
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 Six-Month Period Ended July 1, 2001**

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

As of July 31, 2001, 53,333,333 shares of Common Stock were outstanding.

U.S. CAN CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE SIX MONTHS ENDED JULY 1, 2001

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Forward Looking Statements

Certain statements in this filing constitute "forward-looking statements" within the meaning of the Federal securities laws. Such statements involve known or unknown risks and uncertainties which may cause the Company's actual results, performance or achievements to be materially different than 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 our substantial debt and ability to generate positive cash flows; the timing and cost of plant closures; the level of cost reduction achieved through restructuring; the success of new technology; the timing of, and synergies achieved through, integration of acquisitions; changes in market conditions or product demand; loss of important customers; changes in raw material costs; and currency fluctuation. In light of these and other risks and uncertainties, 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 achievement will be attained.

U.S. CAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(000's omitted)

	For the		For the	
	Quarterly Period Ended		Six Months Ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
	(unaudited)			
Net Sales	\$ 193,329	\$ 210,522	\$ 384,497	\$ 424,283
Cost of Sales	<u>166,968</u>	<u>180,269</u>	<u>333,685</u>	<u>364,567</u>
Gross income	26,361	30,253	50,812	59,716
Selling, General and Administrative Expenses	<u>11,193</u>	<u>11,723</u>	<u>23,035</u>	<u>23,664</u>
Operating income	15,168	18,530	27,777	36,052
Interest Expense	<u>14,407</u>	<u>8,758</u>	<u>29,211</u>	<u>17,152</u>
Income (loss) before income taxes	761	9,772	(1,434)	18,900
Provision (benefit) for Income Taxes	<u>338</u>	<u>3,651</u>	<u>(529)</u>	<u>7,142</u>
Net Income (Loss) Before Preferred Stock Dividends	423	<u>\$ 6,121</u>	(905)	<u>\$ 11,758</u>
Preferred Stock Dividend Requirement	<u>(2,792)</u>		<u>(5,517)</u>	
Net Income (Loss) Available for Common Stockholders	<u>\$ (2,369)</u>		<u>\$ (6,422)</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 amount)

ASSETS	July 1, 2001	December 31, 2000
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 6,266	\$ 10,784
Accounts receivable, net of allowances	111,944	90,763
Inventories	113,183	113,902
Deferred income taxes	12,620	12,538
Other current assets	<u>36,527</u>	<u>23,300</u>
Total current assets	280,540	251,287
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation and amortization	259,218	272,220
GOODWILL, less amortization	66,862	70,712
OTHER NON-CURRENT ASSETS	<u>46,703</u>	<u>43,645</u>
Total assets	<u>\$ 653,323</u>	<u>\$ 637,864</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$ 18,669	\$ 14,671
Accounts payable	102,041	102,274
Accrued expenses	49,301	46,479
Restructuring reserves	10,021	11,915
Income taxes payable	<u>3,277</u>	<u>1,704</u>
Total current liabilities	183,309	177,043
LONG TERM DEBT	504,030	480,374
DEFERRED INCOME TAXES PAYABLE	2,728	3,083
OTHER LONG-TERM LIABILITIES	<u>45,541</u>	<u>42,419</u>
Total liabilities	735,608	702,919
PREFERRED STOCK	114,785	109,268
STOCKHOLDERS' EQUITY:		
Common stock, \$0.01 par value	533	533
Additional Paid in capital	52,800	52,800
Currency translation adjustment	(33,913)	(19,674)
Unrealized loss on cash flow hedges	(2,086)	-
Accumulated deficit	<u>(214,404)</u>	<u>(207,982)</u>
Total stockholders' equity	<u>(197,070)</u>	<u>(174,323)</u>
Total liabilities and stockholders' equity	<u>\$ 653,323</u>	<u>\$ 637,864</u>

