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UNITED STATES  
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 July 3, 2005

Commission File Number 333-53276

**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 15, 2005, 53,333.333 shares of Common Stock were outstanding.

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U.S. CAN CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JULY 3, 2005

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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; the Company's substantial debt and ability to generate sufficient cash flows to service its debt; the Company's compliance with the financial covenants contained in its various debt agreements; 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; currency and interest rate fluctuations; increases in the Company's leverage; the Company's ability to effectively integrate acquisitions; changes in the Company's business strategy or development plans; 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, 2004 and filed with the Securities and Exchange Commission on March 23, 2005, 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)

	<u>For The</u> <u>Three Months Ended</u>		<u>For The</u> <u>Six Months Ended</u>	
	<u>July 3, 2005</u>	<u>July 4, 2004</u>	<u>July 3, 2005</u>	<u>July 4, 2004</u>
	(Unaudited)			
Net Sales	\$ 230,407	\$ 211,809	\$ 460,852	\$ 425,276
Cost of Sales	<u>207,173</u>	<u>192,901</u>	<u>405,619</u>	<u>386,996</u>
Gross Profit	23,234	18,908	55,233	38,280
Selling, General and Administrative Expenses	9,479	10,439	20,387	20,243
Special Charges	1,517	922	2,030	1,404
Other (Income) Expense	(25)	2	(192)	(378)
Interest Expense	13,913	12,865	26,853	25,582
Bank Financing Fees	731	1,218	1,460	2,596
Loss from Early Extinguishment of Debt	<u>-</u>	<u>5,508</u>	<u>-</u>	<u>5,508</u>
Income (Loss) Before Income Taxes	(2,381)	(12,046)	4,695	(16,675)
Provision (Benefit) for Income Taxes	<u>586</u>	<u>(2,256)</u>	<u>1,676</u>	<u>(1,924)</u>
Net Income (Loss)	(2,967)	(9,790)	3,019	(14,751)
Preferred Stock Dividend Requirement	<u>(4,148)</u>	<u>(3,760)</u>	<u>(8,282)</u>	<u>(7,584)</u>
Net Loss Attributable to Common Stockholders	<u>\$ (7,115)</u>	<u>\$ (13,550)</u>	<u>\$ (5,263)</u>	<u>\$ (22,335)</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	July 3, 2005	December 31, 2004
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 2,573	\$ 7,108
Accounts receivable, net of allowances	99,150	78,523
Inventories	102,140	105,267
Deferred income taxes	6,573	7,525
Other current assets	25,829	30,811
Total current assets	236,265	229,234
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation and amortization	209,978	227,022
GOODWILL	27,384	27,384
DEFERRED INCOME TAXES	23,160	23,199
OTHER NON-CURRENT ASSETS	47,430	50,913
Total assets	\$ 544,217	\$ 557,752
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$ 6,157	\$ 9,445
Accounts payable	87,980	100,978
Accrued expenses	62,049	55,562
Restructuring reserves	3,449	4,347
Income taxes payable	1,591	479
Total current liabilities	161,226	170,811
LONG TERM DEBT	558,658	550,551
LONG TERM LIABILITIES PURSUANT TO EMPLOYEE BENEFIT PLANS	63,922	68,882
OTHER LONG-TERM LIABILITIES	3,618	3,684
Total liabilities	787,424	793,928
REDEEMABLE PREFERRED STOCK, 200,000 shares authorized, 106,667 shares issued & outstanding	170,536	162,253
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	(29,089)	(19,038)
Accumulated deficit	(437,987)	(432,724)
Total stockholders' equity / (deficit)	(413,743)	(398,429)
Total liabilities and stockholders' equity	\$ 544,217	\$ 557,752

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 3, 2005	July 4, 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 3,019	\$ (14,751)
Adjustments to reconcile net loss to net cash used in operating activities –		
Depreciation and amortization	19,715	22,146
Special charges	2,030	1,404
Loss from early extinguishment of debt	-	5,508
Deferred income taxes	-	(3,168)
Change in operating assets and liabilities:		
Accounts receivable	(24,397)	(14,210)
Inventories	(1,641)	(5,676)
Accounts payable	(6,653)	409
Accrued expenses	3,973	621
Other assets	3,938	2,814
Other liabilities	(529)	(615)
Net cash used in operating activities	<u>(545)</u>	<u>(5,518)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(10,754)	(7,453)
Proceeds from sale of property	352	1,076
Dividends from Formametel S.A.	669	608
Net cash used in investing activities	<u>(9,733)</u>	<u>(5,769)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Term B loan	-	250,000
Net borrowings (payments) under the revolving line of credit	9,700	(42,100)
Payments of Tranche A loan	-	(38,706)
Payments of Tranche B loan	(1,250)	(130,175)
Payments of Tranche C loan	-	(20,000)
Borrowings of other long-term debt	268	3,656
Payments of other long-term debt, including capital lease obligations	(3,437)	(18,136)
Payment of debt financing costs	(57)	(5,485)
Net cash provided by (used in) financing activities	<u>5,224</u>	<u>(946)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>519</u>	<u>(614)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(4,535)	(12,847)
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,108</u>	<u>22,964</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 2,573</u>	<u>\$ 10,117</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 3, 2005**

**(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", "we", "us", or "our". 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 financial statements and footnotes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004. Certain prior year amounts have been reclassified to conform with the 2005 presentation.

*STOCK-BASED COMPENSATION*

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

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure", 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 for the three and six months ended July 3, 2005 and July 4, 2004.

	Three Months Ended		Six Months Ended	
	July 3, 2005	July 4, 2004	July 3, 2005	July 4, 2004
Net Income (Loss).....	\$ (2,967)	\$ (9,790)	\$ 3,019	\$ (14,751)
Stock-Based Compensation Cost, net of tax – fair value method .....	(22)	(26)	(45)	(56)
Pro-Forma Net Income (Loss).....	\$ (2,989)	\$ (9,816)	\$ 2,974	\$ (14,807)

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment", which replaces SFAS No. 123 and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values beginning with the first interim period after June 15, 2005. In April 2005, the United States Securities and Exchange Commission extended the implementation timing required under SFAS No. 123R to the beginning of a registrant's next fiscal year, which is January 1, 2006 for the Company. The Company is currently evaluating the requirements of SFAS No. 123R and has not yet determined the method of adoption it will use. However, based on the Company's current level of annual option grants and the number of unvested options the Company had outstanding at the end of the second quarter of 2005, the Company does not expect the adoption of SFAS No. 123R to have a material impact on its financial position or results of operations.



## (2) SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid interest of approximately \$26.9 million and \$27.9 million for the six months ended July 3, 2005 and July 4, 2004, respectively. The Company paid \$0.2 million in income taxes for the six months ended July 3, 2005 and \$0.7 million for the six months ended July 4, 2004.

