost)	$ 1.0
Actuarial gains (losses)	(49.8)
Total before tax effect	(48.8)

Tax benefit (expense) on amounts reclassified into earnings		18.2
Recognized gain (loss)	$	(30.6)

(a) These components are included in the computation of net periodic benefit cost included in Note 14.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

16. Stock-Based Compensation Programs

The company has shareholder-approved stock plans under which options and stock-settled appreciation rights (SSARs) have been granted to employees at the market value of the company s stock at the date of grant. In the case of stock options, payment must be made by the employee at the time of exercise in cash or with shares of stock owned by the employee, which are valued at fair market value on the date exercised. For SSARs, the employee receives the share equivalent of the difference between the fair market value on the date exercised and the exercise price of the SSARs exercised. In general, options and SSARs are exercisable in four equal installments commencing one year from the date of grant and terminating 10 years from the date of grant. A summary of stock option activity for the year ended December 31, 2013, follows:

	Outstanding Options and SSARs		
	Number of Shares		Weighted Average Exercise Price
Beginning of year	9,982,104	$	26.71
Granted	1,364,870		45.93
Exercised	(1,228,690)		23.20
Canceled/forfeited	(59,555)		38.64
End of period	10,058,729		29.68
Vested and exercisable, end of period	6,688,709		24.83
Reserved for future grants *(a)*	12,382,375		

(a) On April 24, 2013, Ball s shareholders approved the 2013 Stock and Cash Incentive Plan, which authorized 12.5 million shares for future option, SSAR and restricted share grants. This authorization replaced all previous authorizations.

The weighted average remaining contractual term for all options and SSARs outstanding at December 31, 2013, was 5.8 years and the aggregate intrinsic value (difference in exercise price and closing price at that date) was $221.1 million. The weighted average remaining contractual term for options and SSARs vested and exercisable at December 31, 2013, was 4.6 years and the aggregate intrinsic value was $179.5 million. The company received $17.0 million from options exercised during 2013, and the intrinsic value associated with these exercises was $17.1 million. The tax benefit associated with the company s stock compensation programs was $11.9 million for 2013, and was reported as other financing activities in the consolidated statement of cash flows. The total fair value of options and SSARs vested during 2013, 2012 and 2011 was $11.4 million, $10.5 million and $9.3 million, respectively.

These options and SSARs cannot be traded in any equity market. However, based on the Black-Scholes option pricing model, options and SSARs granted in 2013, 2012 and 2011 have estimated weighted average fair values at the date of grant of $8.69 per share, $9.44 per share and $9.78 per share, respectively. The actual value an employee may realize will depend on the excess of the stock price over the exercise price on the date the option or SSAR is exercised. Consequently, there is no assurance that the value realized by an employee will be at or near the value estimated. The fair values were estimated using the following weighted average assumptions:

	2013 Grants	2012 Grants	2011 Grants
Expected dividend yield	1.13%	1.06%	0.78%
Expected stock price volatility	22.02%	30.22%	30.04%
Risk-free interest rate	1.02%	0.84%	1.97%
Expected life of options (in years)	5.50 years	5.26 years	5.0 years

In addition to stock options and SSARs, the company issues to certain employees restricted shares and restricted stock units, which vest over various periods. Other than the performance-contingent grants discussed below, such restricted shares and restricted stock units generally vest in equal installments over five years. Compensation cost is recorded based upon the fair value of the shares at the grant date.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

16. Stock-Based Compensation Programs *(continued)*

Following is a summary of restricted stock activity for the year ended December 31, 2013:

	Number of Shares/Units		Weighted Average Grant Price
Beginning of year	1,763,636	$	28.97
Granted	195,845		46.11
Vested	(512,965)		26.84
Canceled/forfeited	(5,502)		34.21
End of period	1,441,014		31.94

In January 2013, the company s board of directors granted 148,875 performance-contingent restricted stock units (RSUs) to key employees, which will vest in January 2016 depending on the company s growth in economic valued added (EVA®) dollars in excess of Ball s 9 percent after-tax hurdle rate as the capital charge using 2012 EVA® dollars generated as the minimum threshold. The number of RSUs that will vest can range between zero and 200 percent of each participant s assigned award opportunity. Under a previous program, the company s board of directors granted 223,600 and 210,330 performance-contingent RSUs to key employees in January 2012 and January 2011, respectively, which will cliff-vest if the company s return on average invested capital during a 36-month performance period is equal to or exceeds the company s cost of capital established at the beginning of the performance period. In both RSU programs, if the minimum performance goals are not met, the shares will be forfeited. Grants under the plan are being accounted for as equity awards and compensation expense is recorded based upon the most probable outcome using the closing market price of the shares at the grant date. On a quarterly basis, the company reassesses the probability of the goals being met and adjusts compensation expense as appropriate. The expense associated with the performance-contingent grants totaled $7.6 million, $8.2 million and $7.3 million in 2013, 2012 and 2011, respectively.

For the years ended December 31, 2013, 2012 and 2011, the company recognized in selling, general and administrative expenses pretax expense of $24.5 million ($14.9 million after tax), $26.7 million ($16.2 million after tax) and $24.7 million ($15.0 million after tax), respectively, for share-based compensation arrangements. At December 31, 2013, there was $32.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized in earnings over a weighted average period of 2.1 years.

In connection with the employee stock purchase plan, the company contributes 20 percent of each participating employee s monthly payroll deduction up to $500 toward the purchase of Ball Corporation common stock. Company contributions for this plan were $3.5 million in 2013, $3.6 million in 2012 and $3.4 million in 2011.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

17. Earnings Per Share

($ in millions, except per share amounts; shares in thousands)	Years Ended December 31, 2013	2012	2011
Net earnings attributable to Ball Corporation	$ 406.8	$ 403.5	$ 444.0
Basic weighted average common shares	145,943	154,648	165,275
Effect of dilutive securities	3,280	3,436	3,315
Weighted average shares applicable to diluted earnings per share	149,223	158,084	168,590
Basic earnings per share	$ 2.79	$ 2.61	$ 2.69
Diluted earnings per share	$ 2.73	$ 2.55	$ 2.63

Certain outstanding options and SSARs were excluded from the diluted earnings per share calculation because they were anti-dilutive (i.e., the sum of the proceeds, including the unrecognized compensation and windfall tax benefits, exceeded the average closing stock price for the period). The options and SSARs excluded totaled 1.3 million in 2013; 1.4 million in 2012 and 1.4 million in 2011.

18. Financial Instruments and Risk Management

Policies and Procedures

The company employs established risk management policies and procedures, which seek to reduce the company s commercial risk exposure to fluctuations in commodity prices, interest rates, currency exchange rates and prices of the company s common stock with regard to common share repurchases and the company s deferred compensation stock plan. However, there can be no assurance that these policies and procedures will be successful. Although the instruments utilized involve varying degrees of credit, market and interest risk, the counterparties to the agreements are expected to perform fully under the terms of the agreements. The company monitors counterparty credit risk, including lenders, on a regular basis, but Ball cannot be certain that all risks will be discerned or that its risk management policies and procedures will always be effective. Additionally, in the event of default under the company s master derivative agreements, the nondefaulting party has the option to set-off any amounts owed with regard to open derivative positions.

Commodity Price Risk

Aluminum

The company manages commodity price risk in connection with market price fluctuations of aluminum ingot through two different methods. First, the company enters into container sales contracts that include aluminum ingot-based pricing terms that generally reflect the same price fluctuations under commercial purchase contracts for aluminum sheet. The terms include fixed, floating or pass-through aluminum ingot component pricing. Second, the company uses certain derivative instruments such as option and forward contracts as economic and cash flow hedges of commodity price risk where there is not an arrangement in the sales contract to match underlying purchase volumes and pricing with sales volumes and pricing.

At December 31, 2013, the company had aluminum contracts limiting its aluminum exposure with notional amounts of approximately $629 million, of which approximately $565 million received hedge accounting treatment. The aluminum contracts include economic derivative instruments that are undesignated and receive mark to fair value accounting treatment, as well as cash flow hedges that offset sales contracts of various terms and lengths. Cash flow hedges relate to forecasted transactions that expire within the next four years. Included in shareholders equity at December 31, 2013, within accumulated other comprehensive earnings (loss) is a net after-tax loss of $38.0 million associated with these contracts. A net loss of $21.8 million is expected to be recognized in the consolidated statement of earnings during the next 12 months, the majority of which will be offset by pricing changes in sales and purchase contracts, thus resulting in little or no earnings impact to Ball.