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	
	July 1, 2001	July 2, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:	(Unaudited)	
Net income (loss) before preferred stock dividends requirements	\$ (905)	\$ 11,758
Adjustments to reconcile net income to net cash provided by operating activities –		
Depreciation and amortization	18,405	18,318
Deferred income taxes	(529)	2,498
Change in operating assets and liabilities, net of effect of acquired and disposed of businesses:		
Accounts receivable	(24,818)	(20,557)
Inventories	(3,417)	(8,287)
Accounts payable	11,010	22,670
Accrued expenses	40	(1,449)
Other, net	<u>(10,445)</u>	<u>(13)</u>
Net cash provided by (used in) operating activities	<u>(10,659)</u>	<u>24,938</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,748)	(16,674)
Acquisition of business, net of cash acquired	(4,570)	–
Proceeds from sale of business	–	12,088
Proceeds from sale of property	–	8,557
Investment in Formametal S.A.	<u>(6,051)</u>	<u>–</u>
Net cash provided by (used in) investing activities	<u>(17,369)</u>	<u>3,971</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock and exercise of stock options	–	773
Net borrowings (payments) under the revolving line of credit and changes in cash overdrafts	29,500	(12,675)
Payments of long-term debt, including capital lease obligations	(6,382)	(22,974)
Purchase of treasury stock	<u>–</u>	<u>(380)</u>
Net cash provided by (used in) financing activities	<u>23,118</u>	<u>(35,256)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>392</u>	<u>(308)</u>
CASH AND CASH EQUIVALENTS, beginning of year	(4,518)	(6,655)
CASH AND CASH EQUIVALENTS, end of period	<u>10,784</u>	<u>15,697</u>
	<u>\$ 6,266</u>	<u>\$ 9,042</u>

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

JULY 1, 2001

(Unaudited)

(1) PRINCIPLES OF REPORTING

The consolidated financial statements include the accounts of U.S. Can Corporation (the "Corporation"), its wholly owned subsidiary, United States Can Company ("U.S. Can"), and U.S. Can's subsidiaries (collectively, 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, 2000.

NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2001, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. In accordance with the provisions of SFAS No. 133, the Corporation recorded a transition adjustment in other comprehensive income of \$1.5 million upon adoption of the standard to recognize its derivative instruments at fair value. As of July 1, 2001, the accumulated unrealized loss on cash flow hedges included in Accumulated Other Comprehensive Income was \$2.1 million.

The Company uses financial instruments, including forward exchange and swap contracts to manage its exposure to movement in interest and foreign exchange rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk and variability to the Company. Derivatives are recorded on the Consolidated Balance Sheet at fair value in other non-current assets and other long-term liabilities. Initially, upon adoption of the new derivative accounting requirements, and prospectively, the effective portion of the changes in the fair value of a derivative that is designated as a cash flow hedge is recorded in Accumulated Other Comprehensive Income. When the hedged item is realized, the gain or loss included in Accumulated Other Comprehensive Income is reported on the same line in the Consolidated Statement of Operations as the hedged item. Currently, the derivative instruments entered into by the Company have been determined to be highly effective. If, in the future, an ineffective portion of the instrument is determined, that portion of the derivative will be reported in the consolidated statement of operations. The adoption of SFAS 133 did not have a material impact on the results of operations for the first half of 2001. The Company does not utilize derivative financial instruments for trading or other speculative purposes.

During July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 modifies the method of accounting for business combinations entered into after June 30, 2001 and addresses the accounting for intangible assets. All business combinations entered into after June 30, 2001, are accounted for using the purchase method. SFAS No. 142 eliminates the current requirement to amortize goodwill and definite-lived intangible assets, addresses the amortization of intangible assets with a defined life, and addresses the impairment testing and recognition for goodwill and intangible assets. The Company will adopt this pronouncement on January 1, 2002. This pronouncement applies to goodwill and intangible assets arising from transactions completed before and after the date of adoption. Effective January 1, 2002, the Company will cease amortization of goodwill and indefinite-lived intangibles and test for impairment, at least, annually. Management is currently assessing the provisions of both pronouncements and their potential impact on the Company's consolidated results of operations and financial position.

The Emerging Issues Task Force released Issue No. 00-10 (EITF 00-10), "Accounting for Shipping and Handling Revenues and Costs" in July of 2000. EITF 00-10 requires that amounts billed, if any, for shipping and handling be included in revenue and costs incurred for shipping and handling are required to be recorded in cost of goods sold. The impact of implementing EITF 00-10 was to increase each of net sales and cost of goods sold by approximately \$11.9 million for the first half of 2000. There was no net impact on results of operations nor financial position caused by the implementation of EITF 00-10.

