
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 29, 2003**

Commission File Number 0-21314

U.S. CAN CORPORATION

(Exact Name of Registrant as Specified in its Charter)

06-1094196

(I.R.S. Employer Identification No.)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

**700 EAST BUTTERFIELD ROAD
SUITE 250**

LOMBARD, ILLINOIS 60148

(Address of Principal Executive Offices, Including Zip Code)

(630) 678-8000

(Registrant's Telephone Number, Including Area Code)

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 (the "Exchange Act") 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 7, 2003, 53,333.333 shares of Common Stock were outstanding.

U.S. CAN CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 29, 2003

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INCLUSION OF FORWARD-LOOKING INFORMATION

Certain statements in this report constitute "forward-looking statements" within the meaning of the federal securities laws. Such statements involve known and unknown risks and uncertainties which may cause the Company's actual results, performance or achievements to be materially different than any future results, performance or achievements expressed or implied in this report. By way of example and not limitation and in no particular order, known risks and uncertainties include general economic and business conditions; our substantial debt and ability to generate sufficient cash flows to service our debt; changes in market conditions or product demand; the level of cost reduction achieved through restructuring and capital expenditure programs; changes in raw material costs and availability; downward selling price movements; loss of important customers or volume; currency and interest rate fluctuations; the timing and cost of plant closures; the success of new technology; and increases in the cost of compliance with laws and regulations, including environmental laws and regulations. In light of these and other risks and uncertainties as described under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed with the Securities and Exchange Commission in March 2003, the inclusion of a forward-looking statement in this report should not be regarded as a representation by the Company that any future results, performance or achievements will be attained.

U.S. CAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(000's omitted)

	For The		For The	
	Three Months Ended		Six Months Ended	
	<u>June 29, 2003</u>	<u>June 30, 2002</u>	<u>June 29, 2003</u>	<u>June 30, 2002</u>
	(unaudited)			
Net Sales	\$ 210,312	\$ 203,624	\$ 409,202	\$ 389,662
Cost of Sales	<u>185,602</u>	<u>180,731</u>	<u>363,148</u>	<u>347,801</u>
Gross Income	24,710	22,893	46,054	41,861
Selling, General and Administrative Expenses	8,661	9,867	18,337	19,198
Special Charges	<u>591</u>	<u>-</u>	<u>1,621</u>	<u>-</u>
Operating Income	15,458	13,026	26,096	22,663
Interest Expense	<u>14,159</u>	<u>14,100</u>	<u>28,261</u>	<u>27,843</u>
Income (Loss) Before Income Taxes	1,299	(1,074)	(2,165)	(5,180)
Provision (Benefit) for Income Taxes	<u>2,301</u>	<u>(198)</u>	<u>2,874</u>	<u>(1,922)</u>
Net Loss Before Cumulative Effect of Accounting Change	(1,002)	(876)	(5,039)	(3,258)
Cumulative Effect of Accounting Change, net of income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,302)</u>
Net Loss Before Preferred Stock Dividends	(1,002)	(876)	(5,039)	(21,560)
Preferred Stock Dividend Requirement	<u>(3,400)</u>	<u>(3,081)</u>	<u>(6,646)</u>	<u>(6,055)</u>
Net Loss Attributable to Common Stockholders	<u>\$ (4,402)</u>	<u>\$ (3,957)</u>	<u>\$ (11,685)</u>	<u>\$ (27,615)</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

U.S. CAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(000's omitted, except per share data)

ASSETS	June 29, 2003	December 31, 2002
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 19,046	\$ 11,790
Accounts receivable, net of allowances	118,061	89,986
Inventories	107,634	105,635
Deferred income taxes	7,749	7,730
Other current assets	10,201	14,466
Total current assets	262,691	229,607
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation and amortization	238,743	241,674
GOODWILL	27,384	27,384
DEFERRED INCOME TAXES	28,017	29,340
OTHER NON-CURRENT ASSETS	51,216	50,821
Total assets	\$ 608,051	\$ 578,826
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$ 45,716	\$ 26,153
Accounts payable	104,491	94,537
Accrued expenses	49,610	51,446
Restructuring reserves	7,613	11,990
Income taxes payable	1,913	958
Total current liabilities	209,343	185,084
LONG TERM DEBT	522,142	523,529
LONG TERM LIABILITIES PURSUANT TO EMPLOYEE BENEFIT PLANS	75,305	74,574
OTHER LONG-TERM LIABILITIES	6,960	6,352
Total liabilities	813,750	789,539
REDEEMABLE PREFERRED STOCK, 200,000 shares authorized, 106,667 shares issued & outstanding	139,780	133,133
STOCKHOLDERS' EQUITY:		
Common stock, \$10.00 par value, 100,000 shares authorized, 53,333 shares issued & outstanding	533	533
Additional paid in capital	52,800	52,800
Accumulated other comprehensive loss	(41,024)	(51,076)
Accumulated deficit	(357,788)	(346,103)
Total stockholders' equity / (deficit)	(345,479)	(343,846)
Total liabilities and stockholders' equity	\$ 608,051	\$ 578,826

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets

U.S. CAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(000's omitted)

	For the Six Months Ended	
	June 29, 2003	June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	(Unaudited)	
Net loss before preferred stock dividend requirements	\$ (5,039)	\$ (21,560)
Adjustments to reconcile net loss to net cash used in operating activities –		
Depreciation and amortization	18,326	17,663
Special charge	1,621	–
Cumulative effect of accounting change	–	18,302
Deferred income taxes	1,916	(3,546)
Change in operating assets and liabilities, net of effect of acquired businesses:		
Accounts receivable	(24,332)	(9,180)
Inventories	2,040	(5,662)
Accounts payable	6,162	10,278
Accrued expenses	(5,520)	(6,472)
Other, net	(1,220)	(3,984)
Net cash used in operating activities	(6,046)	(4,161)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures including restructuring capital	(7,409)	(11,036)
Proceeds from sale of property	5,429	591
Investment in Formametal S.A.	–	(133)
Net cash used in investing activities	(1,980)	(10,578)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under the revolving line of credit	20,300	8,900
Borrowings of other debt	3,557	13,750
Payments of other debt, including capital lease obligations	(7,126)	(5,689)
Net cash provided by financing activities	16,731	16,961
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,449)	(452)
INCREASE IN CASH AND CASH EQUIVALENTS	7,256	1,770
CASH AND CASH EQUIVALENTS, beginning of year	11,790	14,743
CASH AND CASH EQUIVALENTS, end of period	\$ 19,046	\$ 16,513

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

U.S. CAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 29, 2003

(Unaudited)

(1) PRINCIPLES OF REPORTING

The consolidated financial statements include the accounts of U.S. Can Corporation (the "Corporation" or "U.S. Can"), its wholly owned subsidiary, United States Can Company ("United States Can"), and United States Can's subsidiaries (the "Subsidiaries"). The consolidated group is referred to herein as "the Company". All significant intercompany balances and transactions have been eliminated. These financial statements, in the opinion of management, include all normal recurring adjustments necessary for a fair presentation. Operating results for any interim period are not necessarily indicative of results that may be expected for the full year. These financial statements should be read in conjunction with the previously filed financial statements and footnotes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2002.

Certain prior year amounts have been reclassified to conform with the 2003 presentation. Additionally, results for the first six months of 2002 were restated related to the Company's adoption of Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002. Under the standard, goodwill and "indefinite-lived" intangibles are no longer amortized, but are tested annually for impairment. During the fourth quarter of 2002, the Company determined the amount of its goodwill impairment and recorded a pre-tax goodwill impairment charge of \$39.1 million (\$18.3 million, net of tax) effective as of January 1, 2002. The charge has been presented as a cumulative effect of a change in accounting principle.

