

BALL CORP
Form 10-Q
November 07, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended October 2, 2011

Commission file number 1-7349

BALL CORPORATION

State of Indiana

35-0160610

10 Longs Peak Drive, P.O. Box 5000

Broomfield, CO 80021-2510

303/469-3131

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

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

Class
Common Stock, without par value

Outstanding at October 30, 2011
162,642,987 shares

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Ball Corporation and Subsidiaries

QUARTERLY REPORT ON FORM 10-Q

For the period ended October 2, 2011

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[Table of Contents](#)**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****BALL CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(\$ in millions, except per share amounts)	Three months ended		Nine months ended	
	October 2, 2011	September 26, 2010	October 2, 2011	September 26, 2010
Net sales	\$ 2,258.3	\$ 2,035.0	\$ 6,579.2	\$ 5,634.8
Cost of sales (excluding depreciation and amortization)	(1,862.2)	(1,653.4)	(5,378.4)	(4,614.7)
Depreciation and amortization	(74.5)	(67.1)	(222.2)	(192.2)
Selling, general and administrative	(89.7)	(93.0)	(282.2)	(249.9)
Business consolidation and other activities	(3.3)	11.6	(19.7)	9.8
	(2,029.7)	(1,801.9)	(5,902.5)	(5,047.0)
Earnings before interest and taxes	228.6	233.1	676.7	587.8
Interest expense	(43.0)	(36.2)	(134.7)	(106.7)
Debt refinancing costs				(8.1)
Total interest expense	(43.0)	(36.2)	(134.7)	(114.8)
Earnings before taxes	185.6	196.9	542.0	473.0
Tax provision	(47.6)	(60.5)	(160.2)	(142.2)
Equity in results of affiliates, net of tax	0.8	85.8	1.9	118.5
Net earnings from continuing operations	138.8	222.2	383.7	449.3
Discontinued operations, net of tax	(1.3)	5.3	(2.9)	(73.4)
Net earnings	137.5	227.5	380.8	375.9
Less net earnings attributable to noncontrolling interests	(5.4)		(14.3)	(0.1)
Net earnings attributable to Ball Corporation	\$ 132.1	\$ 227.5	\$ 366.5	\$ 375.8
Amounts attributable to Ball Corporation:				
Continuing operations	\$ 133.4	\$ 222.2	\$ 369.4	\$ 449.2
Discontinued operations	(1.3)	5.3	(2.9)	(73.4)
Net earnings	\$ 132.1	\$ 227.5	\$ 366.5	\$ 375.8
Earnings per share (a):				
Basic - continuing operations	\$ 0.82	\$ 1.24	\$ 2.22	\$ 2.45
Basic - discontinued operations	(0.01)	0.03	(0.02)	(0.40)
Total basic earnings per share	\$ 0.81	\$ 1.27	\$ 2.20	\$ 2.05
Diluted - continuing operations	\$ 0.80	\$ 1.22	\$ 2.17	\$ 2.42
Diluted - discontinued operations	(0.01)	0.03	(0.02)	(0.40)
Total diluted earnings per share	\$ 0.79	\$ 1.25	\$ 2.15	\$ 2.02

(a) *Earnings per share amounts in 2010 have been retrospectively adjusted for the two-for-one stock split that was effective on February 15, 2011.*