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

18. Financial Instruments and Risk Management *(continued)*

Steel

Most sales contracts involving our steel products either include provisions permitting the company to pass through some or all steel cost changes incurred, or they incorporate annually negotiated steel prices.

Interest Rate Risk

The company s objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, the company may use a variety of interest rate swaps, collars and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at December 31, 2013, included pay-fixed interest rate swaps, which effectively convert variable rate obligations to fixed-rate instruments.

At December 31, 2013, the company had outstanding interest rate swap contracts with notional amounts of approximately $129 million paying fixed rates expiring within the next five years. The after-tax loss included in shareholders equity at December 31, 2013, within accumulated other comprehensive earnings (loss) is insignificant.

Currency Exchange Rate Risk

The company s objective in managing exposure to currency fluctuations is to limit the exposure of cash flows and earnings from changes associated with currency exchange rate changes through the use of various derivative contracts. In addition, at times the company manages earnings translation volatility through the use of currency option strategies, and the change in the fair value of those options is recorded in the company s net earnings. The company s currency translation risk results from the currencies in which we transact business. The company faces currency exposures in our global operations as a result of various factors including intercompany currency denominated loans, selling our products in various currencies, purchasing raw materials in various currencies and tax exposures not denominated in the functional currency. Sales contracts are negotiated with customers to reflect cost changes and, where there is not an exchange pass-through arrangement, the company uses forward and option contracts to manage currency exposures. At December 31, 2013, the company had outstanding exchange forward contracts and option contracts with notional amounts totaling approximately $653 million. Approximately $0.8 million of net after-tax loss related to these contracts is included in accumulated other comprehensive earnings at December 31, 2013, of which a net loss of $1.5 million is expected to be recognized in the consolidated statement of earnings during the next 12 months. The contracts outstanding at December 31, 2013, expire within the next year.

Common Stock Price Risk

The company s deferred compensation stock program is subject to variable plan accounting and, accordingly, is marked to fair value using the company s closing stock price at the end of the related reporting period. Based on current share levels in the program, each $1 change in the company s stock price has an impact of $1.4 million on pretax earnings. During March and September 2011, the company entered into total return swaps to reduce the company s earnings exposure to these fair value fluctuations that, after renewals, will be outstanding until March 2015 and September 2014, respectively. The swaps have a notional value of 1 million shares and 300,000 shares, respectively. As of December 31, 2013, the combined fair value of these swaps was a $1.1 million gain. All gains and losses on the total return swaps are recorded in the consolidated statement of earnings in selling, general and administrative expenses.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

18. Financial Instruments and Risk Management *(continued)*

Collateral Calls

The company s agreements with its financial counterparties require the company to post collateral in certain circumstances when the negative mark to fair value of the contracts exceeds specified levels. Additionally, the company has collateral posting arrangements with certain customers on these derivative contracts. The cash flows of the margin calls are shown within the investing section of the company s consolidated statements of cash flows. As of December 31, 2013, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $48.0 million and no collateral was required to be posted. As of December 31, 2012, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $11.0 million and no collateral was required to be posted.

Fair Value Measurements

Ball has classified all applicable financial derivative assets and liabilities as Level 2 within the fair value hierarchy as of December 31, 2013 and 2012, and presented those values in the table below. The company s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	December 31, 2013					
($ in millions)		**Derivatives Designated As Hedging Instruments**		**Derivatives Not Designated As Hedging Instruments**		**Total**
Assets:						
Commodity contracts	$	2.6	$	1.7	$	4.3
Foreign currency contracts		0.2		1.5		1.7
Other current contracts				1.1		1.1
Total current derivative contracts		2.8		4.3		7.1
Total noncurrent foreign currency contracts	$		$	0.1	$	0.1
Liabilities:						
Commodity contracts	$	19.2	$	2.0	$	21.2
Foreign currency contracts		1.5		6.1		7.6
Interest rate contracts		0.8				0.8
Total current derivative contracts	$	21.5	$	8.1	$	29.6

Total noncurrent commodity contracts	$	20.3	$		$	20.3

78

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

18. Financial Instruments and Risk Management *(continued)*

($ in millions)	December 31, 2012 Derivatives Designated As Hedging Instruments	Derivatives Not Designated As Hedging Instruments	Total
Assets:			
Commodity contracts	$ 9.2	$ 1.0	$ 10.2
Foreign currency contracts	0.1	2.3	2.4
Other current contracts		0.6	0.6
Total current derivative contracts	9.3	3.9	13.2
Total noncurrent commodity contracts	$ 4.2	$	$ 4.2
Liabilities:			
Commodity contracts	$ 9.0	$ 0.7	$ 9.7
Foreign currency contracts	2.5	5.2	7.7
Interest rate and other contracts	1.0		1.0
Total current derivative contracts	$ 12.5	$ 5.9	$ 18.4
Noncurrent commodity contracts	$ 5.4	$	$ 5.4
Interest rate contracts	0.5		0.5
Foreign currency contracts	0.4		0.4
Total noncurrent derivative contracts	$ 6.3	$	$ 6.3

The company uses closing spot and forward market prices as published by the London Metal Exchange, the Chicago Mercantile Exchange, Reuters and Bloomberg to determine the fair value of its aluminum, currency, energy, inflation and interest rate spot and forward contracts. Option contracts are valued using a Black-Scholes model with observable market inputs for aluminum, currency and interest rates. We value each of our financial instruments either internally using a single valuation technique or from a reliable observable market source. The company does not adjust the value of its financial instruments except in determining the fair value of a trade that settles in the future by discounting the value to its present value using 12-month LIBOR as the discount factor. Ball performs validations of our internally derived fair values reported for our financial instruments on a quarterly basis utilizing counterparty valuation statements. The company additionally evaluates counterparty creditworthiness and, as of December 31, 2013, has not identified any circumstances requiring that the reported values of our financial instruments be adjusted.

Net receivables related to the European scrap metal program totaling $5.4 million and $16.7 million at December 31, 2013 and 2012, respectively, were classified as Level 2 within the fair value hierarchy.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

18. Financial Instruments and Risk Management *(continued)*

The following table provides the effects of derivative instruments in the consolidated statement of earnings and on accumulated other comprehensive earnings (loss):

	Years Ended December 31,					
	2013		2012		2011	
($ in millions)	Cash Flow Hedge - Reclassified Amount From Other Comprehensive Earnings (Loss) - Gain (Loss)	Gain (Loss) on Derivatives Not Designated As Hedge Instruments	Cash Flow Hedge - Reclassified Amount From Other Comprehensive Earnings (Loss) - Gain (Loss)	Gain (Loss) on Derivatives Not Designated As Hedge Instruments	Cash Flow Hedge - Reclassified Amount From Other Comprehensive Earnings (Loss) - Gain (Loss)	Gain (Loss) on Derivatives Not Designated As Hedge Instruments
Commodity contracts *(a)*	$ (26.9)	$ (2.9)	$ (56.1)	$ 3.1	$ 65.7	$ (2.7)
Interest rate contracts *(b)*	(1.0)		(0.5)		1.3	
Foreign currency contracts *(c)*	(0.6)	7.3	(1.2)	(20.8)	0.5	12.2
Equity contracts *(d)*		0.5		3.2		(4.4)
Inflation option contracts *(e)*		0.1		0.1		(0.2)
Total	$ (28.5)	$ 5.0	$ (57.8)	$ (14.4)	$ 67.5	$ 4.9

(a) Gains and losses on commodity contracts are recorded in sales and cost of sales in the statements of earnings. Virtually all these expenses were passed through to our customers, resulting in no significant impact to earnings.

(b) Gains and losses on interest contracts are recorded in interest expense in the statements of earnings.

(c) Gains and losses on foreign currency contracts to hedge the sales of products are recorded in cost of sales. Gains and losses on foreign currency hedges used for transactions between segments are reflected in selling, general and administrative expenses in the statements of earnings.

(d) Gains and losses on equity contracts are recorded in selling, general and administrative expenses in the statements of earnings.