## (3) SPECIAL CHARGES

### 2005

During the first six months of 2005, the Company recorded restructuring charges of \$2.0 million. A \$0.5 million charge was recorded in the first quarter of 2005 and a \$1.5 million charge was recorded in the second quarter of 2005. During the first quarter of 2005, the Company recorded charges for position elimination costs related to the continuation of an early termination program in one European facility and a product line profitability review program in our German food can business. The second quarter charges were for European headquarters position elimination costs (\$1.0 million), as well as a reassessment of previously recorded reserves for ongoing facility costs related to our closed Olive Can Custom & Specialty plant (\$0.5 million). Total cash payments in the first six months of 2005 were \$2.6 million (primarily severance and facility shut down costs) and the Company anticipates spending another \$6.4 million over the next several years. The remaining reserve consists primarily of employee termination benefits paid over time for approximately four salaried and 34 hourly employees and other ongoing facility exit costs.

The table below presents the reserve categories and related activity as of July 3, 2005:

	January 1, 2005 Balance	Additions	Cash Payments	Other (b)	July 3, 2005 Balance
Employee Separation	\$3.2	\$1.4	\$(1.3)	\$(0.3)	\$3.0
Facility Closing Costs	4.1	0.6	(1.3)	-	3.4
Total	\$7.3	\$2.0	\$(2.6)	\$(0.3)	\$6.4 (a)

(a) Includes \$3.0 million classified as other long-term liabilities as of July 3, 2005.

(b) Non-cash foreign currency translation impact.

### 2004

During the first six months of 2004, the Company recorded restructuring charges of \$1.4 million. \$0.5 million of the charges were recorded in the first quarter of 2004 and a \$0.9 million charge was recorded in the second quarter of 2004 related to position elimination costs in Europe. The position eliminations consisted of 41 employees and include eliminations related to an early termination program in one European facility and a product line profitability review program in the Company's German food can business, which resulted in the Company idling certain of its production lines. Total cash payments during the first six months of 2004 were \$2.5 million (primarily severance and facility shut down costs) and the Company anticipated spending another \$6.8 million over the next several years. The remaining reserve consisted primarily of employee termination benefits paid over time for approximately six salaried and 48 hourly employees and other ongoing facility exit costs.

The table below presents the reserve categories and related activity as of July 4, 2004:

	January 1, 2004 Balance	Net Additions	Cash Payments	July 4, 2004 Balance
Employee Separation	\$4.3	\$1.4	\$(1.9)	\$3.8
Facility Closing Costs	3.6	-	(0.6)	3.0
Total	\$7.9	\$1.4	\$(2.5)	\$6.8 (a)

(a) Includes \$4.4 million classified as other long-term liabilities as of July 4, 2004.

#### (4) INVENTORIES

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

	<u>July 3, 2005</u>	<u>December 31, 2004</u>
Raw materials.....	\$ 31,623	\$ 35,849
Work in process .....	37,253	38,758
Finished goods .....	33,264	30,660
	<u>\$ 102,140</u>	<u>\$ 105,267</u>

#### (5) COMPREHENSIVE NET LOSS

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

	<u>July 3, 2005</u>	<u>December 31, 2004</u>
Foreign Currency Translation Adjustment .....	\$(11,055)	\$220
Minimum Pension Liability Adjustment .....	(18,034)	(19,258)
Total Accumulated Other Comprehensive Loss.....	<u>\$(29,089)</u>	<u>\$(19,038)</u>

The components of comprehensive loss for the three and six months ended July 3, 2005 and July 4, 2004 are as follows (000's omitted):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 3, 2005</u>	<u>July 4, 2004</u>	<u>July 3, 2005</u>	<u>July 4, 2004</u>
Net Income (Loss) .....	\$(2,967)	\$(9,790)	\$ 3,019	\$(14,751)
Foreign Currency Translation Adjustment .....	(6,703)	59	(10,051)	(1,375)
Comprehensive Loss .....	<u>\$(9,670)</u>	<u>\$(9,731)</u>	<u>\$(7,032)</u>	<u>\$(16,126)</u>

#### (6) BENEFIT PLANS

The Company maintains separate noncontributory defined benefit and defined contribution pension plans covering most domestic hourly employees and all domestic salaried personnel, respectively. It is the Company's policy to fund accrued pension and defined contribution plan costs in compliance with ERISA or the applicable foreign requirements.

The net periodic pension cost was as follows for the three months and six months ended July 3, 2005 and July 4, 2004, respectively (000's omitted):

##### U.S.

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>July 3, 2005</u>	<u>July 4, 2004</u>	<u>July 3, 2005</u>	<u>July 4, 2004</u>
Service cost .....	\$ 321	\$ 252	\$ 642	\$ 504
Interest cost .....	716	686	1,432	1,372
Return on assets .....	(729)	(678)	(1,458)	(1,356)
Recognized loss .....	51	5	102	10
Recognized prior service cost.....	141	122	282	244
Net periodic pension cost.....	<u>\$ 500</u>	<u>\$ 387</u>	<u>\$ 1,000</u>	<u>\$ 774</u>



**Non-U.S.**

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>July 3, 2005</u>	<u>July 4, 2004</u>	<u>July 3, 2005</u>	<u>July 4, 2004</u>
Service cost .....	\$ 105	\$ 88	\$ 196	\$ 177
Interest cost .....	1,079	1,129	2,206	2,259
Return on assets .....	(893)	(864)	(1,843)	(1,727)
Recognized loss .....	150	208	310	415
Net periodic pension cost.....	<u>\$ 441</u>	<u>\$ 561</u>	<u>\$ 869</u>	<u>\$ 1,124</u>

The Company provides health and life insurance benefits for certain domestic retired employees in connection with collective bargaining agreements.

Net periodic postretirement benefit costs for the Company's U.S. postretirement benefit plans for the three months and six months ended July 3, 2005 and July 4, 2004, respectively, included the following components (000's omitted):

**U.S.**

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>July 3, 2005</u>	<u>July 4, 2004</u>	<u>July 3, 2005</u>	<u>July 4, 2004</u>
Service cost	\$ 98	\$ 87	\$ 196	\$ 174
Interest cost	373	351	746	702
Recognized loss	80	48	160	96
Recognized prior service cost	(213)	(226)	(426)	(452)
Net periodic pension cost	<u>\$ 338</u>	<u>\$ 260</u>	<u>\$ 676</u>	<u>\$ 520</u>

The Company made \$0.3 million in contributions to its U.S. based pension plan and \$0.5 million of contributions to its non-U.S. based pension plans in the second quarter of 2005. The Company previously disclosed in its financial statements for the year ended December 31, 2004 that it expected to contribute approximately \$1.4 million to its U.S. based pension plan in 2005. For the six months ended July 3, 2005, \$0.6 million of contributions have been made to the Company's U.S. based pension plan. The Company presently anticipates contributing an additional \$0.8 million to fund its pension plan in 2005 for a total of approximately \$1.4 million. For the six months ended July 3, 2005, \$0.9 million of contributions have been made to the Company's non-U.S. based pension plans. The Company does not anticipate its 2005 contributions to any of its plans to be significantly different from the amount previously disclosed in the Company's consolidated financial statements for the year ended December 31, 2004.