STOCK-BASED COMPENSATION

The Company periodically issues stock options under the U.S. Can 2000 Equity Incentive Plan. The Company continues to use the intrinsic fair value method under APB Opinion No. 25 to account for the plan; therefore, no compensation costs are recognized in the Company's financial statements for options granted.

During the three and six months ended June 29, 2003 and June 30, 2002, the Company did not issue any stock options. In accordance with SFAS No. 148, the following table presents (in thousands) what the Company's net loss would have been had the Company determined compensation costs using the fair value-based accounting method.

	Three Months Ended		Six Months Ended	
	June 29, 2003	June 30, 2002	June 29, 2003	June 30, 2002
Net Loss.....	\$ (4,402)	\$ (3,957)	\$ (11,685)	\$ (27,615)
Stock-Based Compensation Cost, net of tax.....	(20)	(38)	(40)	(76)
Pro-Forma Net Loss.....	<u>\$ (4,422)</u>	<u>\$ (3,995)</u>	<u>\$ (11,725)</u>	<u>\$ (27,691)</u>

NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 46, Amendment of FASB Statement No. 13, and Technical Corrections" was issued in April 2002 and is effective for fiscal years beginning after May 15, 2002. This statement eliminates the current requirement that gains and losses on extinguishment of debt be classified as extraordinary items in the statement of operations. Instead, the statement requires that gains and losses on extinguishment of debt be evaluated against the criteria in APB Opinion 30 to determine whether or not such gains or losses should be classified as an extraordinary item. The statement also contains other corrections to authoritative accounting literature in SFAS 4, 44 and 46. In accordance with the pronouncement, the Company adopted the standard on January 1, 2003. There was no impact to the financial position and results of operations of the Company as a result of the adoption.

The Financial Accounting Standards Board (FASB) issued SFAS No. 146 "Accounting for Costs Associated With Exit or Disposal Activities," in July 2002. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 supercedes the guidance of Emerging Issues Task Force ("EITF")

Issue No. 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity,” which required that liabilities for exit costs be recognized at the date of an entity’s commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. As discussed in Note 3, the Company recorded restructuring charges in 2003 in accordance with the provisions of SFAS No. 146.

In May 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies accounting for derivative instruments including certain derivative instruments embedded in other contracts and hedging activities under SFAS No. 133. It is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this standard is not expected to have a material impact on the Company’s financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity” which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer’s equity shares or variations inversely related to changes in the fair value of the issuer’s equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. In accordance with the pronouncement, the Company will adopt the standard on June 30, 2003. At June 29, 2003, the Company had \$139.8 million of redeemable preferred stock. As the Company’s redeemable preferred stock does not contain an unconditional obligation requiring the Company to redeem it by transferring assets at a specified or determinable date, or upon an event certain to occur, the adoption of SFAS No. 150 will not have an impact on the Company’s balance sheet or statement of operations.

(2) SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid interest of approximately \$21.8 million and \$29.0 million for the six months ended June 29, 2003 and June 30, 2002, respectively. The Company paid \$0.8 million in income taxes for the six months ended June 29, 2003 and \$1.2 million for the six months ended June 30, 2002.

(3) SPECIAL CHARGES

2003

During the first six months of 2003, the Company recorded restructuring charges of \$1.6 million. \$1.0 million of the charges were recorded in the first quarter of 2003 related to position elimination costs in the U.S. and Europe. The position eliminations consisted of 16 employees, including two management level employees and an early termination program in one European facility. \$0.6 million of the charges were recorded in the second quarter of 2003 related to potential additional severance costs for a previously terminated employee at May Verpackungen. The employee sued the Company for unfair dismissal requesting additional severance in accordance with his employment agreement. In June 2003, the Company was informed that the courts intended to rule in favor of the terminated employee and the Company recorded a charge for the potential additional severance. The Company has not yet received the appeals court’s opinion. See Note (10).

The Company recorded the 2003 charges in accordance with SFAS No. 146, “Accounting for Costs Associated With Exit or Disposal Activities.” SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the commitment date. The adoption of SFAS No. 146 did not have a material effect on the timing of the special charge recorded in the second quarter of 2003. Total cash payments in the first six months of 2003 were \$6.0 million (primarily severance and facility shut down costs) and the Company anticipates spending another \$11.3 million over the next several years. The remaining reserve consists primarily of employee termination benefits paid over time for approximately 29 salaried and 51 hourly employees (approximately 600 positions were originally identified for elimination) and other ongoing facility exit costs.

The table below presents the reserve categories and related activity as of June 29, 2003:

	January 1, 2003 Balance	Net Additions	Cash Payments	June 29, 2003 Balance
Employee Separation	\$9.2	\$1.6	\$(3.3)	\$7.5
Facility Closing Costs	6.5	-	(2.7)	3.8
Total	<u>\$15.7</u>	<u>\$1.6</u>	<u>\$(6.0)</u>	<u>\$11.3 (a)</u>

(a) Includes \$3.7 million classified as other long-term liabilities as of June 29, 2003.

2002

During 2002, restructuring programs resulted in the closure of the Burns Harbor, Indiana lithography facility, the Columbia Specialty facility located in Maryland and the Southall, England manufacturing facility. During the first six months of 2002, the Company consolidated two plastics facilities into a new facility in Atlanta, Georgia. Total cash payments in the first six months of 2002 were \$6.2 million.

The table below presents the reserve categories and related activity as of June 30, 2002:

	January 1, 2002 Balance	Net Additions	Cash Payments	Other(b)	June 30, 2002 Balance
Employee Separation	\$21.2	\$ -	\$(4.3)	\$0.4	\$17.3
Facility Closing Costs	10.7	-	(1.9)	1.7	10.5
Total	<u>\$31.9</u>	<u>\$ -</u>	<u>\$(6.2)</u>	<u>\$2.1</u>	<u>\$27.8 (a)</u>

(a) Includes \$6.0 million classified as other long-term liabilities as of June 30, 2002.

(b) Non-cash foreign currency translation impact and the reversal of \$1.5 million of asset write-offs previously expensed in the 2001 restructuring.

(4) INVENTORIES

All domestic inventories are stated at cost determined by the last-in, first-out ("LIFO") cost method, not in excess of market. Subsidiaries' inventories of approximately \$55.9 million at June 29, 2003 and \$48.1 million at December 31, 2002 are stated at cost determined by the first-in, first-out ("FIFO") cost method, not in excess of market. FIFO cost of LIFO inventories approximated their LIFO value at June 29, 2003 and at December 31, 2002.

Inventories reported in the accompanying balance sheets are classified as follows (000's omitted):

	June 29, 2003	December 31, 2002
Raw materials	\$ 24,024	\$ 23,492
Work in process	47,391	46,435
Finished goods.....	36,219	35,708
	<u>\$ 107,634</u>	<u>\$ 105,635</u>

(5) DEBT OBLIGATIONS

On July 22, 2003, the Company issued \$125.0 million of 10 ⁷/₈% Senior Secured Notes due 2010 and amended its Senior Secured Credit Facility. See Note (8) for further information on the Senior Secured Notes and the Senior Secured Credit Facility amendment.

The Senior Secured Credit Facility, the Senior Secured Notes and the Senior Subordinated Notes contain a number of financial and restrictive covenants. The covenants for the Senior Secured Credit Facility were amended on July 22, 2003, effective as of June 29, 2003. Under the Company's Senior Secured Credit Facility, it is required to meet certain financial tests, including achievement of a minimum EBITDA level, a minimum interest coverage ratio, a minimum fixed charge coverage ratio

and a maximum leverage ratio. The restrictive covenants limit the Company's ability to incur debt, pay dividends or make distributions, sell assets or consolidate or merge with other companies. The Company was in compliance with all of the required financial ratios and other covenants under both facilities, as amended, at June 29, 2003.