(e) Gains and losses on inflation option contracts are recorded in selling, general and administrative expenses in the statements of earnings.

The changes in accumulated other comprehensive earnings (loss) for effective derivatives were as follows:

($ in millions)	Years Ended December 31, 2013	2012	2011
Amounts reclassified into earnings:			
Commodity contracts	$ 26.9	$ 56.1	$ (65.7)
Interest rate contracts	1.0	0.5	(1.3)
Currency exchange contracts	0.6	1.2	(0.5)
Change in fair value of cash flow hedges:			
Commodity contracts	(61.6)	(5.8)	(103.0)
Interest rate contracts	0.3	(1.2)	0.4
Currency exchange contracts	2.2	(0.5)	(2.7)
Foreign currency and tax impacts	0.7	(20.8)	62.0
	$ (29.9)	$ 29.5	$ (110.8)

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

19. Quarterly Results of Operations (Unaudited)

The company s quarters in 2013 ended on March 31, June 30, September 30 and December 31. The company s quarters in 2012 ended on April 1, July 1, September 30 and December 31.

($ in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2013					
Net sales	$ 1,991.0	$ 2,202.4	$ 2,277.9	$ 1,996.8	$ 8,468.1
Gross profit *(a)*	285.1	342.0	365.7	346.1	1,338.9
Earnings before taxes	$ 98.2	$ 129.1	$ 164.8	$ 191.5	$ 583.6
Net earnings attributable to Ball Corporation from continuing operations	$ 71.9	$ 95.1	$ 114.9	$ 124.5	$ 406.4
Net earnings attributable to Ball Corporation	$ 72.0	$ 95.1	$ 115.2	$ 124.5	$ 406.8
Basic earnings per share *(b):*					
Continuing operations	$ 0.48	$ 0.65	$ 0.80	$ 0.87	$ 2.79
Total	$ 0.48	$ 0.65	$ 0.80	$ 0.87	$ 2.79
Diluted earnings per share *(b):*					
Continuing operations	$ 0.47	$ 0.63	$ 0.78	$ 0.85	$ 2.73
Total	$ 0.47	$ 0.63	$ 0.78	$ 0.85	$ 2.73
2012					
Net sales	$ 2,042.7	$ 2,296.3	$ 2,282.5	$ 2,114.2	$ 8,735.7
Gross profit *(a)*	293.8	346.9	355.1	322.8	1,318.6
Earnings before taxes	$ 121.6	$ 192.9	$ 174.4	$ 106.7	$ 595.6
Net earnings attributable to Ball Corporation from continuing operations	$ 88.6	$ 139.9	$ 117.3	$ 60.5	$ 406.3
Net earnings attributable to Ball Corporation	$ 88.3	$ 139.5	$ 115.1	$ 60.6	$ 403.5
Basic earnings per share *(b):*					
Continuing operations	$ 0.56	$ 0.90	$ 0.76	$ 0.40	$ 2.63
Total	$ 0.56	$ 0.90	$ 0.75	$ 0.40	$ 2.61
Diluted earnings per share *(b):*					
Continuing operations	$ 0.55	$ 0.88	$ 0.74	$ 0.39	$ 2.57
Total	$ 0.55	$ 0.88	$ 0.73	$ 0.39	$ 2.55

(a) Gross profit is shown after depreciation and amortization related to cost of sales of $253.7 million and $243.1 million for the years ended December 31, 2013 and 2012, respectively.

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

The unaudited quarterly results of operations included business consolidation and other activities that affected the company s operating performance. Further details are included in Notes 4 and 5.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt

The company s senior notes are guaranteed on a full, unconditional and joint and several basis by certain of the company s material domestic subsidiaries. Each of the guarantor subsidiaries is 100 percent owned by Ball Corporation. These guarantees are required in support of the notes, are co-terminous with the terms of the respective note indentures and would require performance upon certain events of default referred to in the respective guarantees. The maximum potential amounts that could be required to be paid under the domestic guarantees are essentially equal to the then outstanding principal and interest under the respective notes. The following is condensed consolidating financial information for the company, segregating the guarantor subsidiaries and non-guarantor subsidiaries, as of December 31, 2013 and 2012, and for the three years ended December 31, 2013, 2012 and 2011. Separate financial statements for the guarantor subsidiaries and the non-guarantor subsidiaries are not presented because management has determined that such financial statements are not required by the current regulations.

During 2012, Ball revised the presentation of the condensed consolidating statement of earnings for the year ended December 31, 2011. The revised presentation included a change in the equity earnings elimination and the attribution of equity earnings for Ball Corporation, the guarantor and the non-guarantor subsidiaries. The revision in the Ball Corporation, guarantor and non-guarantor subsidiaries within the condensed consolidating statement of earnings was assessed and deemed to be immaterial for all previously issued financial statement periods. As a result, the company has revised the previously issued condensed consolidating financial statement of earnings included in this filing. These revisions had no impact on any consolidated total of the statement.

The revisions for the condensed consolidating statement of earnings for the year ended December 31, 2011, included an increase in the equity in results of subsidiaries in the guarantor subsidiaries of $270.5 million and a corresponding increase in the eliminations adjustments. The revisions also resulted in an increase of the same magnitude in the net earnings attributable to Ball Corporation for the guarantor subsidiaries and a corresponding increase in the eliminations adjustments.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt *(continued)*

	Condensed Consolidating Statement of Earnings For the Year Ended December 31, 2013				
($ in millions)	**Ball Corporation**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminating Adjustments**	**Consolidated Total**
Net sales	$	$ 5,125.5	$ 3,364.2	$ (21.6)	$ 8,468.1
Cost and expenses					
Cost of sales (excluding depreciation and amortization)	0.1	(4,246.7)	(2,650.4)	21.6	(6,875.4)
Depreciation and amortization	(7.5)	(126.7)	(165.7)		(299.9)
Selling, general and administrative	(81.4)	(179.9)	(157.3)		(418.6)
Business consolidation and other activities	(0.7)	(88.5)	10.4		(78.8)
Equity in results of subsidiaries	426.9	248.4		(675.3)	
Intercompany	234.1	(188.3)	(45.8)		
	571.5	(4,581.7)	(3,008.8)	(653.7)	(7,672.7)
Earnings (loss) before interest and taxes	571.5	543.8	355.4	(675.3)	795.4
Interest expense	(172.0)	2.5	(14.3)		(183.8)
Debt refinancing and other	(27.9)		(0.1)		(28.0)
Total interest expense	(199.9)	2.5	(14.4)		(211.8)
Earnings (loss) before taxes	371.6	546.3	341.0	(675.3)	583.6
Tax provision	35.2	(113.8)	(71.0)		(149.6)
Equity in results of affiliates, net of tax		0.4	0.2		0.6
Net earnings (loss) from continuing operations	406.8	432.9	270.2	(675.3)	434.6
Discontinued operations, net of tax		0.4			0.4
Net earnings (loss)	406.8	433.3	270.2	(675.3)	435.0
Less net earnings attributable to noncontrolling interests			(28.2)		(28.2)
Net earnings (loss) attributable to Ball Corporation	$ 406.8	$ 433.3	$ 242.0	$ (675.3)	$ 406.8
Comprehensive earnings attributable to Ball Corporation	$ 518.5	$ 533.2	$ 260.7	$ (793.9)	$ 518.5

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt *(continued)*

	Condensed Consolidating Statement of Earnings For the Year Ended December 31, 2012				
($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
Net sales	$	$ 5,477.3	$ 3,272.5	$ (14.1)	$ 8,735.7
Cost and expenses					
Cost of sales (excluding depreciation and amortization)	0.1	(4,589.5)	(2,598.7)	14.1	(7,174.0)
Depreciation and amortization	(5.8)	(125.7)	(151.4)		(282.9)
Selling, general and administrative	(69.4)	(186.6)	(129.5)		(385.5)
Business consolidation and other activities	(11.3)	(55.0)	(36.5)		(102.8)
Equity in results of subsidiaries	415.8	240.4		(656.2)	
Intercompany	236.0	(201.8)	(34.2)		
	565.4	(4,918.2)	(2,950.3)	(642.1)	(7,945.2)
Earnings (loss) before interest and taxes	565.4	559.1	322.2	(656.2)	790.5
Interest expense	(166.2)	1.4	(15.0)		(179.8)
Debt refinancing and other	(15.1)				(15.1)
Total interest expense	(181.3)	1.4	(15.0)		(194.9)
Earnings (loss) before taxes	384.1	560.5	307.2	(656.2)	595.6
Tax provision	19.4	(112.6)	(71.8)		(165.0)
Equity in results of affiliates, net of tax		1.0	(2.3)		(1.3)
Net earnings (loss) from continuing operations	403.5	448.9	233.1	(656.2)	429.3
Discontinued operations, net of tax		(2.8)			(2.8)
Net earnings (loss)	403.5	446.1	233.1	(656.2)	426.5
Less net earnings attributable to noncontrolling interests			(23.0)		(23.0)
Net earnings (loss) attributable to Ball Corporation	$ 403.5	$ 446.1	$ 210.1	$ (656.2)	$ 403.5
Comprehensive earnings attributable to Ball Corporation	$ 386.3	$ 413.7	$ 210.8	$ (624.5)	$ 386.3