The Company made payments under its postretirement benefit plan of \$0.7 million in the first six months of 2005 and \$0.5 million in the second quarter of 2005. The Company does not anticipate its 2005 payments under its postretirement benefit plan to be significantly different from the amount previously disclosed in the Company's consolidated financial statements for the year ended December 31, 2004.

**(7) BUSINESS SEGMENTS**

Management monitors and evaluates performance, customer base and market share for four business segments. The Aerosol segment primarily produces steel aerosol containers in the U.S. for personal care, household, automotive, paint and industrial products. The International segment produces aerosol cans as well as steel food packaging in Europe. The Paint, Plastic & General Line segment produces round cans in the U.S. for paint and coatings, oblong cans for items such 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 in the U.S. The Company notes that financial information used to produce its financial statements is not recorded or reconciled on a product line basis, therefore it is not practicable for the Company to disclose revenues by product line.

The following is a summary of revenues from external customers and income (loss) from operations for the three and six month periods ended July 3, 2005 and July 4, 2004, respectively (000's omitted):

	Three Months Ended		Six Months Ended	
	July 3, 2005	July 4, 2004	July 3, 2005	July 4, 2004
<b>REVENUES FROM EXTERNAL CUSTOMERS:</b>				
Aerosol .....	\$107,449	\$94,173	\$212,571	\$186,328
International .....	73,582	70,522	153,180	148,920
Paint, Plastic & General Line .....	41,443	37,199	78,068	70,625
Custom & Specialty.....	<u>7,933</u>	<u>9,915</u>	<u>17,033</u>	<u>19,403</u>
Total revenues .....	<u>\$230,407</u>	<u>\$211,809</u>	<u>\$460,852</u>	<u>\$425,276</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES:</b>				
Aerosol.....	\$16,598	\$14,765	\$38,352	\$29,210
International .....	(1,223)	(2,676)	(720)	(4,246)
Paint, Plastic & General Line.....	3,499	4,072	7,890	7,492
Custom & Specialty .....	<u>1,274</u>	<u>(482)</u>	<u>3,772</u>	<u>(865)</u>
Total Segment Income From Operations .....	20,148	15,679	49,294	31,591
Unallocated Selling, General & Administrative Expenses (a)	(6,393)	(7,210)	(14,448)	(13,554)
Special Charges (b).....	(1,517)	(922)	(2,030)	(1,404)
Other Income (Expense) (c).....	25	(2)	192	378
Interest Expense.....	(13,913)	(12,865)	(26,853)	(25,582)
Bank Financing Fees.....	(731)	(1,218)	(1,460)	(2,596)
Loss from Early Extinguishment of Debt.....	-	<u>(5,508)</u>	-	<u>(5,508)</u>
Loss Before Income Taxes	<u>\$(2,381)</u>	<u>\$(12,046)</u>	<u>\$4,695</u>	<u>\$(16,675)</u>

(a) Represents domestic Selling, General & Administrative expenses. The Company does not allocate these costs to its domestic segments.

(b) Management does not evaluate segment performance including such charges. See Note (3) for further information on the Company's special charges.

(c) Other income represents the Company's share of the net income of its joint venture equity investment in Argentina, and dividends related to a cost based investment.

## (8) COMMITMENTS AND CONTINGENCIES

### *Environmental*

United States Can has been named as a potentially responsible party for costs incurred in the clean-up of the San Leandro Plume, a regional groundwater plume partially extending underneath United States Can's former site in San Leandro, California and at the M&J Solvents site in Georgia. When the Company acquired the San Leandro facility, it assumed certain liabilities subject to indemnification by the former owner / operator for claims made on or before December 1986. The former owner / operator tendered its obligations under the remedial action order to the Company. The Company accepted the tender with reservation of any legal rights it may have to seek contribution or reimbursement. The Company is a party to an indemnity agreement related to this matter with the current owner of the property, who purchased the property from the Company. In its 1994 agreement with the current owner, the Company agreed to defend and indemnify the current owner and its successors and assigns for any claims, including investigative or remedial action, required by any governmental agency that regulates hazardous substances. Neither the agreement with the former owner nor with the current operator contains any caps or limits. Extensive soil and groundwater investigative work has been performed on the San Leandro Plume, including at the San Leandro site. Currently, the State of California is overseeing remediation at an offsite source of contamination of the San Leandro Plume. Periodically, the State of California conducts regional sampling to monitor the efficacy of the remediation. The Company, along with other PRPs, participated in a coordinated sampling event in 1999. In November 2002, as part of a larger sampling scheme, the State of California requested that we sample existing monitoring wells at the San Leandro property. The Company completed a round of sampling in December 2002. The 2002 sampling results generally show that the concentration of contamination is declining, which we view as a positive development. While the State has not yet commented on either the 1999 or the 2002 sampling results, we believe that the source of contamination is unrelated to our past operations. The Company receives quarterly invoices from the State of California for its oversight work and for the

regional sampling. At this time, the Company is unable to estimate reasonably possible losses related to the San Leandro site or to the San Leandro Plume, but believes the sampling supports its position that the groundwater contamination in the San Leandro Plume is unrelated to its past operation. To date, the Company has not been required to implement any remedial action at the San Leandro site. With regard to M & J Solvents, over 1,000 contributors to the site have been identified. The initial compliance status report has not been finalized and thus, the nature, extent and source of contamination is unknown. On July 13, 2005, the Company, along with other PRPs, received a letter from the State of Georgia requiring the submission of a compliance status report and corrective action plan for the site by December 31, 2005. The Company, along with other PRPs, participates in a voluntary group that will prepare the required report and plan.

#### *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.

Local No. 24M of the Graphics Communications International Union, the union representing employees at the Company's Weirton facility, filed an arbitration case challenging the Company's decision to modify its health care plan for retirees. The Union contended that the Company had an obligation to bargain over plan changes and that it failed to do so. The Company contended that the matter was not arbitrable, that it only had an obligation to bargain with the Union regarding benefits for active employees represented by the Union, and that it had no obligation to bargain with regard to retiree benefits. On December 22, 2004, the arbitrator issued a decision finding that the dispute was arbitrable, that the Company was obligated to bargain with the Union regarding benefits for retirees, that the Company violated its duty to bargain by unilaterally modifying the health care plan as to retirees and that benefits under the health care plan are vested as to retirees. On March 16, 2005, the Company filed a lawsuit appealing the arbitration decision. The Union filed an answer to the complaint seeking enforcement of the arbitrator's decision. Because this matter will be determined on the arbitration record, the court set a briefing schedule for the parties to file cross-motions for summary judgment. Opening briefs are due on August 8, 2005 and the reply briefs are due September 8, 2005. Trial currently is set for January 2006.

#### **(9) 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 3, 2005 and December 31, 2004 and for the six months ended July 3, 2005 and July 4, 2004. 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 10 7/8% Senior Secured Notes and 12 3/8% Senior Subordinated Notes.

The 10 7/8% Senior Secured Notes and 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 10 7/8% Senior Secured Notes and 12 3/8% Senior Subordinated Notes.

