

SONOCO PRODUCTS CO

Form 10-Q

August 05, 2011

Table of Contents

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, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-516  
SONOCO PRODUCTS COMPANY

Incorporated under the laws  
of South Carolina

I.R.S. Employer Identification  
No. 57-0248420

1 N. Second St.  
Hartsville, South Carolina 29550  
Telephone: 843/383-7000

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock at July 21, 2011:

Common stock, no par value: 99,895,720

**SONOCO PRODUCTS COMPANY**  
**INDEX**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements:**

Condensed Consolidated Balance Sheets July 3, 2011 (unaudited) and December 31, 2010 (unaudited) 3

Condensed Consolidated Statements of Income Three and Six Months Ended July 3, 2011 (unaudited) and June 27, 2010 (unaudited) 4

Condensed Consolidated Statements of Cash Flow Six Months Ended July 3, 2011 (unaudited) and June 27, 2010 (unaudited) 5

Notes to Condensed Consolidated Financial Statements 6

Report of Independent Registered Public Accounting Firm 23

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.** 24

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.** 35

**Item 4. Controls and Procedures.** 35

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.** 36

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.** 37

**Item 6. Exhibits.** 38

EX-15

EX-31

EX-32

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

**SONOCO PRODUCTS COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS** (unaudited)  
(Dollars and shares in thousands)

	<b>July 3, 2011</b>	<b>December 31, 2010*</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 133,983	\$ 158,249
Trade accounts receivable, net of allowances	608,802	508,144
Other receivables	30,237	31,917
Inventories:		
Finished and in process	159,616	147,062
Materials and supplies	234,573	222,365
Prepaid expenses	55,317	66,782
Deferred income taxes	22,873	22,997
	1,245,401	1,157,516
<b>Property, Plant and Equipment, Net</b>	953,221	944,136
<b>Goodwill</b>	857,115	839,748
<b>Other Intangible Assets, Net</b>	125,485	130,400
<b>Long-term Deferred Income Taxes</b>	40,703	42,100
<b>Other Assets</b>	171,664	167,114
<b>Total Assets</b>	<b>\$ 3,393,589</b>	<b>\$ 3,281,014</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Payable to suppliers	\$ 469,915	\$ 436,785
Accrued expenses and other	292,205	319,936
Notes payable and current portion of long-term debt	19,374	16,949
Accrued taxes	5,098	6,979
	786,592	780,649
<b>Long-term Debt, Net of Current Portion</b>	716,807	603,941
<b>Pension and Other Postretirement Benefits</b>	227,056	323,040
<b>Deferred Income Taxes</b>	20,342	24,583
<b>Other Liabilities</b>	40,357	41,108
<b>Commitments and Contingencies</b>		
<b>Sonoco Shareholders' Equity</b>		
Common stock, no par value		
Authorized 300,000 shares		
99,883 and 100,510 shares issued and outstanding at July 3, 2011 and December 31, 2010, respectively	7,175	7,175
Capital in excess of stated value	417,828	441,328

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Accumulated other comprehensive loss	(226,130)	(292,867)
Retained earnings	1,389,315	1,336,155
Total Sonoco Shareholders' Equity	1,588,188	1,491,791
<b>Noncontrolling Interests</b>	14,247	15,902
Total Equity	1,602,435	1,507,693
Total Liabilities and Equity	\$ 3,393,589	\$ 3,281,014

\* The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME** (unaudited)  
(Dollars and shares in thousands except per share data)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 3, 2011</b>	<b>June 27, 2010</b>	<b>July 3, 2011</b>	<b>June 27, 2010</b>
Net sales	\$ 1,127,865	\$ 1,010,116	\$ 2,245,188	\$ 1,945,249
Cost of sales	936,775	817,592	1,859,889	1,576,967
Gross profit	191,090	192,524	385,299	368,282
Selling, general and administrative expenses	99,273	99,639	201,571	195,775
Restructuring/Asset impairment charges	9,578	2,511	11,895	6,458
Income before interest and income taxes	82,239	90,374	171,833	166,049
Interest expense	9,335	8,939	18,709	17,869
Interest income	1,161	381	1,798	874
Income before income taxes	74,065	81,816	154,922	149,054
Provision for income taxes	23,775	25,851	48,959	45,762
Income before equity in earnings of affiliates	50,290	55,965	105,963	103,292
Equity in earnings of affiliates, net of tax	3,416	2,991	5,380	4,217
Net income	\$ 53,706	\$ 58,956	\$ 111,343	\$ 107,509
Net (income)/loss attributable to noncontrolling interests	\$ (298)	\$ (3)	\$ (544)	\$ 16
Net income attributable to Sonoco	\$ 53,408	\$ 58,953	\$ 110,799	\$ 107,525
Weighted average common shares outstanding:				
Basic	100,891	101,511	101,104	101,342
Diluted	101,982	102,484	102,371	102,167
Per common share:				
Net income attributable to Sonoco:				
Basic	\$ 0.53	\$ 0.58	\$ 1.10	\$ 1.06
Diluted	\$ 0.52	\$ 0.58	\$ 1.08	\$ 1.05

Cash dividends	\$	0.29	\$	0.28	\$	0.57	\$	0.55
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See accompanying Notes to Condensed Consolidated Financial Statements