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt ***(continued)***

	Condensed Consolidating Statement of Earnings For the Year Ended December 31, 2011				
($ in millions)	**Ball Corporation**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminating Adjustments**	**Consolidated Total**
Net sales	$	$ 5,383.8	$ 3,260.6	$ (13.5)	$ 8,630.9
Cost and expenses					
Cost of sales (excluding depreciation and amortization)	(0.2)	(4,517.8)	(2,576.7)	13.5	(7,081.2)
Depreciation and amortization	(4.2)	(147.4)	(149.5)		(301.1)
Selling, general and administrative	(77.7)	(197.3)	(106.4)		(381.4)
Business consolidation and other activities	(3.4)	(12.1)	(14.8)		(30.3)
Equity in results of subsidiaries	486.9	270.5		(757.4)	
Intercompany	175.5	(152.5)	(23.0)		
	576.9	(4,756.6)	(2,870.4)	(743.9)	(7,794.0)
Earnings (loss) before interest and taxes	576.9	627.2	390.2	(757.4)	836.9
Interest expense	(156.8)	4.2	(24.5)		(177.1)
Earnings (loss) before taxes	420.1	631.4	365.7	(757.4)	659.8
Tax provision	23.9	(155.9)	(69.3)		(201.3)
Equity in results of affiliates, net of tax		0.2	9.9		10.1
Net earnings (loss) from continuing operations	444.0	475.7	306.3	(757.4)	468.6
Discontinued operations, net of tax		(2.3)			(2.3)
Net earnings (loss)	444.0	473.4	306.3	(757.4)	466.3
Less net earnings attributable to noncontrolling interests			(22.3)		(22.3)
Net earnings (loss) attributable to Ball Corporation	$ 444.0	$ 473.4	$ 284.0	$ (757.4)	$ 444.0
Comprehensive earnings attributable to Ball Corporation	$ 190.9	$ 229.0	$ 150.5	$ (379.5)	$ 190.9

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt *(continued)*

	Condensed Consolidating Balance Sheet At December 31, 2013				
($ in millions)	Ball Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Adjustments	Consolidated Total
ASSETS					
Current assets					
Cash and cash equivalents	$ 218.6	$ 0.3	$ 197.1	$	$ 416.0
Receivables, net	2.9	133.9	722.6		859.4
Intercompany receivables	178.9	99.1	1.0	(279.0)	
Inventories, net		601.7	426.6		1,028.3
Deferred taxes and other current assets	(1.2)	109.8	53.4		162.0
Total current assets	399.2	944.8	1,400.7	(279.0)	2,465.7
Property, plant and equipment, net	14.9	877.5	1,479.9		2,372.3
Investment in subsidiaries	4,425.4	2,122.0	78.7	(6,626.1)	
Goodwill		935.6	1,468.7		2,404.3
Intangibles and other assets, net	206.9	100.9	269.7		577.5
Total assets	$ 5,046.4	$ 4,980.8	$ 4,697.7	$ (6,905.1)	$ 7,819.8
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities					
Short-term debt and current portion of long-term debt	$ 310.8	$ 30.1	$ 81.7	$	$ 422.6
Accounts payable	6.9	525.3	466.6		998.8
Intercompany payables	95.1	0.4	183.5	(279.0)	
Accrued employee costs	22.5	133.7	85.1		241.3
Other current liabilities	10.0	138.5	116.2		264.7
Total current liabilities	445.3	828.0	933.1	(279.0)	1,927.4
Long-term debt	2,750.0	0.5	432.0		3,182.5
Employee benefit obligations	284.4	310.9	437.7		1,033.0
Deferred taxes and other liabilities	366.8	(674.8)	593.6		285.6
Total liabilities	3,846.5	464.6	2,396.4	(279.0)	6,428.5
Common stock	1,078.4	847.1	531.1	(1,378.2)	1,078.4
Preferred stock			4.8	(4.8)	
Retained earnings	3,913.8	3,864.6	1,553.2	(5,417.8)	3,913.8
Accumulated other comprehensive earnings (loss)	(240.7)	(195.5)	20.8	174.7	(240.7)
Treasury stock, at cost	(3,551.6)				(3,551.6)
Total Ball Corporation shareholders equity	1,199.9	4,516.2	2,109.9	(6,626.1)	1,199.9
Noncontrolling interests			191.4		191.4
Total shareholders equity	1,199.9	4,516.2	2,301.3	(6,626.1)	1,391.3
Total liabilties and shareholders equity	$ 5,046.4	$ 4,980.8	$ 4,697.7	$ (6,905.1)	$ 7,819.8

86

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt ***(continued)***

	Condensed Consolidating Balance Sheet At December 31, 2012				
($ in millions)	**Ball Corporation**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminating Adjustments**	**Consolidated Total**
ASSETS					
Current assets					
Cash and cash equivalents	$ 0.2	$ 0.3	$ 173.6	$	$ 174.1
Receivables, net	11.8	182.9	735.4		930.1
Intercompany receivables	66.5	8.8		(75.3)	
Inventories, net	(0.8)	623.7	421.5		1,044.4
Deferred taxes and other current assets	20.4	96.8	73.6		190.8
Total current assets	98.1	912.5	1,404.1	(75.3)	2,339.4
Property, plant and equipment, net	9.3	854.4	1,413.0		2,276.7
Investment in subsidiaries	3,890.8	1,982.3	78.6	(5,951.7)	
Goodwill		927.0	1,432.4		2,359.4
Intangibles and other assets, net	195.0	98.6	238.0		531.6
Total assets	$ 4,193.2	$ 4,774.8	$ 4,566.1	$ (6,027.0)	$ 7,507.1
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities					
Short-term debt and current portion of long-term debt	$ 25.1	$	$ 194.7	$	$ 219.8
Accounts payable	12.8	461.4	472.7		946.9
Intercompany payables		0.6	74.7	(75.3)	
Accrued employee costs	27.0	173.5	77.9		278.4
Other current liabilities	57.9	93.0	89.8		240.7
Total current liabilities	122.8	728.5	909.8	(75.3)	1,685.8
Long-term debt	2,565.4		519.9		3,085.3
Employee benefit obligations	300.5	526.8	410.8		1,238.1
Deferred taxes and other liabilities	89.9	(467.9)	585.9		207.9
Total liabilities	3,078.6	787.4	2,426.4	(75.3)	6,217.1
Common stock	1,026.3	847.1	624.9	(1,472.0)	1,026.3
Preferred stock			4.8	(4.8)	
Retained earnings	3,580.8	3,435.7	1,332.5	(4,768.2)	3,580.8
Accumulated other comprehensive earnings (loss)	(352.4)	(295.4)	2.1	293.3	(352.4)
Treasury stock, at cost	(3,140.1)				(3,140.1)
Total Ball Corporation shareholders equity	1,114.6	3,987.4	1,964.3	(5,951.7)	1,114.6
Noncontrolling interests			175.4		175.4
Total shareholders equity	1,114.6	3,987.4	2,139.7	(5,951.7)	1,290.0
Total liabilties and shareholders equity	$ 4,193.2	$ 4,774.8	$ 4,566.1	$ (6,027.0)	$ 7,507.1