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

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JULY 4, 2004**  
(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 .....	\$ -	\$ 276,356	\$ -	\$ 148,920	\$ -	\$ 425,276
COST OF SALES .....	-	240,514	-	146,482	-	386,996
Gross profit .....	-	35,842	-	2,438	-	38,280
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES .....	-	13,555	-	6,688	-	20,243
SPECIAL CHARGES .....	-	-	-	1,404	-	1,404
OTHER INCOME .....	-	(224)	-	(154)	-	(378)
INTEREST EXPENSE .....	-	22,025	2,706	851	-	25,582
BANK FINANCING FEES .....	-	2,384	-	212	-	2,596
LOSS FROM EARLY EXTINGUISHMENT OF DEBT .....	-	5,508	-	-	-	5,508
EQUITY LOSS FROM SUBSIDIARIES .....	(14,751)	(10,042)	(1,816)	-	26,609	-
Loss before income taxes	(14,751)	(17,448)	(4,522)	(6,563)	26,609	(16,675)
PROVISION FOR INCOME TAXES .....	-	(2,697)	-	773	-	(1,924)
NET LOSS .....	(14,751)	(14,751)	(4,522)	(7,336)	26,609	(14,751)
PREFERRED STOCK DIVIDEND REQUIREMENT .....	(7,584)	-	-	-	-	(7,584)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS .....	<u>\$ (22,335)</u>	<u>\$ (14,751)</u>	<u>\$ (4,522)</u>	<u>\$ (7,336)</u>	<u>\$ 26,609</u>	<u>\$ (22,335)</u>

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

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF JULY 3, 2005**  
**(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
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents.....	\$ –	\$ 274	\$ –	\$ 2,299	\$ –	\$ 2,573
Accounts receivable .....	–	69,335	–	29,815	–	99,150
Inventories.....	–	65,751	–	36,389	–	102,140
Deferred income taxes.....	–	6,573	–	–	–	6,573
Other current assets.....	–	8,041	–	17,788	–	25,829
Total current assets.....	–	149,974	–	86,291	–	236,265
<b>NET PROPERTY, PLANT AND</b>						
EQUIPMENT.....	–	122,720	–	87,258	–	209,978
GOODWILL .....	–	27,384	–	–	–	27,384
DEFERRED INCOME TAXES..	–	22,867	–	293	–	23,160
<b>OTHER NON-CURRENT ASSETS .....</b>						
	–	35,245	–	12,185	–	47,430
<b>INTERCOMPANY ADVANCES .....</b>						
	–	293,925	–	–	(293,925)	–
<b>INVESTMENT IN SUBSIDIARIES.....</b>						
	–	–	60,053	–	(60,053)	–
Total assets.....	\$ –	\$ 652,115	\$ 60,053	\$ 186,027	\$ (353,978)	\$ 544,217
<b>CURRENT LIABILITIES</b>						
Current maturities of						
long-term debt.....	\$ –	\$ 3,803	\$ –	\$ 2,354	\$ –	\$ 6,157
Accounts payable .....	–	41,343	–	46,637	–	87,980
Restructuring reserves.....	–	998	–	2,451	–	3,449
Income taxes payable.....	–	–	–	1,591	–	1,591
Accrued Expenses.....	–	48,523	–	13,526	–	62,049
Total current liabilities .....	–	94,667	–	66,559	–	161,226
TOTAL LONG TERM DEBT ....	854	557,804	–	–	–	558,658
<b>LONG-TERM LIABILITIES</b>						
PURSUANT TO EMPLOYEE						
BENEFIT PLANS.....	–	39,343	896	23,683	–	63,922
<b>OTHER LONG-TERM LIABILITIES.....</b>						
	–	2,628	–	990	–	3,618
PREFERRED STOCK.....	170,536	–	–	–	–	170,536
INTERCOMPANY LOANS.....	112,056	–	130,218	51,651	(293,925)	–
<b>INVESTMENT IN SUBSIDIARIES.....</b>						
	130,297	87,970	–	–	(218,267)	–
<b>STOCKHOLDERS' EQUITY / (DEFICIT) .....</b>						
	(413,743)	(130,297)	(71,061)	43,144	158,214	(413,743)
Total liabilities and stockholders' equity .....	\$ –	\$ 652,115	\$ 60,053	\$ 186,027	\$ (353,978)	\$ 544,217



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

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF DECEMBER 31, 2004**  
(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
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents.....	\$ —	\$ 927	\$ —	\$ 6,181	\$ —	\$ 7,108
Accounts receivable .....	—	50,115	—	28,408	—	78,523
Inventories.....	—	62,861	—	42,406	—	105,267
Deferred income taxes.....	—	6,660	—	865	—	7,525
Other current assets .....	—	8,376	—	22,435	—	30,811
Total current assets.....	—	128,939	—	100,295	—	229,234
<b>NET PROPERTY, PLANT AND EQUIPMENT.....</b>						
GOODWILL.....	—	126,418	—	100,604	—	227,022
DEFERRED INCOME TAXES..	—	27,384	—	—	—	27,384
OTHER NON-CURRENT ASSETS .....	—	22,867	—	332	—	23,199
INTERCOMPANY ADVANCES.....	—	36,715	—	14,198	—	50,913
INVESTMENT IN SUBSIDIARIES.....	—	286,028	—	—	(286,028)	—
Total assets.....	<u>\$ —</u>	<u>\$ 628,351</u>	<u>\$ 64,954</u>	<u>\$ 215,429</u>	<u>\$ (350,982)</u>	<u>\$ 557,752</u>
<b>CURRENT LIABILITIES</b>						
Current maturities of long-term debt.....	\$ —	\$ 3,965	\$ —	\$ 5,480	\$ —	\$ 9,445
Accounts payable .....	—	41,716	—	59,262	—	100,978
Restructuring reserves.....	—	1,947	—	2,400	—	4,347
Income taxes payable .....	—	—	—	479	—	479
Other current liabilities.....	—	39,244	—	16,318	—	55,562
Total current liabilities .....	—	86,872	—	83,939	—	170,811
TOTAL LONG TERM DEBT ....	854	549,697	—	—	—	550,551
<b>LONG-TERM LIABILITIES PURSUANT TO EMPLOYEE BENEFIT PLANS.....</b>						
OTHER LONG-TERM LIABILITIES.....	—	41,652	591	26,639	—	68,882
PREFERRED STOCK .....	162,253	2,782	—	902	—	3,684
INTERCOMPANY LOANS.....	112,057	—	127,111	46,860	(286,028)	—
INVESTMENT IN SUBSIDIARIES.....	123,265	70,613	—	—	(193,878)	—
STOCKHOLDERS' EQUITY / (DEFICIT) .....	(398,429)	(123,265)	(62,748)	57,089	128,924	(398,429)
Total liabilities and stockholders' equity.....	<u>\$ —</u>	<u>\$ 628,351</u>	<u>\$ 64,954</u>	<u>\$ 215,429</u>	<u>\$ (350,982)</u>	<u>\$ 557,752</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 3, 2005**  
(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
<b>CASH FLOWS PROVIDED BY (USED IN)</b>					
OPERATING ACTIVITIES.....	\$ —	\$ 6,124	\$ (2,420)	\$ (4,249)	\$ (545)
<b>CASH FLOWS FROM INVESTING</b>					
<b>ACTIVITIES:</b>					
Capital expenditures.....	—	(7,558)	—	(3,196)	(10,754)
Proceeds from sale of property.....	—	120	—	232	352
Dividends from Formametal S.A.....	—	669	—	—	669
Net cash used for investing activities .....	<u>—</u>	<u>(6,769)</u>	<u>—</u>	<u>(2,964)</u>	<u>(9,733)</u>
<b>CASH FLOWS FROM FINANCING</b>					
<b>ACTIVITIES:</b>					
Changes in intercompany advances.....	—	(7,896)	2,420	5,476	—
Net borrowings under revolving line of credit.....	—	9,700	—	—	9,700
Payments of Tranche B loan.....	—	(1,250)	—	—	(1,250)
Payments of other long-term debt.....	—	(773)	—	(2,664)	(3,437)
Borrowings of other debt.....	—	268	—	—	268
Payments of debt financing costs .....	<u>—</u>	<u>(57)</u>	<u>—</u>	<u>—</u>	<u>(57)</u>
Net cash provided by (used in) financing Activities .....	<u>—</u>	<u>(8)</u>	<u>2,420</u>	<u>2,812</u>	<u>5,224</u>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>					
ON CASH.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>519</u>	<u>519</u>
<b>DECREASE IN CASH AND</b>					
<b>CASH EQUIVALENTS.....</b>					
CASH AND CASH EQUIVALENTS, beginning of period.....	<u>—</u>	<u>927</u>	<u>—</u>	<u>6,181</u>	<u>7,108</u>
CASH AND CASH EQUIVALENTS, end of period .....	<u>\$ —</u>	<u>\$ 274</u>	<u>\$ —</u>	<u>\$ 2,299</u>	<u>\$ 2,573</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 4, 2004**  
(unaudited)  
(000s omitted)