May Verpackungen ("May") has various bank facilities originating under loan agreements dated between 1996 and 1999. These agreements provided for up to ten-year terms with floating interest rates, and among other things, included provisions for the banks (i) to terminate the credit lines upon giving notice and (ii) rightfully demand security for the credit lines, have a negative pledge from May not to grant security without the bank's approval and the requirement that any bank lending to May be treated on terms no less favorable than any other bank's loans to May.

During April 2003, a formal demand for security was made by the lenders under May's credit facilities. On April 30, 2003, May granted two of its banks a collateral interest in its inventory and accounts receivable in exchange for their agreement to allow the continuation of facilities in the amount of €11.8 million through June 30, 2003. In addition, United States Can Company made payments of €1.5 million on May 7, 2003 and €1.0 on June 30, 2003 in full payment of term loans for which one of May's lenders demanded early payment in accordance with terms of the borrowings. These term loans were guaranteed by U.S. Can. May has initiated discussions with several banks to secure a new facility that would replace the existing facilities and allow it to meet its seasonal borrowing needs and has received an extension of the existing facilities through August 30, 2003. This facility is expected to be in an amount comparable to historical credit lines and secured in the same manner as the existing borrowings. Discussions with our banks are in the early stages; however, management believes that it will be able to secure adequate financing to meet May's working capital needs. If May is unable to secure adequate substitute financing or defaults on payments of debt under its borrowing agreements, the Company will need to provide financing for May from other sources available to it, including currently existing or new lines of credit in the United States and Europe. There can be no assurance that the existing banks will extend or replace the current facilities, that new banks will extend the required level of credit, that May will not default under its borrowing agreements or that funds will be available from other sources to finance May's requirements, each of which could have a material adverse effect on our financial position.

(6) BUSINESS SEGMENTS

Management monitors and evaluates business performance, customer base and market share for four business segments. The segments have separate management teams and distinct product lines. The Aerosol segment primarily produces steel aerosol containers for personal care, household, automotive, paint and industrial products. The International segment produces aerosol cans in Europe and Latin America (through Formametal S.A., a joint venture in Argentina) as well as steel food packaging in Europe. The Paint, Plastic & General Line segment produces round cans for paint and coatings, oblong cans for such items as lighter fluid and turpentine as well as plastic containers for paint and industrial and consumer products. The Custom & Specialty segment produces a wide array of functional and decorative tins, containers and other products.

The following is a summary of revenues from external customers and income (loss) from operations for the three and six month periods ended June 29, 2003 and June 30, 2003, respectively (000's omitted):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2003</u>	<u>June 30, 2002</u>	<u>June 29, 2003</u>	<u>June 30, 2002</u>
REVENUES FROM EXTERNAL CUSTOMERS:				
Aerosol	\$94,768	\$96,900	\$183,546	\$183,364
International	70,800	57,447	133,865	111,951
Paint, Plastic & General Line	31,113	32,677	62,358	61,588
Custom & Specialty	<u>13,631</u>	<u>16,600</u>	<u>29,433</u>	<u>32,759</u>
Total revenues	<u>\$210,312</u>	<u>\$203,624</u>	<u>\$409,202</u>	<u>\$389,662</u>
INCOME (LOSS) FROM OPERATIONS:				
Aerosol	\$17,378	\$15,848	\$31,386	\$28,535
International	362	325	(467)	109
Paint, Plastic & General Line	3,676	3,350	7,861	5,626
Custom & Specialty	<u>303</u>	<u>(355)</u>	<u>854</u>	<u>274</u>
Total Segment Income From Operations	21,719	19,168	39,634	34,544
Corporate Expenses	(6,261)	(6,142)	(13,538)	(11,881)
Interest Expense	<u>(14,159)</u>	<u>(14,100)</u>	<u>(28,261)</u>	<u>(27,843)</u>
Income (Loss) Before Income Taxes	<u>\$1,299</u>	<u>\$(1,074)</u>	<u>\$(2,165)</u>	<u>\$(5,180)</u>

(7) COMPREHENSIVE NET INCOME (LOSS)

The components of accumulated other comprehensive loss are as follows (000's omitted):

	<u>June 29, 2003</u>	<u>December 31, 2002</u>
Foreign Currency Translation Adjustment	\$(16,806)	\$(25,044)
Minimum Pension Liability Adjustment.....	(22,762)	(22,346)
Unrealized Loss on Cash Flow Hedges.....	<u>(1,456)</u>	<u>(3,686)</u>
Total Accumulated Other Comprehensive Loss	<u><u>\$(41,024)</u></u>	<u><u>\$(51,076)</u></u>

The components of comprehensive loss for the three and six months ended June 29, 2003 and June 30, 2002 are as follows (000's omitted):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2003</u>	<u>June 30, 2002</u>	<u>June 29, 2003</u>	<u>June 30, 2002</u>
Net Loss Before Preferred Stock Dividends	\$ (1,002)	\$ (876)	\$ (5,039)	\$ (21,560)
Unrealized Gain (Loss) on Cash Flow Hedges (a)	1,200	(1,324)	2,230	(34)
Foreign Currency Translation Adjustment	<u>5,524</u>	<u>14,127</u>	<u>7,822</u>	<u>1,203</u>
Comprehensive Income (Loss)	<u><u>\$ 5,722</u></u>	<u><u>\$ 11,927</u></u>	<u><u>\$ 5,013</u></u>	<u><u>\$ (20,391)</u></u>

- (a) Net of reclassification of losses included in interest expense of \$1.6 million and \$1.4 million for the three months ended June 29, 2003 and June 30, 2002, respectively and \$3.2 million and \$2.8 million for the six months ended June 29, 2003 and June 30, 2002, respectively.

(8) RECENT DEVELOPMENTS

On July 22, 2003, the Company completed an offering of \$125 million of 10 7/8% Senior Secured Notes due 2010. The Notes are secured, on a second priority basis, by substantially all of the collateral that currently secures the Company's Senior Secured Credit Facility.

The Company also amended its Senior Secured Credit Facility to permit the offering of the Second Priority Senior Secured Notes and adjust certain financial covenants, among other things. These amendments also permit, from time to time and subject to certain conditions, the Company to make borrowings under its revolving credit facility for repurchases of a portion of its outstanding 12 3/8% senior subordinated notes.

The Company used the \$125 million in proceeds generated from the offering to prepay \$23.3 million of its Tranche A term loan, \$46.7 million of its Tranche B term loan and to reduce its borrowings under its revolving credit facility by \$55.0 million. The repayments under the revolving credit facility did not reduce the \$110.0 million amount available for borrowings under the facility. The Company expects to incur approximately \$7.6 million of fees and expenses related to the offering and senior secured credit facility amendment.

(9) COMMITMENTS AND CONTINGENCIES

Environmental

United States Can has been named as a potentially responsible party for costs incurred in the clean-up of a groundwater plume partially extending underneath United States Can's former site in San Leandro, California. We are a party to an indemnity agreement related to this matter with the owner of the property. Extensive soil and groundwater investigative work has been performed at this site in a coordinated sampling event in 1999. The results of the sampling were inconclusive as to the source of the contamination. In November 2002, as part of a larger sampling scheme, the State requested that the Company sample existing monitoring wells at the San Leandro property. The Company completed the sampling and received the results in the first quarter of 2003. These results generally show that the concentration of contamination is declining, which the Company views as a positive development. While the State of California has not yet commented on either the 1999 or the 2003 sampling results, the Company believes that the principal source of contamination is unrelated to its past operations.

Legal

The Company is involved in litigation from time to time in the ordinary course of our business. In our opinion, the litigation is not material to our financial condition or results of operations.