87

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt *(continued)*

	Condensed Consolidating Statement of Cash Flows For the Year Ended December 31, 2013			
($ in millions)	**Ball Corporation**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidated Total**
Cash provided by (used in) continuing operating activities	$ (50.5)	$ 464.7	$ 427.1	$ 841.3
Cash provided by (used in) discontinued operating activities	0.2	(2.5)		(2.3)
Total cash provided by (used in) operating activities	(50.3)	462.2	427.1	839.0
Cash flows from investing activities				
Capital expenditures	(6.7)	(169.2)	(202.4)	(378.3)
Business acquisition, net of cash acquired		(12.5)	(1.7)	(14.2)
Other, net	(19.6)	(2.5)	35.5	13.4
Cash provided by (used in) investing activities	(26.3)	(184.2)	(168.6)	(379.1)
Cash flows from financing activities				
Long-term borrowings	1,373.0	1.0	269.1	1,643.1
Repayments of long-term borrowings	(882.7)		(412.2)	(1,294.9)
Net change in short-term borrowings	(25.0)	29.6	(62.2)	(57.6)
Proceeds from issuances of common stock	32.9			32.9
Acquisitions of treasury stock	(431.7)			(431.7)
Common dividends	(75.2)			(75.2)
Intercompany	316.5	(308.6)	(7.9)	
Other, net	(6.0)		(14.6)	(20.6)
Cash provided by (used in) financing activities	301.8	(278.0)	(227.8)	(204.0)
Effect of exchange rate changes on cash	(6.8)		(7.2)	(14.0)
Change in cash and cash equivalents	218.4		23.5	241.9
Cash and cash equivalents beginning of period	0.2	0.3	173.6	174.1
Cash and cash equivalents end of period	$ 218.6	$ 0.3	$ 197.1	$ 416.0

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt *(continued)*

($ in millions)	Condensed Consolidating Statement of Cash Flows For the Year Ended December 31, 2012			
	Ball Corporation	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidated Total**
Cash provided by (used in) continuing operating activities	$ 44.2	$ 394.9	$ 419.2	$ 858.3
Cash provided by (used in) discontinued operating activities	(1.8)	(3.3)		(5.1)
Total cash provided by (used in) operating activities	42.4	391.6	419.2	853.2
Cash flows from investing activities				
Capital expenditures	(5.6)	(115.8)	(183.6)	(305.0)
Business acquisition, net of cash acquired			(71.2)	(71.2)
Other, net	18.0	6.0	(3.8)	20.2
Cash provided by (used in) investing activities	12.4	(109.8)	(258.6)	(356.0)
Cash flows from financing activities				
Long-term borrowings	1,246.0		240.4	1,486.4
Repayments of long-term borrowings	(1,016.3)	(0.1)	(55.2)	(1,071.6)
Net change in short-term borrowings	5.0		(342.0)	(337.0)
Proceeds from issuances of common stock	53.1			53.1
Acquisitions of treasury stock	(547.2)			(547.2)
Common dividends	(61.8)			(61.8)
Intercompany	241.0	(282.4)	41.4	
Other, net	(1.2)		(7.6)	(8.8)
Cash provided by (used in) financing activities	(81.4)	(282.5)	(123.0)	(486.9)
Effect of exchange rate changes on cash	2.8	0.5	(5.3)	(2.0)
Change in cash and cash equivalents	(23.8)	(0.2)	32.3	8.3
Cash and cash equivalents beginning of period	24.0	0.5	141.3	165.8
Cash and cash equivalents end of period	$ 0.2	$ 0.3	$ 173.6	$ 174.1

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

20. Subsidiary Guarantees of Debt *(continued)*

	Condensed Consolidating Statement of Cash Flows For the Year Ended December 31, 2011			
($ in millions)	**Ball Corporation**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidated Total**
Cash provided by (used in) continuing operating activities	$ (71.3)	$ 677.0	$ 351.0	$ 956.7
Cash provided by (used in) discontinued operating activities		(4.1)	(4.2)	(8.3)
Total cash provided by (used in) operating activities	(71.3)	672.9	346.8	948.4
Cash flows from investing activities				
Capital expenditures	(9.9)	(164.5)	(269.4)	(443.8)
Business acquisition, net of cash acquired			(295.2)	(295.2)
Other, net	(15.0)	33.8	(17.8)	1.0
Cash provided by (used in) investing activities	(24.9)	(130.7)	(582.4)	(738.0)
Cash flows from financing activities				
Long-term borrowings	370.4		456.9	827.3
Repayments of long-term borrowings	(380.5)	(0.3)	(435.0)	(815.8)
Net change in short-term borrowings	10.0		285.3	295.3
Proceeds from issuances of common stock	39.3			39.3
Acquisitions of treasury stock	(513.2)			(513.2)
Common dividends	(45.7)			(45.7)
Intercompany	634.1	(543.1)	(91.0)	
Other, net	5.6		(9.6)	(4.0)
Cash provided by (used in) financing activities	120.0	(543.4)	206.6	(216.8)
Effect of exchange rate changes on cash			20.2	20.2
Change in cash and cash equivalents	23.8	(1.2)	(8.8)	13.8
Cash and cash equivalents beginning of period	0.2	1.7	150.1	152.0
Cash and cash equivalents end of period	$ 24.0	$ 0.5	$ 141.3	$ 165.8

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

21. Contingencies

Ball is subject to numerous lawsuits, claims or proceedings arising out of the ordinary course of business, including actions related to product liability; personal injury; the use and performance of company products; warranty matters; patent, trademark or other intellectual property infringement; contractual liability; the conduct of the company s business; tax reporting in domestic and foreign jurisdictions; workplace safety; and environmental and other matters. The company has also been identified as a potentially responsible party (PRP) at several waste disposal sites under U.S. federal and related state environmental statutes and regulations and may have joint and several liability for any investigation and remediation costs incurred with respect to such sites. Some of these lawsuits, claims and proceedings involve substantial amounts, including as described below, and some of the environmental proceedings involve potential monetary costs or sanctions that may be material. Ball has denied liability with respect to many of these lawsuits, claims and proceedings and is vigorously defending such lawsuits, claims and proceedings. The company carries various forms of commercial, property and casualty, and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against Ball with respect to these lawsuits, claims and proceedings. The company does not believe that these lawsuits, claims and proceedings are material individually or in the aggregate. While management believes the company has established adequate accruals for expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based upon then presently available information, there can be no assurance that the final resolution of any existing or future lawsuits, claims or proceedings will not have a material adverse effect on the liquidity, results of operations or financial condition of the company.

As previously reported, the U.S. Environmental Protection Agency (USEPA) considers the company a PRP with respect to the Lowry Landfill site located east of Denver, Colorado. In 1992, the company was served with a lawsuit filed by the City and County of Denver (Denver) and Waste Management of Colorado, Inc., seeking contributions from the company and approximately 38 other companies. The company filed its answer denying the allegations of the complaint. Subsequently in 1992, the company was served with a third-party complaint filed by S.W. Shattuck Chemical Company, Inc., seeking contribution from the company and other companies for the costs associated with cleaning up the Lowry Landfill. The company denied the allegations of the complaint.

Also in 1992, Ball entered into a settlement and indemnification agreement with Chemical Waste Management, Inc., and Waste Management of Colorado, Inc. (collectively Waste Management) and Denver pursuant to which Waste Management and Denver dismissed their lawsuit against the company, and Waste Management agreed to defend, indemnify and hold harmless the company from claims and lawsuits brought by governmental agencies and other parties relating to actions seeking contributions or remedial costs from the company for the cleanup of the site. Waste Management, Inc., has agreed to guarantee the obligations of Waste Management. Waste Management and Denver may seek additional payments from the company if the response costs related to the site exceed $319 million. In 2003 Waste Management, Inc., indicated that the cost of the site might exceed $319 million in 2030, approximately three years before the projected completion of the project. The company might also be responsible for payments (based on 1992 dollars) for any additional wastes that may have been disposed of by the company at the site but which are identified after the execution of the settlement agreement. While remediating the site, contaminants were encountered, which could add an additional cleanup cost of approximately $10 million. This additional cleanup cost could, in turn, add approximately $1 million to total site costs for the PRP group. At this time, there are no Lowry Landfill actions in which the company is actively involved. Based on the information available to the company at this time, we do not believe that this matter will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

In November 2012, the USEPA wrote to the company asserting that it is one of at least 50 PRPs with respect to the Lower Duwamish site located in Seattle, Washington, based on the company s ownership of a glass container plant prior to 1995, and notifying the company of a proposed remediation action plan. An allocator has been selected to begin data review on over 30 industrial companies and government entities and at least two PRP groups have begun to discuss various allocation proposals, with this process expected to last approximately three years. Based on the information available to the company at this time, we do not believe that this matter will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

21. Contingencies *(continued)*

In February 2012, Ball Metal Beverage Container Corp. (BMBCC) filed an action against Crown Packaging Technology, Inc. (Crown) in the U.S. District Court for the Southern District of Ohio seeking a declaratory judgment that the sale and use of certain ends by BMBCC and its customers do not infringe certain claims of Crown s U.S. patents. Crown subsequently filed a counterclaim alleging infringement of certain claims in these patents seeking unspecified monetary damages, fees and declaratory and injunctive relief. The parties are awaiting a claim construction order from the District Court.Based on the information available to the company at the present time, the company does not believe that this matter will have a material adverse effect upon the liquidity, results of operations or financial condition of the company.