	U.S. Can Corporation (Parent)	United States Can Company (Issuer)	USC May Verpackungen Holding (Subsidiary Guarantor)	Restated USC Europe / May Verpackungen (Non- Guarantor Subsidiaries)	Restated U.S. Can Corporation Consolidated
<b>CASH FLOWS (USED IN) PROVIDED BY</b>					
OPERATING ACTIVITIES .....	\$ -	\$ 55	\$ (4,528)	\$ (1,045)	\$ (5,518)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures.....	-	(6,133)	-	(1,320)	(7,453)
Proceeds from sale of property.....	-	1,019	-	57	1,076
Dividends from Formametal S.A.....	-	608	-	-	608
Net cash used in investing activities.....	-	(4,506)	-	(1,263)	(5,769)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Changes in intercompany advances.....	-	(19,360)	4,528	14,832	-
Proceeds from Term B loan .....	-	250,000	-	-	250,000
Net payments under revolving line of credit .....	-	(42,100)	-	-	(42,100)
Payments of Tranche A loan .....	-	(38,706)	-	-	(38,706)
Payments of Tranche B loan .....	-	(130,175)	-	-	(130,175)
Payments of Tranche C loan .....	-	(20,000)	-	-	(20,000)
Payments of other long-term debt .....	-	(1,614)	-	(16,522)	(18,136)
Borrowings of other long-term debt.....	-	-	-	3,656	3,656
Payments of debt financing costs .....	-	(5,485)	-	-	(5,485)
Net cash (used in) provided by financing Activities.....	-	(7,440)	4,528	1,966	(946)
<b>EFFECT OF EXCHANGE RATE CHANGES ON</b>					
CASH .....	-	-	-	(614)	(614)
<b>DECREASE IN CASH AND</b>					
<b>CASH EQUIVALENTS .....</b>	-	(11,891)	-	(956)	(12,847)
CASH AND CASH EQUIVALENTS, beginning of period.....	-	16,854	-	6,110	22,964
CASH AND CASH EQUIVALENTS, end of period .....	\$ -	\$ 4,963	\$ -	\$ 5,154	\$ 10,117

## 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, 2004 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein).

### Use of Estimates; Critical Accounting Policies

The preparation of consolidated 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. The Company's critical accounting policies are described in Note (2) to the audited Consolidated Financial Statements contained within the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as supplemented by Note (1) to these financial statements.

### Results of Operations

#### Three months ended July 3, 2005, as compared to the three months ended July 4, 2004

The following table presents the Company's Revenue and Gross Profit by segment for the second quarter of 2005 as compared to the second quarter of 2004

	For the quarterly period ended July 3, 2005 and July 4, 2004					
	Revenue		Gross Profit		Percentage to Sales	
	2005	2004	2005	2004	2005	2004
Aerosol	\$ 107,449	\$ 94,173	\$ 16,598	\$ 14,765	15.4%	15.7%
International	73,582	70,522	1,863	553	2.5%	0.8%
Paint, Plastic & General Line	41,443	37,199	3,499	4,072	8.4%	10.9%
Custom & Specialty	7,933	9,915	1,274	(482)	16.1%	(4.9)%
Total	<u>\$ 230,407</u>	<u>\$ 211,809</u>	<u>\$ 23,234</u>	<u>\$ 18,908</u>	10.1%	8.9%

Consolidated net sales for the second quarter ended July 3, 2005 were \$230.4 million as compared to \$211.8 million in 2004, an increase of \$18.6 million or 8.8%. Along business segment lines, Aerosol net sales for the second quarter of 2005 increased to \$107.5 million from \$94.2 million for the same period in 2004, a 14.1% increase, due to an increase in aerosol volume (\$3.8 million) and increased can prices resulting from increased raw material costs that were passed on to customers, and changes in customer and product mix (\$9.5 million). International net sales increased to \$73.6 million for the second quarter of 2005 from \$70.5 million for the second quarter of 2004, an increase of \$3.1 million or 4.3%. The increase was due to the positive impact of the translation of sales made in foreign currencies based upon using the same average U.S. dollar exchange rates in effect during the second quarter of 2004 (\$2.7 million) and the positive impact of a change in prices and customer and product mix (\$8.0 million) offset by a decrease in volume (\$7.6 million). Paint, Plastic & General Line net sales increased \$4.2 million to \$41.4 million for the second quarter of 2005 from \$37.2 million for the second quarter of 2004. This increase was primarily due to increased volume (\$5.4 million) partially offset by the negative impact of customer and product mix (\$1.2 million). In the Custom & Specialty segment, sales decreased \$2.0 million from \$9.9 million for the second quarter of 2004 to \$7.9 million for the second quarter of 2005, driven primarily by a decline in volume.