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALL CORPORATION****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(\$ in millions)	October 2, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 190.1	\$ 152.0
Receivables, net	1,107.6	849.7
Inventories, net	1,094.6	1,083.9
Deferred taxes and other current assets	181.6	220.1
Total current assets	2,573.9	2,305.7
Property, plant and equipment, net	2,242.5	2,048.2
Goodwill	2,283.1	2,105.3
Intangibles and other assets, net	438.9	468.5
Total assets	\$ 7,538.4	\$ 6,927.7
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt and current portion of long-term debt	\$ 479.2	\$ 110.7
Accounts payable	776.8	700.3
Accrued employee costs	255.4	258.2
Other current liabilities	274.2	314.1
Total current liabilities	1,785.6	1,383.3
Long-term debt	2,977.5	2,701.6
Employee benefit obligations	952.3	963.3
Deferred taxes and other liabilities	255.0	221.4
Total liabilities	5,970.4	5,269.6
Shareholders' equity (a)		
Common stock (326,814,002 shares issued - 2011; 325,423,462 shares issued - 2010)	931.2	893.4
Retained earnings	3,162.0	2,829.8
Accumulated other comprehensive earnings (loss)	(164.9)	(82.1)
Treasury stock, at cost (164,311,082 shares - 2011; 153,265,070 shares - 2010)	(2,520.6)	(2,123.1)
Total Ball Corporation shareholders' equity	1,407.7	1,518.0
Noncontrolling interests	160.3	140.1
Total shareholders' equity	1,568.0	1,658.1
Total liabilities and shareholders' equity	\$ 7,538.4	\$ 6,927.7

(a) Share amounts in 2010 have been retrospectively adjusted for the two-for-one stock split that was effective on February 15, 2011.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALL CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$ in millions)	Nine months ended	
	October 2, 2011	September 26, 2010
Cash Flows From Operating Activities:		
Net earnings	\$ 380.8	\$ 375.9
Discontinued operations, net of tax	2.9	73.4
Adjustments to reconcile net earnings to net cash provided by (used in) continuing operating activities:		
Depreciation and amortization	222.2	192.2
Equity earnings and gain related to acquisitions	(1.9)	(118.5)
Deferred taxes	14.3	(51.2)
Other, net	66.9	92.3
Changes in working capital components	(236.7)	(208.2)
Cash provided by (used in) continuing operating activities	448.5	355.9
Cash provided by (used in) discontinued operating activities	(7.5)	15.5
Total cash provided by (used in) operating activities	441.0	371.4
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(323.8)	(131.1)
Business acquisitions	(295.2)	(60.0)
Acquisition of equity affiliate		(63.8)
Proceeds from sale of business		280.0
Other, net	(7.3)	(10.1)
Cash provided by (used in) continuing investing activities	(626.3)	15.0
Cash provided by (used in) discontinued investing activities		(9.2)
Total cash provided by (used in) investing activities	(626.3)	5.8
Cash Flows From Financing Activities:		
Long-term borrowings	685.7	1,199.3
Repayments of long-term borrowings	(398.3)	(1,270.1)
Net change in short-term borrowings	340.1	5.2
Proceeds from issuances of common stock	31.8	35.0
Acquisitions of treasury stock	(413.1)	(353.0)
Common dividends	(34.6)	(27.2)
Other, net	4.7	(5.8)
Cash provided by (used in) financing activities	216.3	(416.6)
Effect of exchange rate changes on cash	7.1	(2.5)
Change in cash and cash equivalents	38.1	(41.9)
Cash and cash equivalents - beginning of period	152.0	210.6
Cash and cash equivalents - end of period	\$ 190.1	\$ 168.7

See accompanying notes to unaudited condensed consolidated financial statements.

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Ball Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

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

Results of operations for the periods shown are not necessarily indicative of results for the year, particularly in view of the seasonality in the packaging segments and the irregularity of contract revenues in the aerospace and technologies segment. These unaudited condensed consolidated financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto included in the company's Annual Report on Form 10-K filed on February 28, 2011, pursuant to Section 13 of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010 (annual report).

The preparation of financial statements in conformity with generally accepted accounting principles requires 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. Actual results could differ from these estimates under different assumptions and conditions. However, we believe that the financial statements reflect all adjustments which are of a normal and recurring nature and are necessary to fairly state the results of the interim periods.

Certain prior period amounts have been reclassified in order to conform to the current period presentation. On January 26, 2011, the company's board of directors declared a two-for-one split of Ball's common stock, which was effective on February 15, 2011, for all shareholders of record on February 4, 2011. As a result of the stock split, all 2010 amounts related to shares, share prices and earnings per share have been retrospectively adjusted throughout this report.