(2) SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid interest of approximately \$27.2 million and \$12.9 million for the six months ended July 1, 2001 and July 2, 2000, respectively. The higher level of interest is attributed to higher debt levels from the leveraged buy-out completed in late 2000. The Company paid no income taxes for the six months ended July 1, 2001 and paid approximately \$0.4 million of income taxes for the six months ended July 2, 2000.

(3) SPECIAL CHARGES

On March 10, 2000, the Company sold its Wheeling metal closures and the Warren lithography businesses for \$12.1 million in cash. The Company established a disposition provision for the anticipated loss on the sale of the metal closures business in connection with the special charge taken in 1998. The Company successfully negotiated the termination of the lease on the Green Bay facility closed in 1999 at a total cash cost of \$0.4 million in 2001 and annual payments through 2007 totaling \$0.8 million (including interest).

Cash costs for restructuring activities in the first six months of 2001 were \$3.2 million. The Company anticipates spending another \$8.2 million of such costs in 2001 and beyond.

The Company continuously evaluates the composition of its various manufacturing facilities in light of current and expected market conditions and demand.

(4) INVENTORIES

All domestic inventories, except machine parts, are stated at cost determined by the last-in, first-out ("LIFO") cost method, not in excess of market. European subsidiaries' inventories of approximately \$44.9 million at July 1, 2001 and \$44.2 million at December 31, 2000, 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 July 1, 2001 and at December 31, 2000.

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

	<u>July 1, 2001</u>	<u>December 31, 2000</u>
Raw materials	\$ 26,004	\$ 28,540
Work in process	47,861	49,728
Finished goods	39,318	35,634
	<u>\$ 113,183</u>	<u>\$ 113,902</u>

(5) DEBT OBLIGATIONS

Under our senior secured credit facility, the Company 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. Other restrictive covenants limit the Company's ability to incur debt, pay dividends or make distributions, sell assets or consolidate or merge with other companies.

Effective April 1, 2001, the Credit Agreement was amended to provide for less restrictive financial covenants. Additionally, the revolving credit portion of the facility was reduced to \$110 million from the original amount of \$140 million, effectively eliminating funds available for acquisitions. Interest rates paid increased by 0.25%, but may decrease based on the achievement of specified leverage ratios. The Company was in compliance with all financial ratios and covenants as of July 1, 2001.

(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, which includes Olive Can (acquired in early 2001), 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 operation for the periods ended July 1, 2001 and July 2, 2000, respectively (000's omitted):

	Three Months Ended		Six Months Ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
REVENUES FROM EXTERNAL CUSTOMERS:				
Aerosol	\$ 82,424	\$ 92,548	\$ 166,729	\$ 189,059
International	55,960	62,062	111,984	124,352
Paint, Plastic, & General Line	41,889	43,620	81,042	83,423
Custom & Specialty	13,056	12,292	24,742	27,449
Total revenues	<u>\$ 193,329</u>	<u>\$ 210,522</u>	<u>\$ 384,497</u>	<u>\$ 424,283</u>
INCOME (LOSS) FROM OPERATIONS:				
Aerosol	\$ 14,173	\$ 16,303	\$ 27,462	\$ 32,426
International	3,992	5,028	6,508	9,685
Paint, Plastic, & General Line	3,747	3,458	7,747	6,403
Custom & Specialty	975	1,502	1,487	3,185
Corporate and eliminations	(7,719)	(7,761)	(15,427)	(15,647)
Total income from operations	<u>\$ 15,168</u>	<u>\$ 18,530</u>	<u>\$ 27,777</u>	<u>\$ 36,052</u>

(7) COMPREHENSIVE NET INCOME

The components of comprehensive income for the three months ended July 1, 2001 and July 2, 2000 are as follows (000's omitted):

	Three Months Ended		Six Months Ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Net Income	\$ 423	\$ 6,121	\$ (905)	\$ 11,758
Unrealized Income (loss) on cash flow hedges	150	-	(558)	-
Foreign Currency Translation Adjustment	(3,330)	(6,123)	(14,239)	(10,029)
Comprehensive Income	<u>\$ (2,757)</u>	<u>\$ (2)</u>	<u>\$ (15,702)</u>	<u>\$ 1,729</u>

(8) 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 July 1, 2001 and December 31, 2000 and for the six-month periods ended July 1, 2001 and July 2, 2000. 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 12^{3/8}% senior subordinated notes due 2010.

The 12^{3/8}% senior subordinated 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.