Consolidated gross profit increased \$4.3 million for the quarter ended July 3, 2005 from the same quarter in 2004. Along business segment lines, Aerosol gross profit dollars increased by \$1.8 million and the percentage to sales remained relatively flat versus the second quarter of 2004. The increase in Aerosol gross profit dollars was due to an increase in volume in the second quarter of 2005 versus the same period of 2004 and improved pricing and product and customer mix. The International segment gross profit increased \$1.3 million versus the same period in 2004 and the percentage to sales increased to 2.5% from 0.8%. The increase in International gross profit was primarily due to improved pricing and product and customer mix. The Paint, Plastic & General Line segment gross profit decreased \$0.6 million versus the same period in 2004. The percentage to net sales decreased from 10.9% in 2004 to 8.4% in 2005. The decrease in dollars and percentage was due to customer and product mix, partially

offset by increased volume. The Custom & Specialty segment gross profit increased to \$1.3 million in the second quarter of 2005, compared to a loss of (\$0.5) million in the second quarter of 2004. The increase was driven primarily by cost reduction programs and operational improvements associated with the 2004 closing of the Company's New Castle, PA lithography and the Elgin, IL (Olive Can) Custom & Specialty plants.

Selling, general and administrative costs were \$9.5 million or 4.1% of sales in the second quarter of 2005 compared to \$10.4 million or 4.9% of sales in the second quarter of 2004. The 2005 decrease in selling, general and administrative costs versus the second quarter of 2004, was primarily due to \$1.2 million recorded in the second quarter of 2004 for severance payments to be made over time to the Company's former Chief Executive Officer.

During the second quarter of 2005, the Company recorded restructuring charges of \$1.5 million. The second quarter charges were for European headquarters position elimination costs (\$1.0 million), as well as a reassessment of previously recorded reserves for ongoing facility costs related to our closed Olive Can Custom & Specialty plant (\$0.5) million. Total cash payments in the second quarter of 2005 were \$1.4 million (primarily severance and facility shut down costs) and the Company anticipates spending another \$6.4 million over the next several years. The remaining reserve consists primarily of employee termination benefits paid over time for approximately four salaried and 34 hourly employees and other ongoing facility exit costs.

	April 3, 2005 Balance	Additions	Cash Payments	Other (b)	July 3, 2005 Balance
Employee Separation	\$3.0	\$1.0	\$(0.8)	\$(0.2)	\$3.0
Facility Closing Costs	3.5	0.5	(0.6)	-	3.4
Total	\$6.5	\$1.5	\$(1.4)	\$(0.2)	\$6.4 (a)

(a) Includes \$3.0 million classified as other long-term liabilities as of July 3, 2005.

(b) Non-cash foreign currency translation impact.

Interest expense in the second quarter of 2005 increased 8.1%, or \$1.0 million, versus the same period of 2004. The increase is due primarily to higher interest rates (\$0.8 million) and higher average borrowings (\$0.2 million) during the period. Bank financing fees for the second quarter of 2005 were \$0.7 million as compared to \$1.2 million for the second quarter of 2004. The decrease in bank financing fees is due to lower fees and expenses associated with the Company's new Credit Facility entered into in June 2004, which are being amortized over the life of the applicable borrowings, versus the fees and expenses previously being amortized in conjunction with the Company's former Senior Secured Credit Facility.

In the second quarter of 2004, the Company recorded a loss from early extinguishment of debt of \$5.5 million associated with the termination of the Company's Senior Secured Credit Facility. The loss represented the unamortized deferred financing costs related to the Senior Secured Credit Facility.

Income tax expense was \$0.6 million for the second quarter of 2005 versus an income tax benefit of \$2.3 million for the second quarter of 2004. Prior to 2005, the Company recorded valuation allowances as it could not conclude that it was "more likely than not" that all of the deferred tax assets of its domestic operations and certain of its foreign operations would be realized in the foreseeable future. Accordingly, the Company did not record income taxes related to the second quarter of 2005 and 2004 for the applicable operations.

Payment in kind dividends of \$4.1 million and \$3.8 million on the redeemable preferred stock were recorded for the second quarters of 2005 and 2004, respectively.

***Six-month period ended July 3, 2005, as compared to the six month period ended July 4, 2004***

The following table presents the Company's Revenue and Gross Profit by segment for the six months ended July 3, 2005 as compared to the six months ended July 4, 2004.



For the six month periods ended July 3, 2005 and July 4, 2004

	Revenue		Gross Profit		Percentage to Sales	
	2005	2004	2005	2004	2005	2004
Aerosol	\$ 212,571	\$ 186,328	\$ 38,352	\$ 29,210	18.0%	15.7%
International	153,180	148,920	5,219	2,443	3.4%	1.6%
Paint, Plastic & General Line	78,068	70,625	7,890	7,492	10.1%	10.6%
Custom & Specialty	17,033	19,403	3,772	(865)	22.1%	(4.5)%
<b>Total</b>	<b>\$ 460,852</b>	<b>\$ 425,276</b>	<b>\$ 55,233</b>	<b>\$ 38,280</b>	<b>12.0%</b>	<b>9.0%</b>

Net sales for the six-month period ended July 3, 2005, totaled \$460.9 million, an 8.4% increase versus the corresponding period in 2004. Along business segment lines, Aerosol net sales increased \$26.2 million to \$212.6 million in the first half of 2005 versus \$186.3 million in the same period of 2004, a 14.1% increase, due to an increase in aerosol can prices resulting from increased raw material costs that were passed on to customers, and changes in customer and product mix (\$20.5 million) and increased unit volume (\$5.7 million). International sales increased to \$153.2 million for the first half of 2005 from \$148.9 million for the first half of 2004, an increase of \$4.3 million or 2.9%. The increase was due to the positive impact of the translation of sales made in foreign currencies based upon using the same average U.S. dollar exchange rates in effect during the first half of 2004 (\$6.2 million) and the positive impact of a change in prices and customer and product mix (\$14.8 million) substantially offset by a decrease in volume (\$16.7 million). Paint, Plastic & General Line segment sales increased 10.5% to \$78.1 million for the first six months of 2005 from \$70.6 million for the same period in 2004. This increase was due primarily to an increase in volume (\$5.0 million), and increasing prices in our plastics and paint and general line businesses due to raw material cost increases (\$2.5 million). Custom & Specialty sales of \$17.0 million decreased from the \$19.4 million for the first half of 2004, driven primarily by a decline in volume (\$4.8 million), partially offset by increased prices.

Consolidated gross profit increased \$17.0 million for the first half of 2005 from the same period in 2004. Along business segment lines, Aerosol gross profit dollars increased by \$9.1 million and the percentage to sales increased 2.3% to 18.0% for the first half of 2005. The increase in Aerosol gross profit dollars was due to an increase in volume in the first half of 2005 versus the same period of 2004 and improved pricing and product and customer mix. The International segment gross profit increased \$2.8 million versus the same period in 2004 and the percentage to sales increased to 3.4% from 1.6%. The increase in International gross profit was primarily due to operational efficiencies and improved pricing and product and customer mix (\$3.1 million) partially offset by decreased International volume (\$0.3 million). The Paint, Plastic & General Line segment gross profit increased \$0.4 million versus the same period in 2004 and the percentage to net sales decreased from 10.6% in the first half of 2004 to 10.1% in the first half of 2005. The change in dollars was due to higher volume in our plastics business, while the percentage was impacted by a change in demand to less profitable product lines. The Custom & Specialty segment gross profit increased to \$3.8 million in the first half of 2005, compared to a loss of (\$0.9) million in the first half of 2004. The increase was driven primarily by cost reduction programs and operational improvements associated with the 2004 closing of the Company's New Castle, PA lithography and the Elgin, IL (Olive Can) Custom & Specialty plants.