2. Accounting Pronouncements

Recently Adopted Accounting Standards

In April 2010, accounting guidance was issued to outline the criteria that should be met for determining when the milestone method of revenue recognition is appropriate in research or development transactions. The new guidance was effective as of January 1, 2011, and did not have a significant impact on Ball's financial statements.

In January 2010, the FASB issued additional guidance regarding fair value measurements, specifically requiring the disclosure of transfers in and out of Level 1 and 2 assets and liabilities (previously only required for those in Level 3) and more specific detailed disclosure of the activity in Level 3 fair value measurements (on a gross basis rather than a net basis). The new guidance also clarifies existing disclosure requirements regarding the level of disaggregation of asset and liability classes, as well as the valuation techniques and inputs used to measure fair value for Level 2 and Level 3 fair value measurements. The disclosure requirement for transfers in and out of Level 1 and 2 assets and liabilities was effective for Ball on January 1, 2010, and had no impact on the unaudited condensed consolidated financial statements. The reporting of Level 3 activity on a gross basis was effective for Ball as of January 1, 2011, and affects only the Level 3 pension plan assets, which do not represent a significant component of the total pension assets.

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Ball Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

2. Accounting Pronouncements (continued)

New Accounting Guidance

In September 2011, accounting guidance was issued to allow companies to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test described in current accounting guidelines. The guidance is effective for Ball on January 1, 2012, although early adoption is permitted. The company does not expect the new guidance to have a material effect on its consolidated financial statements.

Also in September 2011, revised accounting guidance was issued to enhance disclosures related to multiemployer pension plans. Ball is currently evaluating the impact of this new guidance, which will be effective for the company in its 2011 year-end reporting, but does not expect it to have a material effect on its consolidated financial statements.

In June 2011, accounting guidance was issued requiring that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive earnings or in two separate but consecutive statements. The guidance also requires the company present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive earnings to net earnings. Ball has historically presented comprehensive earnings within the statement of changes in shareholders' equity and is evaluating which acceptable method of presentation included in the guidance it will adopt once the statement becomes effective for the company on January 1, 2012. The company does not expect the new guidance to have a material effect on its consolidated financial statements.

In May 2011, amendments to existing accounting guidance were issued that result in a more consistent definition of fair value and common requirements for measurement of, and disclosure about, fair value between U.S. GAAP and IFRS. The amendments in the new guidance provide explanations on how to measure fair value but do not require additional fair value measurements. The new fair value guidance will be effective for Ball as of January 1, 2012, and is not expected to have a material effect on the company's financial statements or disclosures.

3. Business Segment Information

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

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Metal beverage packaging, Americas and Asia: Consists of the metal beverage packaging, Americas, operations in the U.S., Canada and Brazil (see Note 4), 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, extruded aluminum aerosol containers and aluminum slugs.

Metal food and household products packaging, Americas: Consists of operations in the U.S. and Argentina, which manufacture and sell metal food, aerosol, paint and general line containers, as well as decorative specialty 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.

The accounting policies of the segments are the same as those in the unaudited condensed consolidated financial statements. A discussion of the company's critical and significant accounting policies can be found in Ball's annual report. The company also has investments in companies in the U.S. and the PRC, which are accounted for under the equity method of accounting and, accordingly, those results are not included in segment sales or earnings. The company's investment in a Brazilian joint venture was previously accounted for using the equity method of accounting. However, during August 2010, Ball acquired an additional economic interest in the joint venture partner and its results are now consolidated.