U.S.CAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Six months Ended July 1, 2001
(000's omitted)

	<u>U.S. Can Corporation (Parent)</u>	<u>United States Can Company (Issuer)</u>	<u>USC May Verpackungen Holding (Guarantor Subsidiary)</u>	<u>USC Europe/ May Verpackungen GmbH & Co., KG (Non- Guarantor Subsidiaries)</u>	<u>Eliminations</u>	<u>U.S. Can Corporation Consolidated</u>
NET SALES	\$ —	\$ 272,513	\$ —	\$ 111,984	\$ —	\$ 384,497
COST OF SALES	—	<u>235,819</u>	—	<u>97,866</u>	—	<u>333,685</u>
Gross income	—	36,694	—	14,118	—	50,812
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	—	<u>14,629</u>	<u>796</u>	<u>7,610</u>	—	<u>23,035</u>
Operating income	—	22,065	(796)	6,508	—	27,777
INTEREST EXPENSE	—	24,560	3,268	1,383	—	29,211
EQUITY IN EARNINGS (LOSS) FROM SUBSIDIARY	<u>(905)</u>	<u>625</u>	<u>1,581</u>	—	<u>(1,301)</u>	—
Income (loss) before income taxes	(905)	(1,870)	(2,483)	5,125	(1,301)	(1,434)
PROVISION (BENEFIT) FOR INCOME TAXES	—	<u>(965)</u>	<u>(946)</u>	<u>1,382</u>	—	<u>(529)</u>
NET INCOME (LOSS) BEFORE PREFERRED STOCK DIVIDENDS	(905)	(905)	(1,537)	3,743	(1,301)	(905)
PREFERRED STOCK DIVIDEND	<u>(5,517)</u>	—	—	—	—	<u>(5,517)</u>
NET INCOME (LOSS) AVAILABLE FOR COMMON STOCKHOLDERS	<u><u>\$ (6,422)</u></u>	<u><u>\$ (905)</u></u>	<u><u>\$ (1,537)</u></u>	<u><u>\$ 3,743</u></u>	<u><u>\$ (1,301)</u></u>	<u><u>\$ (6,422)</u></u>

U.S.CAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Six months Ended July 2, 2000
(000's omitted)

	<u>U.S. Can Corporation (Parent)</u>	<u>United States Can Company (Issuer)</u>	<u>USC May Verpackungen Holding (Guarantor Subsidiary)</u>	<u>USC Europe/ May Verpackungen GmbH & Co., KG (Non- Guarantor Subsidiaries)</u>	<u>Eliminations</u>	<u>U.S. Can Corporation Consolidated</u>
NET SALES	\$ —	\$ 299,931	\$ —	\$ 124,352	\$ —	\$ 424,283
COST OF SALES	—	257,915	—	106,652	—	364,567
Gross income	—	42,016	—	17,700	—	59,716
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	—	15,096	553	8,015	—	23,664
Operating income	—	26,920	(553)	9,685	—	36,052
INTEREST EXPENSE	—	13,082	2,757	1,313	—	17,152
EQUITY IN EARNINGS FROM SUBSIDIARY	11,758	3,252	2,772	—	(17,782)	—
Income before income taxes	11,758	17,090	(538)	8,372	(17,782)	18,900
PROVISION (BENEFIT) FOR INCOME TAXES	—	5,332	(210)	2,020	—	7,142
NET INCOME	<u>\$ 11,758</u>	<u>\$ 11,758</u>	<u>\$ (328)</u>	<u>\$ 6,352</u>	<u>\$ (17,782)</u>	<u>\$ 11,758</u>