Selling, general, and administrative expenses were \$20.4 million in the first half of 2005, a \$0.1 million increase in comparison to the same period of 2004. The percentage to sales decreased from 4.8% in the first half of 2004 to 4.4% for the same period in 2005.

During the first half of 2005, the Company recorded restructuring charges of \$2.0 million. A \$0.5 million charge was recorded in the first quarter of 2005 and a \$1.5 million charge was recorded in the second quarter of 2005. During the first quarter of 2005, the Company recorded charges for position elimination costs related to the continuation of an early termination program in one European facility and a product line profitability review program in our German food can business. The second quarter charges were for European headquarters position elimination costs (\$1.0 million), as well as a reassessment of previously recorded reserves for ongoing facility costs related to our closed Olive Can Custom & Specialty plant (\$0.5) million. Total cash payments in the first six months of 2005 were \$2.6 million (primarily severance and facility shut down costs) and the Company anticipates spending another \$6.4 million over the next several years. The remaining reserve consists primarily of employee termination benefits paid over time for approximately 4 salaried and 34 hourly employees and other ongoing facility exit costs.

The table below presents the reserve categories and related activity as of July 3, 2005:

	January 1, 2005 Balance	Additions	Cash Payments	Other (b)	July 3, 2005 Balance
Employee Separation	\$3.2	\$1.4	\$(1.3)	\$(0.3)	\$3.0
Facility Closing Costs	4.1	0.6	(1.3)	-	3.4
Total	<u>\$7.3</u>	<u>\$2.0</u>	<u>\$(2.6)</u>	<u>\$(0.3)</u>	<u>\$6.4 (a)</u>

(a) Includes \$3.0 million classified as other long-term liabilities as of July 3, 2005.

(b) Non-cash foreign currency translation impact.

Interest expense in the first half of 2005 increased 5.0%, or \$1.3 million, versus the same period of 2004. The increase is due primarily to higher interest rates and higher average borrowings during the period. Bank financing fees for the first half of 2005 were \$1.5 million as compared to \$2.6 million for the first half of 2004. The decrease in bank financing fees is due to lower fees and expenses associated with the Company's new Credit Facility entered into in June 2004, which are being amortized over the life of the applicable borrowings, versus the fees and expenses previously being amortized in conjunction with the Company's former Senior Secured Credit Facility. As discussed earlier, the Company also recorded a loss from early extinguishment of debt of \$5.5 million in 2004 associated with the termination of the Company's Senior Secured Credit Facility.

The Company recorded an income tax expense of \$1.7 million for the first half of 2005 versus income tax benefit of \$1.9 million for the first half of 2004. Prior to 2005, the Company recorded valuation allowances as it could not conclude that it was "more likely than not" that all of the deferred tax assets of its domestic operations and certain of its foreign operations would be realized in the foreseeable future. Accordingly, the Company did not record income taxes related to the first half of 2005 and 2004 for the applicable operations.

Payment in kind dividends of \$8.3 million and \$7.6 million on the redeemable preferred stock were recorded in the first half of 2005 and 2004, respectively.

### Liquidity and Capital Resources

During the first half of 2005, liquidity needs were met through cash on hand and borrowings under the Company's revolving line of credit. Principal liquidity needs included operating costs, working capital and capital expenditures. Cash flow used by operations was \$0.5 million for the six months ended July 3, 2005, compared to cash used of \$5.5 million for the six months ended July 4, 2004. The decreased use of cash in operations is due primarily to improved net income.

Other net cash used in operations during the first half of 2005 included decreases in other current assets primarily related to the Company's European factoring arrangements (\$4.1 million) and higher accrued expenses primarily related to higher accrued payroll (\$5.4 million) and employee benefits (\$2.9 million) partially offset by decreased taxes payable (\$1.8 million). These items were partially offset by higher accounts receivable related to increased sales volumes in the first six months of 2005 and higher can prices resulting from increased raw material costs that were passed on to customers along with decreased accounts payable due to increased raw material purchases at year-end that were paid during the first six months of 2005.

During 2004, many domestic and foreign steel suppliers began experiencing increased raw material costs which they passed on to their customers, including the Company. The price increases took the form of surcharges and base price increases. During 2005, the Company has incurred price increases from its steel suppliers for as much as 26%. This is in addition to significant increases received in fiscal year 2004. Many of our domestic and some of our international multi-year supply agreements with our customers permit us to pass through tin-plate price increases and, in some cases, other raw material costs. In response to the unprecedented steel cost increases, the Company increased its selling prices during 2004 and has implemented significant price increases in 2005. The Company has generally been successful in passing along the majority of the steel cost increases to our customers. However, future steel surcharges or base price increases could occur and the Company cannot predict with certainty its ability to pass along future increases to customers or how its customers or competitors will respond to such increases. Additionally, customer contracts may limit pass-throughs and also may require us to match other competitive bids.



Net cash used in investing activities was \$9.7 million for the first half of 2005 as compared to \$5.8 million used in investing activities for the first half of 2004. First half 2005 investing activities include capital spending of \$10.8 million offset by proceeds received from the sale of property of \$0.4 million and dividends from Formametal S.A. of \$0.7 million. Proceeds received from the sale of property during the first half of 2004 are primarily composed of the payment received for the March 2004 sale of the Company's closed Dallas, Texas facility.

Net cash provided by financing activities in the first half of 2005 was \$5.2 million, versus net cash used in financing activities of \$0.9 million for the same period in 2004.

At July 3, 2005, \$9.7 million was outstanding under the \$65.0 million revolving loan portion of the Company's Credit Facility. Letters of Credit of \$15.1 million were also outstanding securing the Company's obligations under various insurance programs and other contractual agreements. In addition, the Company had \$2.6 million of cash and cash equivalents at quarter end 2005.

During the second quarter of 2004, the Company entered into a Credit Agreement among U.S. Can Corporation, United States Can Company and Various Lending Institutions with Deutsche Bank Trust Company Americas as Administrative Agent, dated as of June 21, 2004 ("Credit Facility").

As required under the terms of the Credit Facility, the Company used the \$250.0 million initial Term B proceeds to repay in full all amounts outstanding under the Company's former Senior Secured Credit Facility and a secured term loan of \$16.5 million, secured by a mortgage on the Company's Merthyr Tydfil, U.K. facility.

The Company paid approximately \$5.5 million of fees and expenses related to the new Credit Facility through July 4, 2004. In addition, the Company wrote off \$5.5 million of remaining deferred financing fees related to the Company's former Senior Secured Credit Facility.