Table of Contents**Ball Corporation****Notes to Unaudited Condensed Consolidated Financial Statements****3. Business Segment Information (continued)****Summary of Business by Segment**

(\$ in millions)	Three months ended		Nine months ended	
	October 2, 2011	September 26, 2010	October 2, 2011	September 26, 2010
Net Sales				
Metal beverage packaging, Americas & Asia	\$ 1,125.4	\$ 1,004.7	\$ 3,321.8	\$ 2,815.1
Metal beverage packaging, Europe	515.7	443.7	1,566.6	1,290.5
Metal food & household products packaging, Americas	413.2	420.1	1,103.6	1,017.5
Aerospace & technologies	208.4	167.9	599.5	513.1
Corporate and intercompany eliminations	(4.4)	(1.4)	(12.3)	(1.4)
Net sales	\$ 2,258.3	\$ 2,035.0	\$ 6,579.2	\$ 5,634.8
Net Earnings				
Metal beverage packaging, Americas & Asia	\$ 120.1	\$ 112.8	\$ 361.8	\$ 301.3
Business consolidation and other activities	(1.4)	(0.9)	(14.8)	0.4
Total metal beverage packaging, Americas & Asia	118.7	111.9	347.0	301.7
Metal beverage packaging, Europe	64.9	63.7	202.7	171.2
Business consolidation and other activities			(2.9)	
Total metal beverage packaging, Europe	64.9	63.7	199.8	171.2
Metal food & household products packaging, Americas	39.5	49.4	120.6	104.5
Business consolidation and other activities	(1.4)	13.2	(1.4)	13.2
Total metal food & household products packaging, Americas	38.1	62.6	119.2	117.7
Aerospace & technologies	21.2	18.4	61.6	50.5
Segment earnings before interest and taxes	242.9	256.6	727.6	641.1
Undistributed corporate expenses and intercompany eliminations, net	(13.8)	(22.8)	(50.3)	(49.5)
Business consolidation and other activities	(0.5)	(0.7)	(0.6)	(3.8)
Total undistributed corporate expenses, net	(14.3)	(23.5)	(50.9)	(53.3)
Earnings before interest and taxes	228.6	233.1	676.7	587.8
Interest expense	(43.0)	(36.2)	(134.7)	(114.8)
Tax provision	(47.6)	(60.5)	(160.2)	(142.2)

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Equity in results of affiliates, net of tax	0.8	85.8	1.9	118.5
Net earnings from continuing operations	138.8	222.2	383.7	449.3
Discontinued operations, net of tax	(1.3)	5.3	(2.9)	(73.4)
Net earnings from continuing operations	137.5	227.5	380.8	375.9
Less net earnings attributable to noncontrolling interests	(5.4)		(14.3)	(0.1)
Net earnings attributable to Ball Corporation	\$ 132.1	\$ 227.5	\$ 366.5	\$ 375.8

Table of Contents**Ball Corporation****Notes to Unaudited Condensed Consolidated Financial Statements****3. Business Segment Information (continued)**

(\$ in millions)	October 2, 2011	December 31, 2010
Total Assets		
Metal beverage packaging, Americas & Asia	\$ 3,183.8	\$ 2,965.8
Metal beverage packaging, Europe	2,608.2	2,210.6
Metal food & household products packaging, Americas	1,230.7	1,184.3
Aerospace & technologies	285.0	280.9
Segment assets	7,307.7	6,641.6
Corporate assets, net of eliminations	230.7	286.1
Total assets	\$ 7,538.4	\$ 6,927.7

4. Acquisitions*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 plants—one each in the Czech Republic, France and the United Kingdom—and is a 51 percent owner of a joint venture aluminum slug plant in France. The four plants employ approximately 560 people. The acquisition of Aerocan allows Ball to enter a growing part of the metal packaging industry and to broaden the company's market development efforts into a new customer base. The acquired operations have been included in the metal beverage packaging, Europe, segment since the acquisition date.

Management's preliminary fair market valuation of acquired assets and liabilities is summarized below. The preliminary valuation was based on market and income approaches.

(\$ in millions)	
Other assets and liabilities, net	\$ 7.4
Property, plant and equipment	95.8
Goodwill	166.9
Other intangible assets	53.9

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Deferred taxes		(22.8)
Noncontrolling interest		(6.0)
Net assets acquired	\$	295.2

Certain customer contracts, customer relationships, developed technology and assembled workforce were identified as intangible assets by the company and assigned estimated useful lives between 5 and 12 years. The intangible assets are being amortized on a straight-line basis.