Walter Schmidt, former finance director at May Verpackungen GmbH ("May") sued for unfair dismissal following termination of his employment contract. The contract had a five-year term and Schmidt remains in pay status through its notice period, ending January 31, 2005. Mr. Schmidt claims that he also is due a severance settlement of five years' salary at the end of the notice period. In July 2002, the labor courts of first instance ruled that Mr. Schmidt notice date and termination should be effective December 31, 2005, and that the severance settlement is due at that time. On January 7, 2003, May appealed this ruling. On June 2, 2003, a German appeals court heard the appeal. On June 4, 2003, the appeals court indicated to the parties that it intended to rule in Mr. Schmidt's favor and would issue an opinion detailing its decision. We have not yet received the appeals court's opinion.

(10) SUBSIDIARY GUARANTOR INFORMATION

The following presents the condensed consolidating financial data for U.S. Can Corporation (the "Parent Guarantor"), United States Can Company (the "Issuer"), USC May Verpackungen Holding Inc. (the "Subsidiary Guarantor"), and the Issuer's European subsidiaries, including May Verpackungen GmbH & Co., KG (the "Non-Guarantor Subsidiaries"), as of June 29, 2003 and December 31, 2002 and for the six months ended June 29, 2003 and June 30, 2002. Investments in subsidiaries are accounted for by the Parent Guarantor, the Issuer and the Subsidiary Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are, therefore, reflected in their parent's investment accounts and earnings. This consolidating information reflects the guarantors and non-guarantors of the Issuer's 12 ³/₈% senior subordinated notes and 10 ⁷/₈% senior secured notes.

The 12 ³/₈% senior subordinated notes and 10 ⁷/₈% senior secured notes are guaranteed on a full, unconditional, unsecured, senior subordinated, joint and several basis by the Parent Guarantor, the Subsidiary Guarantor and any other domestic restricted subsidiary of the Issuer. USC May Verpackungen Holding Inc., which is wholly owned by the Issuer, currently is the only Subsidiary Guarantor. The Parent Guarantor has no assets or operations separate from its investment in the Issuer.

Separate financial statements of the Issuer or the Subsidiary Guarantors have not been presented as management has determined that such information is not material to the holders of the 12 ³/₈% senior subordinated notes and 10 ⁷/₈% senior secured notes.

U.S. CAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 29, 2003**

**(unaudited)
(000's omitted)**

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Guarantor Subsidiaries)	USC Europe/ May Verpackungen GmbH & Co., KG (Non- Guarantor Subsidiaries)	Eliminations	U.S. Can Corporation Consolidated
NET SALES	\$ -	\$ 275,337	\$ -	\$ 133,865	\$ -	\$ 409,202
COST OF SALES	-	235,235	-	127,913	-	363,148
Gross income	-	40,102	-	5,952	-	46,054
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	-	11,918	-	6,419	-	18,337
SPECIAL CHARGES	-	527	-	1,094	-	1,621
Operating income	-	27,657	-	(1,561)	-	26,096
INTEREST EXPENSE	-	23,453	3,192	1,616	-	28,261
EQUITY IN LOSS OF SUBSIDIARIES	(5,039)	(7,558)	(4,294)	-	16,891	-
Loss before income taxes	(5,039)	(3,354)	(7,486)	(3,177)	16,891	(2,165)
PROVISION FOR INCOME TAXES	-	1,685	-	1,189	-	2,874
NET LOSS BEFORE PREFERRED STOCK DIVIDENDS	(5,039)	(5,039)	(7,486)	(4,366)	16,891	(5,039)
PREFERRED STOCK DIVIDEND REQUIREMENT	(6,646)	-	-	-	-	(6,646)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	<u>\$ (11,685)</u>	<u>\$ (5,039)</u>	<u>\$ (7,486)</u>	<u>\$ (4,366)</u>	<u>\$ 16,891</u>	<u>\$ (11,685)</u>

U.S. CAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2002**

**(unaudited)
(000's omitted)**

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Guarantor Subsidiaries)	USC Europe/ May Verpackungen GmbH & Co., KG (Non- Guarantor Subsidiaries)	Eliminations	U.S. Can Corporation Consolidated
NET SALES	\$ -	\$ 277,711	\$ -	\$ 111,951	\$ -	\$ 389,662
COST OF SALES	-	243,280	-	104,521	-	347,801
Gross income	-	34,431	-	7,430	-	41,861
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	-	11,877	-	7,321	-	19,198
Operating income	-	22,554	-	109	-	22,663
INTEREST EXPENSE	-	23,394	3,268	1,181	-	27,843
EQUITY IN LOSS OF SUBSIDIARIES	<u>(21,560)</u>	<u>(12,870)</u>	<u>(16,027)</u>	-	<u>50,457</u>	-
Loss before income taxes	(21,560)	(13,710)	(19,295)	(1,072)	50,457	(5,180)
PROVISION (BENEFIT) FOR INCOME TAXES	-	<u>(324)</u>	<u>(1,992)</u>	<u>394</u>	-	<u>(1,922)</u>
NET LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE.....	(21,560)	(13,386)	(17,303)	(1,466)	50,457	(3,258)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, net of income taxes	-	<u>(8,174)</u>	<u>4,717</u>	<u>(14,845)</u>	-	<u>(18,302)</u>
NET LOSS BEFORE PREFERRED STOCK DIVIDENDS	(21,560)	(21,560)	(12,586)	(16,311)	50,457	(21,560)
PREFERRED STOCK DIVIDEND REQUIREMENT	<u>(6,055)</u>	-	-	-	-	<u>(6,055)</u>
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	<u><u>\$ (27,615)</u></u>	<u><u>\$ (21,560)</u></u>	<u><u>\$ (12,586)</u></u>	<u><u>\$ (16,311)</u></u>	<u><u>\$ 50,457</u></u>	<u><u>\$ (27,615)</u></u>

U.S. CAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 29, 2003
(unaudited)
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Guarantor Subsidiaries)	USC Europe/ May Verpackungen GmbH & Co., KG (Non-Guarantor Subsidiaries)	Eliminations	U.S. Can Corporation Consolidated
CURRENT ASSETS:						
Cash and cash equivalents.....	\$ –	\$ 18,198	\$ –	\$ 848	\$ –	\$ 19,046
Accounts receivable	–	59,257	–	58,804	–	118,061
Inventories	–	51,743	(600)	56,491	–	107,634
Deferred income taxes.....	–	5,535	1,977	237	–	7,749
Other current assets	–	5,733	–	4,468	–	10,201
Total current assets.....	–	140,466	1,377	120,848	–	262,691
NET PROPERTY, PLANT AND						
EQUIPMENT	–	142,476	–	96,267	–	238,743
GOODWILL	–	27,384	–	–	–	27,384
DEFERRED INCOME TAXES	–	26,951	606	460	–	28,017
OTHER NON-CURRENT ASSETS ..	–	36,899	–	14,317	–	51,216
INTERCOMPANY						
ADVANCES	–	247,492	–	–	(247,492)	–
INVESTMENT IN						
SUBSIDIARIES	–	–	60,511	–	(60,511)	–
Total assets	\$ –	\$ 621,668	\$ 62,494	\$ 231,892	\$ (308,003)	\$ 608,051
CURRENT LIABILITIES						
Current maturities of						
long-term debt	\$ –	\$ 10,544	\$ –	\$ 35,172	\$ –	\$ 45,716
Accounts payable	–	48,921	–	55,570	–	104,491
Other current liabilities	–	44,572	31	14,533	–	59,136
Total current liabilities	–	104,037	31	105,275	–	209,343
TOTAL LONG TERM DEBT	854	521,288	–	–	–	522,142
LONG TERM LIABILITIES						
PURSUANT TO EMPLOYEE						
BENEFIT PLANS	–	44,645	672	29,988	–	75,305
OTHER LONG-TERM						
LIABILITIES	–	3,958	–	3,002	–	6,960
PREFERRED STOCK	139,780	–	–	–	–	139,780
INTERCOMPANY LOANS	112,056	–	118,056	17,380	(247,492)	–
INVESTMENT IN						
SUBSIDIARIES	92,789	40,529	–	–	(133,318)	–
STOCKHOLDERS' EQUITY /						
(DEFICIT)	(345,479)	(92,789)	(56,265)	76,247	72,807	(345,479)
Total liabilities and stockholders' equity	\$ –	\$ 621,668	\$ 62,494	\$ 231,892	\$ (308,003)	\$ 608,051