At July 4, 2004, the Company did not have any borrowings outstanding under its \$65.0 million revolving loan portion of the Credit Facility. Letters of Credit of \$12.9 million were outstanding securing the Company's obligations under various insurance programs and other contractual agreements, which reduced the Company's availability under its revolving credit facility. In addition, the Company had \$10.1 million of cash and cash equivalents at quarter end 2004.

The Credit Facility, the 10 7/8% Senior Secured Notes and the 12 3/8% Senior Subordinated Notes contain a number of financial and restrictive covenants. Under our Credit Facility, the Company is required to meet certain financial tests, including achievement of a minimum interest coverage ratio, a maximum leverage ratio, a maximum first lien leverage ratio and maximum annual capital expenditures. The restrictive covenants limit the Company's ability to incur debt, pay dividends or make distributions, repurchase debt and to make certain loans, investments or acquisitions. As of July 3, 2005, the Company was in compliance with all of the required financial ratios and other covenants under the aforementioned facilities.

At existing levels of operations, cash from operations together with amounts available under 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, unexpected capital expenditures, investments, acquisitions and the ability to service or refinance the notes, to service, extend or refinance the 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.

The Company's Credit Facility permits, from time to time and subject to certain conditions, the redemption of the subordinated debt. The Company intends to pursue opportunistic repurchases of its outstanding 12 3/8% Senior Subordinated Notes as time and circumstances permit, subject to market conditions, the trading price of the 12 3/8% Senior Subordinated Notes and the terms of the Company's Credit Facility and Senior Secured Notes.

The Company continually evaluates all areas of its operations for ways to improve profitability and overall Company performance. In connection with these evaluations, management considers numerous alternatives to enhance the Company's existing business including, but not limited to acquisitions, divestitures, capacity realignments and alternative capital structures.

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

Management believes the Company's exposure to market risk has not changed significantly since year-end 2004.

#### **Item 4. Controls and Procedures**

As of July 3, 2005, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of July 3, 2005, that the Company's disclosure controls and procedures were effective for recording, processing, summarizing and reporting the information the Company discloses in the reports that the Company files with the Commission.

Except as set forth below, during the quarter ended July 3, 2005, there was no change in the Company's internal controls over financial reporting that materially affected, or was reasonably likely to materially affect, the Company's internal controls over financial reporting.

As reported in the Company's December 31, 2003 10-K/A, in November 2004, as a result of inquiries regarding accounting and financial reporting issues at its Laon, France facility, the Company determined that it would restate its financial statements for the years ended December 2002 and 2003, and the quarter ended April 4, 2004 (the "Restatement"). In connection with the Restatement and in connection with the preparation of this report, the Company's auditors, Deloitte & Touche LLP, delivered a letter to the Company regarding "material weaknesses" in the Company's internal controls concerning oversight of its European operations, in particular its Laon, France facility. As described below, the Company has begun to take corrective action to address this weakness.

In connection with the Restatement process and the inquiry by the Audit Committee, the Company has carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, including an evaluation of such controls and procedures at a number of its other facilities, and has concluded that the controls and procedures at such other facilities, and at the Company's corporate headquarters, are superior to those that existed at its Laon, France facility.

The Company has initiated the implementation of various measures to strengthen its internal controls and has added more structure to the financial oversight of its European operations, including its facility in Laon, France. In particular, the Company has implemented and intends on implementing the following plans to strengthen its internal controls and add more structure to the financial oversight of its European operations:

- In December 2004, the Company hired a new Finance Director for its Laon, France facility. The Company has also provided additional training and has hired international corporate resources.
- The Company has hired an internal auditor to provide internal audit services for the Company, including the Company's European operations.
- The Company continues the process of implementing a detailed system at each European location to provide support to the audit process, including reports, checklists and site visits.

The Company believes that the efforts that have been or will be taken will substantially strengthen the organization and personnel of the senior financial and control functions in Europe and the Company's overall operations.

The Company will continue to evaluate the effectiveness of its controls and procedures on an ongoing basis, including consideration of recommendations identified through the investigation, and will implement further actions as necessary in its continuing efforts to strengthen the control process.

The Company's management is committed to continuing to improve the state of its controls and procedures, corporate governance and financial reporting. Other than as described above, since the evaluation date by the Company's management of its internal controls, there have not been any significant changes in the internal controls or in other factors that could significantly affect the internal controls.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

#### Environmental Matters

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 and at the M&J Solvents site in Georgia. 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. With respect to M&J Solvents site, while over 1,000 contributors to the site have been identified, the initial compliance status report has not been finalized and thus, the nature, extent and source of contamination is unknown.

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

#### Litigation

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.

Local No. 24M of the Graphics Communications International Union, the union representing employees at the Company's Weirton facility, filed an arbitration case challenging the Company's decision to modify its health care plan for retirees. The Union contended that the Company had an obligation to bargain over plan changes and that it failed to do so. The Company contended that the matter was not arbitrable, that it only had an obligation to bargain with the Union regarding benefits for active employees represented by the Union, and that it had no obligation to bargain with regard to retiree benefits. On December 22, 2004, the arbitrator issued a decision finding that the dispute was arbitrable, that the Company was obligated to bargain with the Union regarding benefits for retirees, that the Company violated its duty to bargain by unilaterally modifying the health care plan as to retirees and that benefits under the health care plan are vested as to retirees. On March 16, 2005, the Company filed a lawsuit appealing the arbitration decision. The Union filed an answer to the complaint seeking enforcement of the arbitrator's decision. Because this matter will be determined on the arbitration record, the court set a briefing schedule for the parties to file cross-motions for summary judgment. Opening briefs are due on August 8, 2005 and the reply briefs are due September 8, 2005. Trial currently is set for January 2006.

### Item 5. Other Information

On August 15, 2005, the Company entered into one-year employment agreements, subject to renewal, with Philip Mengel, Chief Executive Officer; Michael Rajkovic, Executive Vice President and Chief Financial Officer; and Robert Ballou, Executive Vice President, Manufacturing and Supply Chain providing for the payment of annual salaries of \$675,000, \$375,000, and \$375,000, respectively. Mr. Rajkovic's agreement includes a deferred bonus payment of \$100,000, payable on or after November 16, 2005. The agreements also provide these officers the right to purchase equity in the Company and provide certain

other benefits as is customary for officers of the Company. The executives also participate in the Company's management incentive plan. Copies of the agreements are attached as Exhibits 10.41, 10.42 and 10.43 to this report.

**Item 6. Exhibits**

(a) Exhibits

- 10.41 Employment Agreement between United States Can Company and Philip Mengel dated August 15, 2005.
- 10.42 Employment Agreement between United States Can Company and Michael Rajkovic dated August 15, 2005.
- 10.43 Employment Agreement between United States Can Company and Robert Ballou dated August 15, 2005.
- 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

## 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 16, 2005

U.S. CAN CORPORATION

By: /s/ MICHAEL M. RAJKOVIC  
Michael M. Rajkovic  
*Executive Vice President and  
Chief Financial Officer*  
(Duly authorized officer and principal  
financial officer)