Table of Contents**Ball Corporation****Notes to Unaudited Condensed Consolidated Financial Statements****4. Acquisitions (continued)***Latapack-Ball Embalagens, Ltda. (Latapack-Ball)*

In August 2010, the company paid \$46.2 million to acquire an additional 10.1 percent economic interest in its Brazilian beverage packaging joint venture, Latapack-Ball, through a transaction with the joint venture partner, Latapack S.A. This transaction increased the company's overall economic interest in the joint venture to 60.1 percent and expands and strengthens Ball's presence in the growing Brazilian market. As a result of the transaction, Latapack-Ball became a variable interest entity (VIE) under consolidation accounting guidelines with Ball being identified as the primary beneficiary of the VIE and consolidating the joint venture. Latapack-Ball operates two metal beverage can manufacturing plants in Tres Rios, Rio de Janeiro; and Jacarei, Sao Paulo; as well as a can end manufacturing plant in Simoes Filho (Salvador), Bahia. Latapack-Ball has been included in the metal beverage packaging, Americas and Asia, reporting segment. In connection with the acquisition, the company recorded a noncash gain of \$81.8 million in the equity in results of affiliates line on the statement of earnings on its previously held equity investment in Latapack-Ball as a result of required purchase accounting.

The following table summarizes the final fair values of the Latapack-Ball assets acquired, liabilities assumed and noncontrolling interest recognized, as well as the related investment in Latapack S.A., as of the acquisition date. The valuation was based on market and income approaches.

(\$ in millions)		
Cash	\$	69.3
Current assets		84.7
Property, plant and equipment		265.9
Goodwill		100.2
Intangible asset		52.8
Current liabilities		(53.2)
Long-term liabilities		(174.1)
Net assets acquired	\$	345.6
Noncontrolling interest	\$	(132.9)

The customer relationships were identified as an intangible asset by the company and assigned an estimated life of 13.4 years. The intangible asset is being amortized on a straight-line basis.

Neuman Aluminum (Neuman)

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In July 2010, the company acquired Neuman for approximately \$62 million in cash and became the leading North American manufacturer of aluminum slugs used to make extruded aerosol cans, beverage bottles, collapsible tubes and technical impact extrusions. Neuman operates two plants, one in the U.S. and one in Canada, that employ approximately 180 people. The acquisition of Neuman is not material to the metal food and household products packaging, Americas, segment, in which its results of operations have been included since the acquisition date.

Guangdong Jianlibao Group Co., Ltd (Jianlibao)

In June 2010, the company acquired Jianlibao's 65 percent interest in a joint venture metal beverage can and end plant in Sanshui (Foshan), PRC, for \$86.9 million in cash (net of cash acquired) and assumed debt, and also entered into a long-term supply agreement. The company recorded equity earnings of \$24.1 million, which was composed of equity earnings and a gain realized on the fair value of Ball's equity investment as a result of the required purchase accounting. The acquisition of the remaining interest is not material to the metal beverage packaging, Americas and Asia, segment.

Table of Contents**Ball Corporation****Notes to Unaudited Condensed Consolidated Financial Statements****5. Dispositions***Plastics Packaging, Americas*

In August 2010, the company completed the sale of its plastics packaging, Americas, business to Amcor Limited and received gross proceeds of \$258.7 million, which included \$15 million of contingent consideration recognized at closing and is net of post-closing adjustments of \$21.3 million. The sale of Ball's plastics packaging business included five U.S. plants that manufacture polyethylene terephthalate (PET) bottles and preforms and polypropylene bottles, as well as associated customer contracts and other related assets.

The following table summarizes the operating results for the discontinued operations:

(\$ in millions)	Three months ended		Nine months ended	
	October 2, 2011	September 26, 2010	October 2, 2011	September 26, 2010
Net sales	\$			