The company s Brazilian joint venture operations are involved in various governmental assessments, principally related to claims for taxes on the internal transfer of inventory, gross revenue taxes and tax incentives. The company does not believe that the ultimate resolution of these matters will materially impact Ball Corporation s results of operations, financial position or cash flows. Under customary local regulations, the joint venture may need to post significant cash or other collateral if the process to challenge any administrative assessment proceeds to the Brazilian court system; however, the level of any potential cash or collateral required would not significantly impact the liquidity of the joint venture or Ball Corporation.

22. Indemnifications and Guarantees

General Guarantees

The company or its appropriate consolidated direct or indirect subsidiaries have made certain indemnities, commitments and guarantees under which the specified entity may be required to make payments in relation to certain transactions. These indemnities, commitments and guarantees include indemnities to the customers of the subsidiaries in connection with the sales of their packaging and aerospace products and services; guarantees to suppliers of subsidiaries of the company guaranteeing the performance of the respective entity under a purchase agreement, construction contract or other commitment; guarantees in respect of certain foreign subsidiaries pension plans; indemnities for liabilities associated with the infringement of third party patents, trademarks or copyrights under various types of agreements; indemnities to various lessors in connection with facility, equipment, furniture and other personal property leases for certain claims arising from such leases; indemnities to governmental agencies in connection with the issuance of a permit or license to the company or a subsidiary; indemnities pursuant to agreements relating to certain joint ventures; indemnities in connection with the sale of businesses or substantially all of the assets and specified liabilities of businesses; and indemnities to directors, officers and employees of the company to the extent permitted under the laws of the State of Indiana and the United States of America. The duration of these indemnities, commitments and guarantees varies and, in certain cases, is indefinite. In addition many of these indemnities, commitments and guarantees do not provide for any limitation on the maximum potential future payments the company could be obligated to make. As such, the company is unable to reasonably estimate its potential exposure under these items.

The company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets. The company does, however, accrue for payments under promissory notes and other evidences of incurred indebtedness and for losses for any known contingent liability, including those that may arise from indemnifications, commitments and guarantees, when future payment is both reasonably estimable and probable. Finally, the company carries specific and general liability insurance policies and has obtained indemnities, commitments and guarantees from third party purchasers, sellers and other contracting parties, which the company believes would, in certain circumstances, provide recourse to any claims arising from these indemnifications, commitments and guarantees.

Debt Guarantees

The company s senior notes and senior credit facilities are guaranteed on a full, unconditional and joint and several basis by certain of the company s material domestic subsidiaries and the domestic subsidiary borrowers, and obligations of the subsidiary borrowers under the senior credit facilities are guaranteed by the company. Loans borrowed under the senior credit facilities by foreign subsidiary borrowers are also effectively guaranteed by certain of the company s foreign subsidiaries by pledges of stock of the foreign subsidiary borrowers and stock of material foreign subsidiaries. These guarantees are required in support of the notes and credit facilities referred to above, are co-terminous with the terms of the respective note indentures and credit agreements and would require performance upon certain events of default referred to

Table of Contents

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

22. Indemnifications and Guarantees *(continued)*

in the respective guarantees. The maximum potential amounts which could be required to be paid under the domestic guarantees are essentially equal to the then outstanding principal and interest under the respective notes and credit agreements, or under the applicable tranche, and the maximum potential amounts that could be required to be paid under the foreign stock pledges by foreign subsidiaries are essentially equal to the value of the stock pledged. The company is not in default under the above notes or credit facilities. The condensed consolidating financial information for the guarantor and non-guarantor subsidiaries is presented in Note 20. Separate financial statements for the guarantor subsidiaries and the non-guarantor subsidiaries are not presented because management has determined that such financial statements are not required by the current regulations.

Accounts Receivable Securitization

Ball Capital Corp. II is a separate, wholly owned corporate entity created for the purchase of accounts receivable from certain of the company s wholly owned subsidiaries. Ball Capital Corp. II s assets will be available first to satisfy the claims of its creditors. The company has been designated as the servicer pursuant to an agreement whereby Ball Capital Corp. II may sell and assign the accounts receivable to a commercial lender or lenders. As the servicer, the company is responsible for the servicing, administration and collection of the receivables and is primarily liable for the performance of such obligations. The company, the relevant subsidiaries and Ball Capital Corp. II are not in default under the above credit arrangement.

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

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

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to seek to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to the officers who certify the company s financial reports and to other members of senior management and the board of directors. Based on their evaluation as of December 31, 2013, the chief executive officer and chief financial officer of the

company have concluded that the company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, Financial Statements and Supplementary Data.

Changes in Internal Control

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance of the Registrant

The executive officers of the company as of February 24, 2014, were as follows:

Charles E. Baker, 56, Vice President, General Counsel and Corporate Secretary since July 2011; Vice President, General Counsel and Assistant Corporate Secretary from 2004 to 2011; Associate General Counsel, 1999 to 2004; various other positions within the company, 1993 to 1999.

Shawn M. Barker, 46, Vice President and Controller since January 2010; Vice President, Operations Accounting, 2006 to 2009; Corporate Director, Financial Planning and Analysis, 2004 to 2006; Manager, Planning and Analysis, 2003 to 2004.

Douglas K. Bradford, 56, Vice President, Global Tax since July 2013; Vice President, Financial Reporting and Tax from 2010 to 2013; Vice President and Controller from 2003 to 2009; Controller, 2002 to 2003; various other positions within the company, 1989 to 2002.

Michael W. Feldser, 63, Senior Vice President, Ball Corporation, and Chief Operating Officer, Global Metal Food and Household Products Packaging, since April 2013; President, Ball Metal Food & Household Products Packaging from 2007 to 2013; and President, Ball Aerosol & Specialty Packaging, 2006 to 2007.

John A. Hayes, 48, Chairman, President and Chief Executive Officer since April 2013; President and Chief Executive Officer, 2011 to 2013; President and Chief Operating Officer during 2010; Executive Vice President and Chief Operating Officer from 2008 to 2009; various other positions within the company, 1999 to 2008.

Gerrit Heske, 49, Senior Vice President, Ball Corporation, and Chief Operating Officer, Global Metal Beverage Packaging, since April 2013; President, Ball Packaging Europe from 2009 to 2013; Executive Vice President and Chief Operating Officer, Ball Packaging Europe from 2008 to 2009; and Vice President, Manufacturing, Ball Packaging Europe from 2005 to 2008; various other positions with the company, 1993 to 2005.

Jeffrey A. Knobel, 42, Vice President and Treasurer since April 2011; Treasurer from 2010 to 2011; Senior Director, Treasury, 2008 to 2010; Director, Treasury Operations, 2005 to 2008; various other positions within the company, 1997 to 2005.

Scott C. Morrison, 51, Senior Vice President and Chief Financial Officer since January 2010; Vice President and Treasurer from 2002 to 2009; and Treasurer, 2000 to 2002.

Lisa A. Pauley, 52, Senior Vice President, Human Resources and Administration, since July 2011; Vice President, Administration and Compliance, 2007 to 2011; Senior Director, Administration and Compliance, 2004 to 2007; various other positions within the company, 1981 to 2004.