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of July 1, 2001
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Guarantor Subsidiary)	USC Europe/ May Verpackungen GmbH & Co., KG (Non- Guarantor Subsidiaries)	Eliminations	U.S. Can Corporation Consolidated
CURRENT ASSETS:						
Cash and cash equivalents	\$ —	\$ 3,154	\$ —	\$ 3,112	\$ —	\$ 6,266
Accounts receivable	—	62,416	—	49,528	—	111,944
Inventories	—	68,272	(600)	45,511	—	113,183
Other current assets	—	33,723	1,049	14,375	—	49,147
Total current assets	—	167,565	449	112,526	—	280,540
NET PROPERTY, PLANT AND EQUIPMENT	—	167,526	—	91,692	—	259,218
INTANGIBLE ASSETS	—	41,561	1,608	23,693	—	66,862
OTHER ASSETS	—	32,880	—	13,823	—	46,703
INTERCOMPANY ADVANCES	—	229,804	—	—	(229,804)	—
INVESTMENT IN SUBSIDIARIES	28,569	25,265	70,645	—	(124,479)	—
Total assets	<u>\$ 28,569</u>	<u>\$ 664,601</u>	<u>\$ 72,702</u>	<u>\$ 241,734</u>	<u>\$ (354,283)</u>	<u>\$ 653,323</u>
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	\$ 9,569	\$ —	\$ 9,100	\$ —	\$ 18,669
Accounts payable	—	58,428	—	43,613	—	102,041
Other current liabilities	—	48,712	165	13,722	—	62,599
Total current liabilities	—	116,709	165	66,435	—	183,309
TOTAL LONG TERM DEBT	854	480,380	—	22,796	—	504,030
OTHER LONG TERM LIABILITIES	—	38,943	726	8,600	—	48,269
PREFERRED STOCK	114,785	—	—	—	—	114,785
INTERCOMPANY LOANS	110,000	—	76,392	43,412	(229,804)	—
STOCKHOLDERS' EQUITY	(197,070)	28,569	(4,581)	100,491	(124,479)	(197,070)
Total liabilities and stockholders' equity	<u>\$ 28,569</u>	<u>\$ 664,601</u>	<u>\$ 72,702</u>	<u>\$ 241,734</u>	<u>\$ (354,283)</u>	<u>\$ 653,323</u>

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2000
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Guarantor Subsidiary)	USC Europe/ May Verpackungen GmbH & Co., KG (Non- Guarantor Subsidiaries)	Eliminations	U.S. Can Corporation Consolidated
CURRENT ASSETS:						
Cash and cash equivalents	\$ —	\$ 2,276	\$ —	\$ 8,508	\$ —	\$ 10,784
Accounts receivable	—	47,952	—	42,811	—	90,763
Inventories	—	69,709	(600)	44,793	—	113,902
Other current assets	—	27,878	608	7,352	—	35,838
Total current assets	—	147,815	8	103,464	—	251,287
NET PROPERTY, PLANT AND EQUIPMENT						
	—	169,525	—	102,695	—	272,220
GOODWILL	—	41,974	1,630	27,108	—	70,712
OTHER NON-CURRENT ASSETS	—	29,606	439	13,600	—	43,645
INTERCOMPANY ADVANCES	—	224,260	—	—	(224,260)	—
INVESTMENT IN SUBSIDIARIES	45,790	38,881	63,317	—	(147,988)	—
Total assets	<u>\$ 45,790</u>	<u>\$ 652,061</u>	<u>\$ 65,394</u>	<u>\$ 246,867</u>	<u>\$ (372,248)</u>	<u>\$ 637,864</u>
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	\$ 9,569	\$ —	\$ 5,102	\$ —	\$ 14,671
Accounts payable	—	56,208	—	46,066	—	102,274
Other current liabilities	—	50,255	650	9,193	—	60,098
Total current liabilities	—	116,032	650	60,361	—	177,043
LONG TERM DEBT	854	454,539	—	24,981	—	480,374
OTHER LONG-TERM LIABILITIES	—	35,700	879	8,923	—	45,502
PREFERRED STOCK	109,268	—	—	—	—	109,268
INTERCOMPANY LOANS	109,991	—	72,656	41,613	(224,260)	—
STOCKHOLDERS' EQUITY	(174,323)	45,790	(8,791)	110,989	(147,988)	(174,323)
Total liabilities and stockholders' equity	<u>\$ 45,790</u>	<u>\$ 652,061</u>	<u>\$ 65,394</u>	<u>\$ 246,867</u>	<u>\$ (372,248)</u>	<u>\$ 637,864</u>

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JULY 1, 2001
(000s omitted)