U.S. CAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2002
(unaudited)
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Subsidiary Guarantor)	USC Europe/ May Verpackungen GmbH (Non- Guarantor Subsidiaries)	Eliminations	U.S. Can Corporation Consolidated
CURRENT ASSETS:						
Cash and cash equivalents.....	\$ —	\$ 5,707	\$ —	\$ 6,083	\$ —	\$ 11,790
Accounts receivable	—	43,623	—	46,363	—	89,986
Inventories	—	57,500	(600)	48,735	—	105,635
Deferred income taxes.....	—	5,535	1,977	218	—	7,730
Other current assets	—	6,184	—	8,282	—	14,466
Total current assets.....	—	118,549	1,377	109,681	—	229,607
NET PROPERTY, PLANT AND						
EQUIPMENT	—	147,588	—	94,086	—	241,674
GOODWILL	—	27,384	—	—	—	27,384
DEFERRED INCOME TAXES	—	28,312	606	422	—	29,340
OTHER NON-CURRENT ASSETS ..	—	37,904	—	12,917	—	50,821
INTERCOMPANY						
ADVANCES	—	240,791	—	—	(240,791)	—
INVESTMENT IN						
SUBSIDIARIES	—	—	61,360	—	(61,360)	—
Total assets	<u>\$ —</u>	<u>\$ 600,528</u>	<u>\$ 63,343</u>	<u>\$ 217,106</u>	<u>\$ (302,151)</u>	<u>\$ 578,826</u>
CURRENT LIABILITIES						
Current maturities of						
long-term debt	\$ —	\$ 11,078	\$ —	\$ 15,075	\$ —	\$ 26,153
Accounts payable	—	47,901	—	46,636	—	94,537
Other current liabilities	—	48,389	31	15,974	—	64,394
Total current liabilities	—	107,368	31	77,685	—	185,084
TOTAL LONG TERM DEBT	854	503,238	—	19,437	—	523,529
LONG TERM LIABILITIES						
PURSUANT TO EMPLOYEE						
BENEFIT PLANS	—	44,603	672	29,299	—	74,574
OTHER LONG-TERM						
LIABILITIES	—	3,714	—	2,638	—	6,352
PREFERRED STOCK	133,133	—	—	—	—	133,133
INTERCOMPANY LOANS	112,057	—	114,864	13,870	(240,791)	—
INVESTMENT IN						
SUBSIDIARIES	97,802	39,407	—	—	(137,209)	—
STOCKHOLDERS' EQUITY /						
(DEFICIT)	(343,846)	(97,802)	(52,224)	74,177	75,849	(343,846)
Total liabilities and stockholders' equity	<u>\$ —</u>	<u>\$ 600,528</u>	<u>\$ 63,343</u>	<u>\$ 217,106</u>	<u>\$ (302,151)</u>	<u>\$ 578,826</u>

U.S. CAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 29, 2003

(unaudited)
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Subsidiary Guarantor)	USC Europe / May Verpackungen (Non- Guarantor Subsidiaries)	U.S. Can Corporation Consolidated
CASH FLOWS (USED IN) PROVIDED BY					
OPERATING ACTIVITIES	\$ —	\$ 7,148	\$ (7,495)	\$ (5,699)	\$ (6,046)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	(5,868)	—	(1,541)	(7,409)
Proceeds from sale of property	—	256	—	5,173	5,429
Net cash (used in) provided by investing activities ..	—	(5,612)	—	3,632	(1,980)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Changes in intercompany advances	—	(6,561)	7,495	(934)	—
Net borrowings under revolving line of credit.....	—	20,300	—	—	20,300
Payments of other long-term debt.....	—	(2,784)	—	(4,342)	(7,126)
Borrowings of other debt.....	—	—	—	3,557	3,557
Net cash (used in) provided by financing activities.....	—	10,955	7,495	(1,719)	16,731
EFFECT OF EXCHANGE RATE CHANGES ON					
CASH	—	—	—	(1,449)	(1,449)
INCREASE (DECREASE) IN CASH AND					
CASH EQUIVALENTS	—	12,491	—	(5,235)	7,256
CASH AND CASH EQUIVALENTS, beginning of					
period.....	—	5,707	—	6,083	11,790
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ 18,198</u>	<u>\$ —</u>	<u>\$ 848</u>	<u>\$ 19,046</u>

U.S. CAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2002

(unaudited)
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Guarantor Subsidiary)	USC Europe / May Verpackungen (Non- Guarantor Subsidiaries)	U.S. Can Corporation Consolidated
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ —	\$ 9,699	\$ (4,524)	\$ (9,336)	\$ (4,161)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	(6,765)	—	(4,271)	(11,036)
Proceeds from the sale of property	—	475	—	116	591
Investment in Formametal S.A.	—	(133)	—	—	(133)
Net cash used in investing activities	<u>—</u>	<u>(6,423)</u>	<u>—</u>	<u>(4,155)</u>	<u>(10,578)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Changes in intercompany advances	—	(4,179)	4,524	(345)	—
Net borrowings under revolving line of credit	—	8,900	—	—	8,900
Payments of other long-term debt	—	(4,340)	—	(1,349)	(5,689)
Borrowings of other long-term debt	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,750</u>	<u>13,750</u>
Net cash provided by financing activities	<u>—</u>	<u>381</u>	<u>4,524</u>	<u>12,056</u>	<u>16,961</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>—</u>	<u>—</u>	<u>—</u>	<u>(452)</u>	<u>(452)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	3,657	—	(1,887)	1,770
CASH AND CASH EQUIVALENTS, beginning of period	<u>—</u>	<u>8,249</u>	<u>—</u>	<u>6,494</u>	<u>14,743</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ 11,906</u>	<u>\$ —</u>	<u>\$ 4,607</u>	<u>\$ 16,513</u>

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following narrative discusses the results of operations, liquidity and capital resources for the Company on a consolidated basis. This section should be read in conjunction with the financial statements and footnotes contained within this report and the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein).

Use of Estimates; Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to: allowance for doubtful accounts; inventory valuation; purchase accounting allocations; restructuring amounts; asset impairments; depreciable lives of assets; goodwill impairments; pension assumptions and tax valuation allowances. Future events and their effects cannot be perceived with certainty. Accordingly, our accounting estimates require the exercise of management's current best reasonable judgment based on facts available. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as more information is obtained and as the Company's operating environments change. Significant business or customer conditions could cause material changes to the amounts reflected in our financial statements. Accounting policies requiring significant management judgments include those related to revenue recognition, inventory valuation, accounts receivable allowances, goodwill impairment, restructuring reserves, tax valuation allowances, pension benefit obligations and interest rate exposure.

Revenue is recognized when goods are shipped, at which time, title and risk of loss pass to the customer. Provisions for discounts, returns, allowances, customer rebates and other adjustments are provided for in the same period as the related revenues are recorded. The Company enters into contractual agreements with certain of its customers for rebates, generally based on annual sales volumes. Should the Company's estimates of the customers' annual sales volumes vary materially from the sales volumes actually realized, provisions for discounts, returns and allowances and customer rebates may vary and therefore revenue may be materially impacted.