James N. Peterson, 45, Vice President, Marketing and Corporate Affairs since January 2011; Vice President, Marketing and Corporate Relations, 2008 to 2011; Director, Marketing North America, 2006 to 2008; and Vice President, Marketing & Business Development, U.S. Can Company, 2004 to 2006.

Robert D. Strain, 57, Senior Vice President, Ball Corporation, and President, Ball Aerospace & Technologies Corp. since April 2013; Chief Operating Officer, Ball Aerospace & Technologies Corp. from 2012 to 2013; and Director at NASA Goddard Space Flight Center from 2008 to 2012.

Leroy J. Williams, Jr., 48, Vice President, Information Technology and Services, since April 2007; and Vice President, Information Systems, 2005 to 2007.

Other information required by Item 10 appearing under the caption Director Nominees and Continuing Directors and Section 16(a) Beneficial Ownership Reporting Compliance, of the company s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2012, is incorporated herein by reference.

Table of Contents

Item 11. Executive Compensation

The information required by Item 11 appearing under the caption Executive Compensation in the company s proxy statement, to be filed pursuant to Regulation 14A within 120 days after December 31, 2013, is incorporated herein by reference. Additionally, the Ball Corporation 2000 Deferred Compensation Company Stock Plan, the Ball Corporation 2005 Deferred Compensation Company Stock Plan, the Ball Corporation Deposit Share Program and the Ball Corporation Directors Deposit Share Program were created to encourage key executives and other participants to acquire a larger equity ownership interest in the company and to increase their interest in the company s stock performance. Non-employee directors may also be a participant in the 2000 Deferred Compensation Company Stock Plan and the 2005 Deferred Compensation Company Stock Plan.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 appearing under the caption Voting Securities and Principal Shareholders, in the company s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2013, is incorporated herein by reference.

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

	Equity Compensation Plan Information		
Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (B)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)**
Equity compensation plans approved by security holders	12,382,375	$ 29.68	12,382,375
Equity compensation plans not approved by security holders			
Total	12,382,375	$ 29.68	12,382,375

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 appearing under the caption Ratification of the Appointment of Independent Registered Public Accounting Firm, in the company s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2013, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 appearing under the caption Certain Committees of the Board, in the company s proxy statement to be filed pursuant to Regulation 14A within 120 days after December 31, 2013, is incorporated herein by reference.

Table of Contents

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) ***Financial Statements*:**

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

Report of independent registered public accounting firm

Consolidated statements of earnings Years ended December 31, 2013, 2012 and 2011

Consolidated statements of comprehensive earnings Years ended December 31, 2013, 2012 and 2011

Consolidated balance sheets December 31, 2013 and 2012

Consolidated statements of cash flows Years ended December 31, 2013, 2012 and 2011

Consolidated statements of shareholders equity Years ended December 31, 2013, 2012 and 2011

Notes to consolidated financial statements

(2) ***Financial Statement Schedules:***

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

(3) ***Exhibits:***

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

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BALL CORPORATION
(Registrant)

By: /s/ John A. Hayes
John A. Hayes
Chairman, President and Chief Executive Officer
February 24, 2014

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

(1) Principal Executive Officer:

/s/ John A. Hayes John A. Hayes		Chairman, President and Chief Executive Officer February 24, 2014

(2) Principal Financial and Accounting Officer:

/s/ Scott C. Morrison Scott C. Morrison		Senior Vice President and Chief Financial Officer February 24, 2014

(3) Controller:

/s/ Shawn M. Barker Shawn M. Barker		Vice President and Controller February 24, 2014

(4) A Majority of the Board of Directors:

/s/ Robert W. Alspaugh Robert W. Alspaugh	*	Director February 24, 2014
/s/ Hanno C. Fiedler Hanno C. Fiedler	*	Director February 24, 2014
/s/ John A. Hayes John A. Hayes	*	Chairman of the Board and Director February 24, 2014
/s/ R. David Hoover R. David Hoover	*	Director February 24, 2014
/s/ John F. Lehman John F. Lehman	*	Director February 24, 2014

/s/ Georgia R. Nelson	*	Director
Georgia R. Nelson		February 24, 2014
/s/ Jan Nicholson	*	Director
Jan Nicholson		February 24, 2014
/s/ George M. Smart	*	Director
George M. Smart		February 24, 2014
/s/ Theodore M. Solso	*	Director
Theodore M. Solso		February 24, 2014

Table of Contents

/s/ Stuart A. Taylor II	*	Director
Stuart A. Taylor II		February 24, 2014

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

BALL CORPORATION
(Registrant)