	<u>U.S. Can Corporation (Parent)</u>	<u>United States Can Company (Issuer)</u>	<u>USC May Verpackungen Holding (Subsidiary Guarantor)</u>	<u>USC Europe / May Verpackungen (Non- Guarantor Subsidiaries)</u>	<u>U.S. Can Corporation Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ —	\$ (3,179)	\$ (3,268)	\$ (4,212)	\$ (10,659)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	(5,621)	—	(1,127)	(6,748)
Acquisition of business, net of cash acquired	—	(4,570)	—	—	(4,570)
Investment in Formametal S.A.	—	(6,051)	—	—	(6,051)
Net cash used in investing activities	—	(16,242)	—	(1,127)	(17,369)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Changes in intercompany advances	—	(5,540)	3,268	2,272	—
Net borrowings (payments) under the old revolving line of credit and changes in cash overdrafts	—	29,500	—	—	29,500
Payments of long-term debt, including capital lease obligations	—	(3,660)	—	(2,722)	(6,382)
Net cash (used in) provided by financing activities	—	20,300	3,268	(450)	23,118
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	—	392	392
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	879	—	(5,397)	(4,518)
CASH AND CASH EQUIVALENTS, beginning of year	—	2,275	—	8,509	10,784
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ 3,154</u>	<u>\$ —</u>	<u>\$ 3,112</u>	<u>\$ 6,266</u>

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JULY 2, 2000
(000s omitted)

	<u>U.S. Can Corporation (Parent)</u>	<u>United States Can Company (Issuer)</u>	<u>USC May Verpackungen Holding (Subsidiary Guarantor)</u>	<u>USC Europe / May Verpackungen (Non- Guarantor Subsidiaries)</u>	<u>U.S. Can Corporation Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ —	\$ 26,881	\$ 2,356	\$ (4,299)	\$ 24,938
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	(12,688)	—	(3,986)	(16,674)
Proceeds on the sale of business	—	12,088	—	—	12,088
Proceeds on the sale of property	—	8,557	—	—	8,557
Net cash used in investing activities	—	7,957	—	(3,986)	3,971
CASH FLOWS FROM FINANCING ACTIVITIES:					
Change in intercompany advances	(393)	(13,443)	(2,356)	16,192	—
Issuance of common stock and exercise of stock options	773	—	—	—	773
Net borrowings (payments) under the old revolving line of credit and changes in cash overdrafts	—	(12,675)	—	—	(12,675)
Payments of long-term debt, including capital lease obligations	—	(5,191)	—	(17,783)	(22,974)
Purchase of treasury stock	(380)	—	—	—	(380)
Net cash (used in) provided by financing activities	—	(31,309)	(2,356)	(1,591)	(35,256)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	—	(308)	(308)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	3,529	—	(10,184)	(6,655)
CASH AND CASH EQUIVALENTS, beginning of year	—	3,153	—	12,544	15,697
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ 6,682</u>	<u>\$ —</u>	<u>\$ 2,360</u>	<u>\$ 9,042</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 Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein.

The Company's business as a whole has some seasonal variations. Quarterly sales and earnings tend to be slightly stronger starting in early spring (second quarter) through late summer (third quarter). Aerosol sales have minor increases in the spring and summer related to increased sales of containers for household products and insect repellents. Paint container sales tend to be stronger in spring and early summer due to the favorable weather conditions. Portions of the Custom and Specialty products line tend to vary seasonally, because of holiday sales late in the year. May's food can sales generally peak in the third and fourth quarters.

Results of Operations

Three-month period ended July 1, 2001, as compared to the three month period ended July 2, 2000

Consolidated net sales for the three months ended July 1, 2001 were \$193.3 million as compared to \$210.5 million in 2000, a decrease of 8.2%. The decrease is primarily attributable to volume softness experienced in domestic aerosol sales, lower sales at May Verpackungen as it became requalified with its largest customer, and the negative impact in 2001 due to the U.S. dollar translation on sales made in foreign currencies. Along business segment lines, Aerosol net sales in the second quarter of 2001 decreased to \$82.5 million from \$92.5 million in 2000, a 10.8% decline, due principally to decreased unit volume. International sales decreased 9.8% to \$56.0 million in the second quarter of 2001 from \$62.1 million in 2000, due primarily to the negative foreign currency translation impact. Paint, Plastic and General Line segment sales declined \$1.7 million compared to the second three months of 2000, with total net sales of \$41.9 million for the three months ended July 1, 2001. Custom and Specialty increased \$0.8 million in net sales, from \$12.3 million in 2000 to \$13.1 million in 2001 due to the acquisition of Olive Can. On February 20, 2001, certain assets of Olive Can Company, a Custom and Specialty manufacturer, were acquired. Net sales for Olive Can for the three months ended July 1, 2001 were \$2.3 million.