Management estimates allowances for collectibility related to its accounts receivable based on the customer relationships, the aging and turns of accounts receivable, credit worthiness of customers, credit concentrations and payment history. Despite our best efforts, the inability of a particular customer to pay its debts could impact collectibility of receivables and could have an impact on future revenues if the customer is unable to arrange other financing.

Inventories are stated at the lower of cost or market and include material, labor and factory overhead. Costs for United States inventory have been determined using the last-in, first-out ("LIFO") method and costs for Subsidiaries' inventory have been determined by the first-in, first-out ("FIFO") method. The Company estimates reserves for inventory obsolescence and shrinkage based on its judgment of future realization. A large portion of the Company's inventory is manufactured to customer specifications and therefore less likely to become obsolete. Losses may result to the extent the Company manufactures customized products that it is unable to sell.

Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" requires that goodwill and "indefinite-lived" intangibles are not amortized but are tested at least annually for impairment. On an ongoing basis, the Company reviews its operations for indications of potential goodwill impairment and annually tests its goodwill for impairment under SFAS 142 in November of each year. The Company identifies potential impairments of goodwill by comparing an estimated fair value for each applicable business unit to its respective carrying value. Although the values are assessed using a variety of internal and external sources, future events may cause reassessments of these values and related goodwill impairments.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we continually review whether events and circumstances subsequent to the acquisition of any long-lived assets have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, we use projections to assess whether future cash flows or operating income (before amortization) on an undiscounted basis related to the tested assets is likely to exceed the recorded carrying amount of those assets, to determine if a write-down is appropriate. Should an impairment be identified, a loss would be reported to the extent that the carrying value

of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar projections on a discounted basis.

As more fully described in Note (3) to the Consolidated Financial Statements, several restructuring programs were implemented in order to streamline operations and reduce costs. The Company has established reserves and recorded charges against such reserves, to cover the costs to implement the programs. The estimated costs were determined based on contractual arrangements, quotes from contractors, similar historical activities and other judgmental determinations. Actual costs may differ from those estimated. In 2003, an additional charge of \$1.6 million was recorded related to position elimination costs in the U.S. and Europe. The Company recorded the charge in accordance with SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 supercedes the guidance of Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," which required that liabilities for exit costs be recognized at the date of an entity's commitment to an exit plan. The adoption of SFAS No. 146 did not have a material effect on the timing of the special charges recorded in the first half of 2003.

The Company accounts for income taxes using the asset and liability method under which deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating losses and tax credit carry forwards. On an ongoing basis, the Company evaluates its deferred tax assets to determine whether it is more likely than not that such assets will be realized in the future and records valuation allowances against the deferred tax assets for amounts which are not considered more likely than not to be realized. The estimate of the amount that is more likely than not to be realized requires the use of assumptions concerning the amounts and timing of the Company's future income by taxing jurisdiction. Actual results may differ from those estimates.

The Company relies upon actuarial models to calculate its pension and post-retirement benefit obligations and the related effects on operations. Accounting for pensions and postretirement benefit plans using actuarial models requires the use of estimates and assumptions regarding numerous factors, including discount rate, the long-term rate of return on plan assets, health care cost increases, retirement ages, mortality and employee turnover. On an annual basis, the Company evaluates these critical assumptions and makes changes to them as necessary to reflect the Company's experience. In any given year, actual results could differ from actuarial assumptions made due to economic and other factors which could impact the amount of expense or liability for pensions or postretirement benefits the Company reports.

Two of the critical assumptions in determining our reported expense or liability for pensions or postretirement benefits are the discount rate and the long-term expected rate of return on plan assets. The use of a lower discount rate and a lower long-term expected rate of return on plan assets would increase the present value of benefit obligations and increase pension expense and postretirement benefit expense. In 2002, we reduced our United States and foreign discount rates to reflect market interest rate conditions.

To manage interest rate exposure, the Company enters into interest rate agreements. The net interest paid or received on these agreements is recognized as interest income or expense. Our interest rate agreements are reported in the Consolidated Financial Statements at fair value using a mark-to-market valuation. Changes in the fair value of the contracts are recorded each period as a component of other comprehensive loss. Gains or losses on our interest rate agreements are reclassified as earnings or losses in the period in which earnings are affected by the underlying hedged item. This may result in additional volatility in reported earnings, other comprehensive loss and accumulated other comprehensive loss. Our interest rate swaps and collars were entered into in 2000, when interest rates were higher than current rates. Accordingly, these contracts are "out of the money" and may require future payments if market interest rates do not return to historical levels. These contracts expire in October 2003. In addition, if rates do increase above historical levels and the counterparties to the agreements default on their obligations under the agreements, our interest expense would increase. The Company does not use financial instruments for trading or speculative purposes.

Results of Operations

Three month period ended June 29, 2003, as compared to the three month period ended June 30, 2002

Consolidated net sales for the three months ended June 29, 2003 were \$210.3 million as compared to \$203.6 million in 2002, an increase of 3.3%. Along business segment lines, Aerosol net sales for the second quarter of 2003 decreased to

\$94.8 million from \$96.9 million for the same period in 2002, a 2.2% decrease, due principally to decreased unit volume in the second quarter of 2003 (\$4.6 million), offset partially by changes in product pricing and mix (\$2.5 million). International net sales increased to \$70.8 million for the second quarter of 2003 from \$57.4 million for the second quarter of 2002, an increase of \$13.4 million or 23.3%. The increase in International net sales was primarily due to the positive impact of the translation of sales made in foreign currencies (\$12.6 million) based upon using the same average U.S dollar exchange rates in effect during the second quarter of 2002 along with increased European aerosol unit volume (\$0.8 million). Paint, Plastic & General Line net sales decreased \$1.6 million, from \$32.7 million for the second quarter of 2002 to \$31.1 million for the second quarter of 2003. This decrease was due primarily to a decrease in volume (\$2.7 million) partially offset by a change in product mix and increasing resin prices in our plastics business, which are contractually passed on to customers (\$1.1 million). In the Custom & Specialty segment, sales decreased 17.9% from \$16.6 million for the second quarter of 2002 to \$13.6 million for the second quarter of 2003, driven primarily by a decline in volume (\$5.5 million) partially offset by the positive impact of a change in the mix of products sold in the second quarter of 2003 (\$2.5 million).

Consolidated cost of goods sold increased \$4.9 million to \$185.6 million for the three months ended June 29, 2003 from the same quarter in 2002. The principal reasons for the increase included the foreign currency translation impact on costs (\$12.1 million) based upon using the same average U.S dollar exchange rates in effect during the second quarter of 2002 and production inefficiencies at May Verpackungen (\$1.3 million). The increase was partially offset by decreased costs resulting from a decline in metal paint volume (\$5.5 million) combined with operating efficiencies resulting from restructuring programs (\$3.0 million). Gross income of \$24.7 million for the three-month period ended June 29, 2003 increased \$1.8 million, or 7.9%, versus the corresponding period of 2002. Gross profit margin of 11.7% in the second quarter of 2003 increased 0.5 percentage points from the second quarter of 2002. Gross profit margin was positively impacted by operating efficiencies resulting from restructuring programs (1.4 percentage points) and was negatively impacted by decreased volume (0.3 percentage points) and production inefficiencies at May Verpackungen (0.6 percentage points).

Selling, general and administrative costs decreased from \$9.9 million for the second quarter of 2002 to \$8.7 million in the second quarter of 2003 primarily due to positive results from Company-wide cost saving programs.