By: /s/ John A. Hayes
John A. Hayes
As Attorney-in-Fact
February 24, 2014

Table of Contents

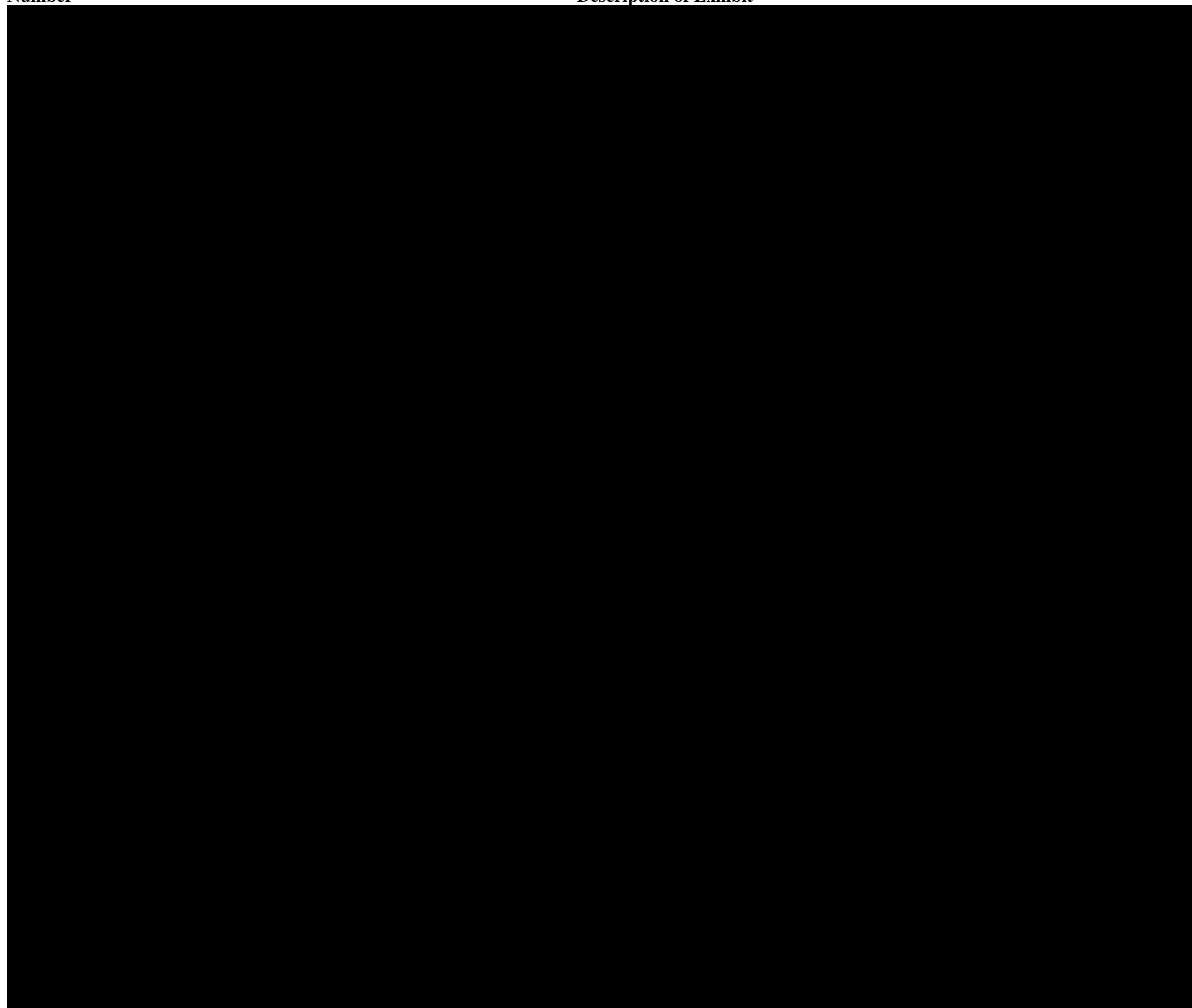
Ball Corporation and Subsidiaries

Annual Report on Form 10-K

For the Year Ended December 31, 2013

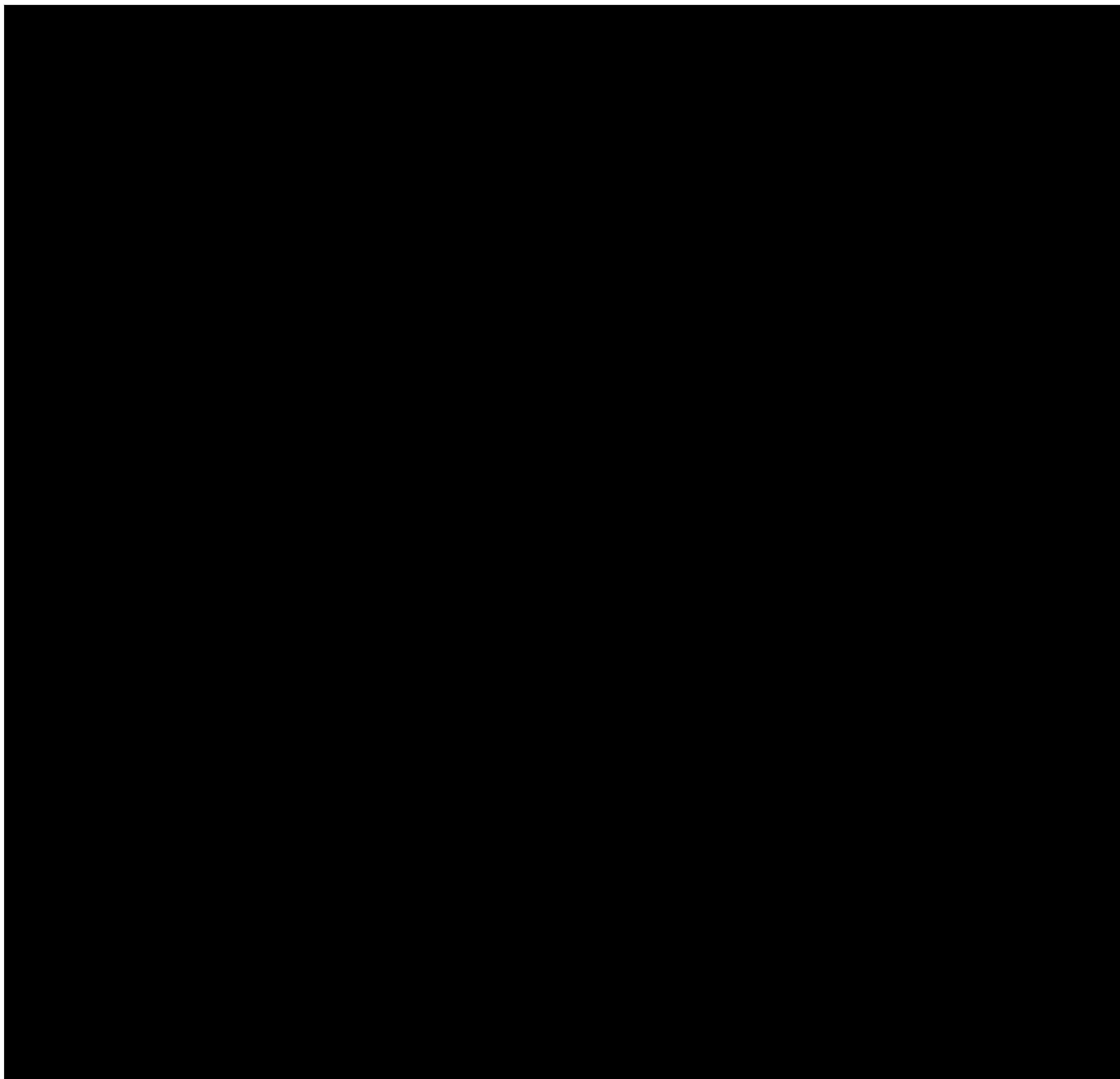
Index to Exhibits

Exhibit Number	Description of Exhibit



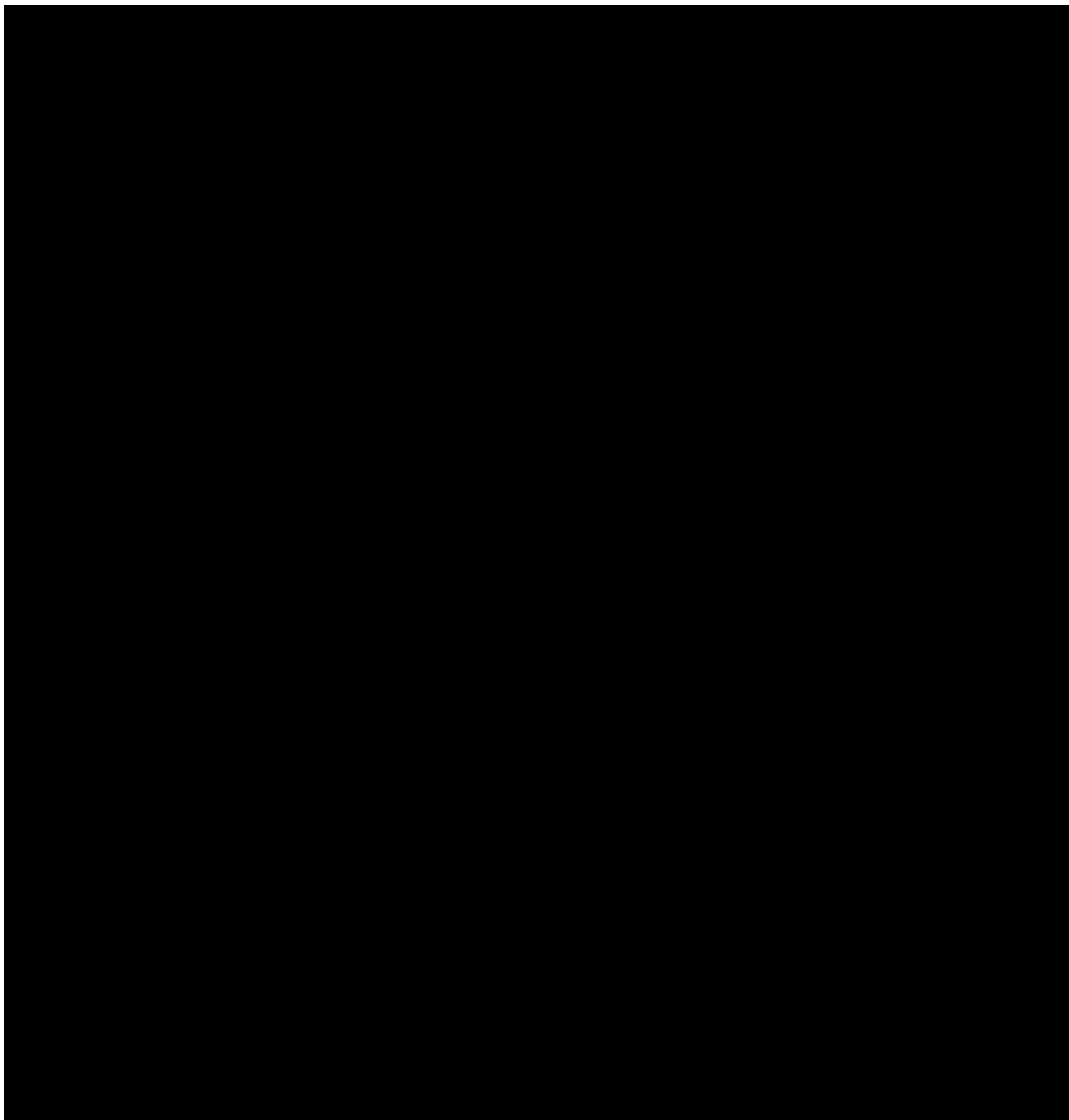
99

Table of Contents



* Represents a management contract or compensatory plan or agreement.

Table of Contents



* Represents a management contract or compensatory plan or agreement.

101

Table of Contents