Consolidated cost of goods sold of \$167.0 million for the second three months of 2001 decreased \$13.3 million, or 7.4%, from the same period in 2000. The principal reasons for the decrease was the volume softness experienced in domestic aerosol sales and the foreign currency translation impact in 2001. Gross profit margin of 13.6% in the second quarter of 2001 decreased 0.8% from the second quarter of 2000, due to the loss of volume experienced in the aerosol segment and the lower sales at May Verpackungen.

Selling, general and administrative expenses were \$11.2 million in the second quarter of 2001, a \$0.5 million decrease in comparison to the same period in 2000. A Company-wide program has been initiated to develop and implement programs for further cost reductions.

Interest expense in 2001 increased \$5.6 million versus 2000 due primarily to increased borrowings made in connection with the recapitalization. See caption "Liquidity and Capital Resources" and Note (5) to the Consolidated Financial Statements for further discussion on the Company's debt position.

A payment in kind dividend of \$2.8 million on the redeemable preferred stock was recorded in the second quarter of 2001. The preferred stock was issued on October 4, 2000 in connection with the recapitalization.

Six-month period ended July 1, 2001, as compared to the six-month period ended July 2, 2000

Net sales for the six-month period ended July 1, 2001, totaled \$384.5 million, a 9.4% decrease versus the corresponding period in 2000. The decrease is primarily attributable to volume softness experienced in domestic aerosol sales, the negative impact in 2001 due to the U.S. dollar translation on sales made in foreign currencies and the slower-than-

expected return to normal volume with May Verpackungen's largest customer. Along business segment lines, Aerosol net sales in the first half of 2001 were \$166.8 million, an 11.8% decline versus the same period last year. The decrease is primarily due to a decline in U.S. volumes. International sales decreased 10.0% to \$112.0 million in the first half of 2001 from \$124.4 million in 2000. The decline is due to a negative impact in 2001 due to U.S. dollar translation on sales made in foreign currencies coupled with the slower-than-expected return to normal volume with May Verpackungen's largest customer. Paint, Plastic and General Line segment sales decreased 2.9% to \$81.0 million due to weak volume in the first half of 2001. Custom & Specialty sales of \$24.7 million decreased \$2.7 million over the first half of 2000 due to the sale of the Wheeling metal closure and Warren lithography businesses, offset by the increased sales due to the Olive Can acquisition. Year 2000 net sales for Wheeling and Warren were \$3.3 million.

Consolidated cost of goods sold of \$333.7 million for the first half of 2001 decreased \$30.9 million, or 8.5%, from the same period in 2000. The principal reasons for the decrease was the volume softness experienced in domestic aerosol sales and the foreign currency translation impact in 2001. Gross income of \$50.8 million for the six-month period in 2001 decreased \$8.9 million, or 14.9%, versus the corresponding period of 2000. Gross profit margin of 13.2% in the first six months of 2001 decreased 0.9% from the same period in 2000. Weaker margins were experienced in the first two quarters of 2001 due to the loss in volume experienced in the aerosol segment.

Selling, general, and administrative expenses were \$23.0 million in the first half of 2001, a \$0.7 million decrease in comparison to the same period in 2000. A company-wide program has been initiated to develop and implement programs for further cost reductions.

Interest expense in 2001 increased \$12.1 million versus 2000 due primarily to increased borrowings made in connection with the recapitalization. See caption "Liquidity and Capital Resources" and Note (5) to the Consolidated Financial Statements for further discussion on the Company's debt position.

A payment in kind dividend of \$5.5 million on the redeemable preferred stock was recorded in the first half of 2001. The preferred stock was issued on October 4, 2000 in connection with the recapitalization.

Liquidity and Capital Resources

During the first six months of 2001, the Company met its liquidity needs through internally generated cash flow and borrowings made under its credit lines. Cash used in operations was \$10.7 million in the first six months of 2001, compared to cash provided of \$24.9 million in the first half of 2000. The increased use of cash was due to the decrease in net income as discussed in Results of Operations and changes in operating assets and liabilities primarily in Europe which has more seasonal variation than the United States.