During the second quarter of 2003, the Company recorded a restructuring charge of \$0.6 million related to potential additional severance costs for a previously terminated employee of May Verpackungen. The employee sued the Company for unfair dismissal requesting additional severance in accordance with his employment agreement. In June 2003, the Company was informed that the courts intended to rule in favor of the terminated employee and the Company recorded a charge for the additional severance. The Company has not yet received the appeals court's opinion. See Note (10) to the consolidated financial statements for further information.

Total cash payments in the second quarter of 2003 were \$1.6 million (primarily severance and facility shut down costs) and the Company anticipates spending another \$11.3 million over the next several years.

	March 31, 2003 Balance	Net Additions	Cash Payments	June 29, 2003 Balance
Employee Separation	\$7.6	\$0.6	\$(0.7)	\$7.5
Facility Closing Costs	4.7	-	(0.9)	3.8
Total	<u>\$12.3</u>	<u>\$0.6</u>	<u>\$(1.6)</u>	<u>\$11.3 (a)</u>

(a) Includes \$3.7 million classified as other long-term liabilities as of June 29, 2003.

Interest expense in the second quarter of 2003 increased \$0.1 million to \$14.2 million from the same period of 2002 primarily due to higher average borrowings (\$0.5 million) offset by lower interest rates (\$0.4 million).

Income tax expense was \$2.3 million for the second quarter of 2003 versus an income tax benefit of \$0.2 million for the second quarter of 2002. During the fourth quarter of 2002, the Company recorded a valuation allowance as it could not conclude that it is "more likely than not" that all of the deferred tax assets of certain of its foreign operations will be realized in the foreseeable future. Accordingly, the Company did not record an income tax benefit related to the second quarter 2003 losses of those operations.

Payment in kind dividends of \$3.4 million and \$3.1 million on the redeemable preferred stock were recorded for the second quarters of 2003 and 2002, respectively.

Six month period ended June 29, 2003, as compared to the six month period ended June 30, 2002

Net sales for the six-month period ended June 29, 2003, totaled \$409.2 million, a 5.0% increase versus the corresponding period in 2002. Along business segment lines, Aerosol net sales were relatively flat between periods with sales of \$183.5 million recorded in the first half of 2003 versus \$183.4 million recorded in the same period of 2002. International sales increased to \$133.9 million for the first half of 2003 from \$112.0 million for the first half of 2002, an increase of \$21.9 million or 19.6%. The increase in International net sales was primarily due to the positive impact of the translation of sales made in foreign currencies (\$23.4 million) based upon using the same average U.S dollar exchange rates in effect during the first half of 2002 along with the positive impact of a change in product mix (\$1.3 million). These increases were partially offset by a decrease in International volume (\$2.8 million) for the first six months of 2003. Paint, Plastic & General Line segment sales increased 1.3% to \$62.4 million for the first six months of 2003 from \$61.6 million for the same period in 2002. This increase was due primarily to an increase in plastics volume (\$1.7 million) and a change in product mix and increasing resin prices in our plastics business (\$1.4 million) which are contractually passed on to customers but are partially offset by the negative impact of a decrease in paint volume (\$1.8 million) and changes in product mix (\$0.5 million). Custom & Specialty sales of \$29.4 million decreased from the \$32.8 million for the first half of 2002, driven primarily by a decline in volume (\$2.5 million) combined with the negative impact of a change in the mix of products sold over the first six months of 2003 (\$0.9 million).

Consolidated cost of goods sold of \$363.1 million for the first half of 2003 increased \$15.3 million, or 4.4%, from the same period in 2002. The principal reasons for the increase included the foreign currency translation impact on costs (\$22.5 million) based upon using the same average U.S dollar exchange rates in effect during the first six months of 2002 and International production inefficiencies (\$3.4 million). The increase was partially offset by decreased costs resulting from a decline in metal paint and plastics product volume (\$4.8 million) along with operating efficiencies resulting from restructuring programs (\$5.8 million). Gross income of \$46.1 million for the six-month period ended June 29, 2003 increased \$4.2 million, or 10.0%, versus the corresponding period of 2002. Gross profit margin of 11.3% for the first six months of 2003 increased 0.6% from the same period in 2002. The increase in gross margin percentage was primarily due to domestic operating efficiencies resulting from restructuring programs (1.4 percentage points) partially offset by International inefficiencies (0.8 percentage points).

Selling, general, and administrative expenses were \$18.3 million in the first half of 2003, a \$0.9 million decrease in comparison to the same period of 2002 due to positive results from Company-wide cost saving programs.

During the first half of 2003, the Company recorded a restructuring charge of \$1.6 million. A \$1.0 million charge was recorded in the first quarter of 2003 related to position elimination costs in the U.S. and Europe. The position eliminations consisted of 16 employees, including two management level employees and an early termination program in one European facility. As discussed previously, a \$0.6 million charge was recorded in the second quarter of 2003 related to potential additional severance costs for a previously terminated employee of May Verpackungen.

Total cash payments in the first six months of 2003 were \$6.0 million (primarily severance and facility shut down costs) and the Company anticipates spending another \$11.3 million over the next several years. The remaining reserve consists primarily of employee termination benefits paid over time for approximately 29 salaried and 51 hourly employees (approximately 600 positions were originally identified for elimination) and other ongoing facility exit costs. The Company recorded the charges in accordance with SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the commitment date. The adoption of SFAS No. 146 did not have a material effect on the timing of the special charge recorded in the second quarter of 2003.

The table below presents the reserve categories and related activity as of June 29, 2003:

	January 1, 2003 Balance	Net Additions	Cash Payments	June 29, 2003 Balance
Employee Separation	\$9.2	\$1.6	\$(3.3)	\$7.5
Facility Closing Costs	6.5	-	(2.7)	3.8
Total	<u>\$15.7</u>	<u>\$1.6</u>	<u>\$(6.0)</u>	<u>\$11.3 (a)</u>

(a) Includes \$3.7 million classified as other long-term liabilities as of June 29, 2003.

Interest expense increased \$0.4 million from \$27.8 million for the first six months of 2002 to \$28.3 million for the same period in 2003 primarily due to higher average borrowings (\$1.0 million) partially offset by lower interest rates (\$0.6 million).

Income tax expense was \$2.9 million for the first half of 2003 versus an income tax benefit of \$1.9 million for the first half of 2002. During the fourth quarter of 2002, the Company recorded a valuation allowance as it could not conclude that it is "more likely than not" that all of the deferred tax assets of certain of its foreign operations will be realized in the foreseeable future. Accordingly, the Company did not record an income tax benefit related to the first half of 2003 losses of those operations.

Payment in kind dividends of \$6.6 million and \$6.1 million on the redeemable preferred stock were recorded in the first half of 2003 and 2002, respectively.

Liquidity and Capital Resources

During the first half of 2003, liquidity needs were met through borrowings made under credit lines and proceeds from the sale of a facility. Principal liquidity needs included operating costs, working capital and capital expenditures. Cash flow used by operations was \$6.0 million for the six months ended June 29, 2003, compared to cash used of \$4.2 million for the six months ended June 30, 2002. The increased use of cash by operations is due primarily to increases in working capital.

Net cash used in investing activities was \$2.0 million for the first half of 2003 as compared to \$10.6 million (primarily capital spending) for the first half of 2002. First half of 2003 investing activities included capital spending of \$7.4 million, including \$1.6 million in conjunction with the Company's restructuring programs, offset by the proceeds received from the sale of property of \$5.4 million. Proceeds received from the sale of property during the first half of 2003 are composed primarily of the payment received for the sale of the Company's Daegeling, Germany facility, which was sold at the end of 2002.

Net cash provided by financing activities in the first six months of 2003 was \$16.7 million, versus \$17.0 million for the same period in 2002. The primary financing sources were borrowings under the revolving credit portion of the Senior Secured Credit Facility and unsecured revolving lines of credit granted by various banks to fund the seasonal working capital requirements of May Verpackungen.