Net cash used for investing activities was \$17.4 million in 2001, compared to net cash provided of \$4.0 million in the first half of 2000. 2001 cash used for investing activities included capital spending, the acquisition of certain assets of Olive Can Company and advances to Formametal to finance the repayment of debt and working capital by Formametal S.A. ("Formametal"), which Formametal was unable to refinance. Cash was provided in 2000 by the sale of Wheeling and Warren as discussed in Note (3), net of capital expenditures and a sale/leaseback of certain manufacturing assets. The Company expects total capital expenditures in 2001 to be approximately \$20.0 million, of which \$6.7 million was spent in the first six months. On February 20, 2001, certain assets of Olive Can Company, a Custom and Specialty manufacturer, were acquired. The acquisition, which is not material to the Company's operations, was accounted for as a purchase.

Financing cash flows consisted principally of borrowings under the Credit Agreement. As of July 1, 2001, U.S. Can had borrowed \$48.0 million under its amended Credit Agreement, \$9.8 million in letters of credit were outstanding pursuant thereto, and \$52.2 million of unused credit remained thereunder. Effective April 1, 2001, the Credit Agreement was amended to provide for less restrictive financial covenants. Additionally, the revolving credit portion of the facility was reduced to \$110 million from the original amount of \$140 million. Interest rates paid increased by 0.25%, but may decrease based on the achievement of specified leverage ratios. As of July 1, 2001, U.S. Can was in compliance with the covenants under the Amended Credit Agreement and its other long-term debt agreements.

The Company's primary sources of liquidity are cash flow from operations and borrowings under the revolving credit facility. Based upon the current level of operations and anticipated growth, cash generated from operations together with amounts available under the revolving credit facility are expected to be adequate to meet anticipated short and long-term debt service requirements, capital expenditures and working capital needs. Our Credit Agreement requires a prepayment in the event that we have excess cash flow (as defined by the agreement) and following certain other events, including asset sales and issuances of debt and equity. 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.

During July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 modifies the method of accounting for business combinations entered into after June 30, 2001 and addresses the accounting for intangible assets. All business combinations entered into after June 30, 2001, are accounted for using the purchase method. SFAS No. 142 eliminates the current requirement to amortize goodwill and definite-lived intangible assets, addresses the amortization of intangible assets with a defined life, and addresses the impairment testing and recognition for goodwill and intangible assets. The Company will adopt this pronouncement on January 1, 2002. This pronouncement applies to goodwill and intangible assets arising from transactions completed before and after the date of adoption. Effective January 1, 2002, the Company will cease amortization of goodwill and indefinite-lived intangibles and test for impairment, at least, annually. Management is currently assessing the provisions of both pronouncements and their potential impact on the Company's consolidated results of operations and financial position.

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 2000.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

On June 19, 2001, the U.S. Court of Appeals for the Seventh Circuit issued a written decision in the NLRB/Inter-plant job opportunity case. While the Court enforced the award of backpay, with interest, it agreed with the Company's position that the NLRB should permit the Company to present actuarial calculations of any credit due it because of overpayments or early payments of supplemental unemployment benefits or pension. As required by the Court's decision, the Company notified the NLRB that it wishes to present such evidence. The Company has not yet determined the exact amount of the backpay award or credit, although it recognizes that the credit will offset only part of the backpay award. The Company also is reviewing the Court's decision to determine if the Company will appeal the Court's enforcement of the backpay order.

The parties to the shareholder suit regarding the Company's leveraged buyout have agreed to settle this matter in return for an additional \$0.20 per share payment to the class, or a total additional payment of approximately \$2.0 million (less the legal fees and expenses awarded). The Court approved this settlement on July 30, 2001, and awarded plaintiff's counsel approximately \$500,000 in fees. The Company expects the distribution of funds to occur in late September or early October of 2001.

Reference is made to the disclosure about the Company's New Castle, Pennsylvania plant previously filed in the Company's Form 10-Q for the quarterly period ended April 1, 2001. The Company is reviewing its compliance status with the Title V permit for this plant and has identified possible recordkeeping deviations with regard to the operation of the oxidizer for the plant's coating line. Since the Company has not completed this review, it is unable to determine the effect of these possible deviations.

Item 6. Exhibits and Reports On Form 8-K

(a) Exhibits

NONE

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 15, 2001

U.S. CAN CORPORATION

By: /s/ John L. Workman
John L. Workman
*Executive Vice President and
Chief Financial Officer*