On July 22, 2003, the Company completed an offering of \$125 million of 10 7/8% Senior Secured Notes due 2010. The Notes are secured, on a second priority basis, by substantially all of the collateral that currently secures the Company's Senior Secured Credit Facility.

The Company also amended its Senior Secured Credit Facility to permit the offering of the Second Priority Senior Secured Notes and adjust certain financial covenants, among other things. These amendments also permit, from time to time and subject to certain conditions, the Company to make borrowings under its revolving credit facility for repurchases of a portion of its outstanding 12 3/8% senior subordinated notes in open market or privately negotiated purchases.

The Company used the \$125 million in proceeds generated from the offering to prepay \$23.3 million of its Tranche A term loan, \$46.7 million of its Tranche B term loan and to reduce its borrowings under its revolving credit facility by \$55.0 million. The repayments under the revolving credit facility did not reduce the \$110.0 million amount available for borrowings under the facility. The Company expects to incur approximately \$7.6 million of fees and expenses related to the offering and senior secured credit facility amendment.

At June 29, 2003, prior to the aforementioned refinancing, \$90.0 million had been borrowed under the \$110.0 million revolving loan portion of the Senior Secured Credit Facility. Letters of Credit of \$11.7 million were also outstanding securing the Company's obligations under various insurance programs and other contractual agreements. In addition, the Company had \$19.0 million of cash and cash equivalents at quarter end. As discussed previously, the Company reduced its borrowings under the revolving loan portion of the facility with \$55 million of the proceeds of the Senior Secured Notes. After payment of a portion of the fees and expenses, borrowings under the revolver were \$36.3 million (excluding letters of credit) at the close of business on July 22, 2003.

May Verpackungen ("May") has various bank facilities originating under loan agreements dated between 1996 and 1999. These agreements provided for up to ten-year terms with floating interest rates, and among other things, included provisions for the banks to terminate the credit lines upon giving notice, rightfully demand security for the credit lines, have a negative pledge from May not to grant security without the bank's approval and the requirement that any bank lending to May be treated on terms no less favorable than any other bank's borrowings by May.

During April 2003, a formal demand for security was made by the lenders under May's credit facilities. On April 30, 2003, May granted two of its banks a collateral interest in its inventory and accounts receivable in exchange for their agreement to allow the continuation of facilities in the amount of €11.8 million through June 30, 2003. In addition, United States Can Company made payments of €1.5 million on May 7, 2003 and €1.0 on June 30, 2003 in full payment of term loans for which one of May's lenders demanded early payment in accordance with terms of the borrowings. These term loans were guaranteed by U.S. Can. May has initiated discussions with several banks to secure a new facility that would replace the existing facilities and allow it to meet its seasonal borrowing needs and has received an extension of the existing facilities through August 30, 2003. This facility is expected to be in an amount comparable to historical credit lines and secured in the same manner as the existing borrowings. Discussions with our banks are in the early stages; however, management believes that it will be able to secure adequate financing to meet May's working capital needs. If May is unable to secure adequate substitute financing or defaults on payments of debt under its borrowing agreements, the Company will need to provide financing for May from other sources available to it, including currently existing or new lines of credit in the United States and Europe. There can be no assurance that the existing banks will extend or replace the current facilities, that new banks will extend the required level of credit, that May will not default under its borrowing agreements or that funds will be available from other sources to finance May's requirements, each of which could have a material adverse effect on our financial position.

At existing levels of operations and assuming the renegotiation of the May facilities, cash generated from operations together with amounts to be drawn from the revolving credit facility, are expected to be adequate to meet anticipated debt service requirements, restructuring costs, capital expenditures and working capital needs. Future operating performance and the ability to service or refinance the notes, to service, extend or refinance the Senior Secured Credit Facility and to redeem or refinance our preferred stock will be subject to future economic conditions and to financial, business and other factors, many of which are beyond management's control.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Management does not believe the Company's exposure to market risk has significantly changed since year-end 2002.

Item 4. *Controls and Procedures*

During the period ended June 29, 2003, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Securities and Exchange Act of 1934. As of the end of the period, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective and timely in alerting them to material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the time of such evaluation.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in litigation from time to time in the ordinary course of our business. In our opinion, the litigation is not material to our financial condition or results of operations.

Legal

Walter Schmidt, former finance director at May Verpackungen GmbH (“May”) sued for unfair dismissal following termination of his employment contract. The contract had a five-year term and Schmidt remains in pay status through its notice period, ending January 31, 2005. Mr. Schmidt claims that he also is due a severance settlement of five years’ salary at the end of the notice period. In July 2002, the labor courts of first instance ruled that Mr. Schmidt’s notice date and termination should be effective December 31, 2005, and that the severance settlement is due at that time. On January 7, 2003, May appealed this ruling. On June 2, 2003, a German appeals court heard the appeal. On June 4, 2003, the appeals court indicated to the parties that it intended to rule in Mr. Schmidt’s favor and would issue an opinion detailing its decision. We have not yet received the appeals court’s opinion.

Environmental

Our operations are subject to environmental laws in the United States and abroad, relating to pollution, the protection of the environment, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Our capital and operating budgets include costs and expenses associated with complying with these laws, including the acquisition, maintenance and repair of pollution control equipment, and routine measures to prevent, contain and clean up spills of materials that occur in the ordinary course of our business. In addition, some of our production facilities require environmental permits that are subject to revocation, modification and renewal. We believe that we are in substantial compliance with environmental laws and our environmental permit requirements, and that the costs and expenses associated with this compliance are not material to our business. However, additional operating costs and capital expenditures could be incurred if, among other developments, additional or more stringent requirements relevant to our operations are promulgated.

Occasionally, contaminants from current or historical operations have been detected at some of our present and former sites. Although we are not currently aware of any material claims or obligations with respect to these sites, the detection of additional contamination or the imposition of cleanup obligations at existing or unknown sites could result in significant liability.

We have been designated as a potentially responsible party under superfund laws at various sites in the United States, including a former can plant located in San Leandro, California. As a potentially responsible party, we are or may be legally responsible, jointly and severally with other members of the potentially responsible party group, for the cost of environmental remediation at these sites. Based on currently available data, we believe our contribution to the sites designated under U.S. Superfund law was, in most cases, minimal. With respect to San Leandro, we believe the principal source of contamination is unrelated to our past operations.

Based upon currently available information, the Company does not expect the effects of environmental matters to be material to its financial position.

Item 6. Exhibits and Reports On Form 8-K

- (a) Exhibits
 - 3.7 Amended and Restated Certificate of Incorporation of U.S. Can Corporation dated December 19, 2002.
 - 31.1 Certification of Chief Executive Officer Pursuant to Section 13a-15 of the Securities and Exchange Act of 1934
 - 31.2 Certification of Chief Financial Officer Pursuant to Section 13a-15 of the Securities and Exchange Act of 1934
 - 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
 - 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

(b) Reports on Form 8-K

- (i) The Company furnished to the Commission a Current Report on Form 8-K on May 7, 2003 to announce its results of operations for the period ended March 30, 2003. The Company's first quarter 2003 earnings press release was attached to the Current Report.
- (ii) The Company furnished to the Commission a Current Report on Form 8-K on June 26, 2003 to announce the Company's consideration of an offering of up to \$125 million of new second priority senior secured notes and potential amendment to the Company's senior secured credit facility. A copy of the Company's press release announcing the potential offering and amendment was attached to the Current Report.

SIGNATURES

Pursuant to the requirements 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.

Date: August 8, 2003

U.S. CAN CORPORATION

By: /s/ Sandra K. Vollman
Sandra K. Vollman
*Senior Vice President and
Chief Financial Officer*
(Duly authorized officer and principal
financial officer)