4

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**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** (unaudited)  
(Dollars in thousands)

	<b>Six Months Ended</b>	
	<b>July 3, 2011</b>	<b>June 27, 2010</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 111,343	\$ 107,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment	5,509	1,165
Depreciation, depletion and amortization	87,679	81,280
Share-based compensation expense	8,284	9,167
Equity in earnings of affiliates	(5,380)	(4,217)
Cash dividends from affiliated companies	2,115	3,425
Loss (gain) on disposition of assets	542	(2,250)
Pension and postretirement plan expense	17,203	26,635
Pension and postretirement plan contributions	(110,482)	(14,038)
Tax effect of share-based compensation exercises	3,731	1,980
Excess tax benefit of share-based compensation	(2,895)	(1,795)
Net decrease in deferred taxes	(4,724)	(10,969)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments:		
Trade accounts receivable	(79,120)	(94,926)
Inventories	(18,821)	(38,548)
Payable to suppliers	30,568	51,952
Prepaid expenses	(7,151)	(6,525)
Accrued expenses	(31,786)	13,050*
Income taxes payable and other income tax items	21,846	(14,981)
Fox River environmental reserves	(639)	(1,138)
Other assets and liabilities	4,253	8,596*
Net cash provided by operating activities	32,075	115,372
<b>Cash Flows from Investing Activities:</b>		
Purchase of property, plant and equipment	(80,217)	(59,032)
Cost of acquisitions, net of cash acquired	(10,395)	(10,214)
Proceeds from the sale of assets	9,751	2,753
Net cash used in investing activities	(80,861)	(66,493)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of debt	10,223	5,824
Principal repayment of debt	(8,081)	(9,473)
Net increase in commercial paper	110,000	
Net decrease in outstanding checks	(3,463)	(12,146)
Excess tax benefit of share-based compensation	2,895	1,795
Cash dividends	(56,985)	(55,239)
Purchase of noncontrolling interest	(5,718)	



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Shares acquired	(47,603)	(328)
Shares issued	15,279	11,129
Net cash provided by (used in) financing activities	16,547	(58,438)
<b>Effects of Exchange Rate Changes on Cash</b>	7,973	(8,308)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(24,266)	(17,867)
Cash and cash equivalents at beginning of period	158,249	185,245
Cash and cash equivalents at end of period	\$ 133,983	\$ 167,378

\* Prior year's data have been reclassified to conform to the current year's presentation  
See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

**Note 1: Basis of Interim Presentation**

In the opinion of the management of Sonoco Products Company (the Company or Sonoco), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments, unless otherwise stated) necessary to state fairly the consolidated financial position, results of operations and cash flows for the interim periods reported herein. Operating results for the three and six months ended July 3, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

With respect to the unaudited condensed consolidated financial information of the Company for the three- and six-month periods ended July 3, 2011 and June 27, 2010 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 5, 2011 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

**Note 2: Shareholders' Equity*****Earnings per Share***

The following table sets forth the computation of basic and diluted earnings per share:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Numerator:				
Net income attributable to Sonoco	\$ 53,408	\$ 58,953	\$ 110,799	\$ 107,525
Denominator:				
Basic	100,891,000	101,511,000	101,104,000	101,342,000
Dilutive effect of stock-based compensation	1,091,000	973,000	1,267,000	825,000
Diluted	101,982,000	102,484,000	102,371,000	102,167,000
Reported net income attributable to Sonoco per common share:				
Basic	\$ 0.53	\$ 0.58	\$ 1.10	\$ 1.06
Diluted	\$ 0.52	\$ 0.58	\$ 1.08	\$ 1.05

Stock options and stock appreciation rights to purchase 1,186,225 and 1,894,994 shares at July 3, 2011 and June 27, 2010, respectively, were not dilutive and, therefore, are excluded from the computations of diluted income attributable

to Sonoco per common share amounts. No adjustments were made to reported net income attributable to Sonoco in the computations of earnings per share.

**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

***Stock Repurchases***

The Company's Board of Directors has authorized the repurchase of up to 5,000,000 shares of the Company's common stock. On December 3, 2010, the Company announced it would immediately begin repurchasing 2,000,000 shares. As of December 31, 2010, a total of 695,036 shares had been repurchased under this program at a cost of \$23,219. During the first quarter of 2011, an additional 1,304,964 shares were repurchased at a cost of \$46,298, completing the announced buyback. On April 20, 2011, the Company's Board of Directors reinstated 2,000,000 shares to its authorization. No additional shares were repurchased during the second quarter of 2011; accordingly, the total number of shares available for future repurchase at July 3, 2011 remains at 5,000,000.

The Company occasionally repurchases shares of its common stock to satisfy employee tax withholding obligations in association with the exercise of certain share-based compensation. These repurchases, which are not part of a publicly announced plan or program, totaled 31,924 and 10,290 shares in the first six months of 2011 and 2010, respectively, at a cost of \$1,306 and \$328, respectively.

***Dividend Declarations***

On April 20, 2011, the Board of Directors declared a regular quarterly dividend of \$0.29 per share. This dividend was paid June 10, 2011 to all shareholders of record as of May 13, 2011.

On July 20, 2011, the Board of Directors declared a regular quarterly dividend of \$0.29 per share. This dividend is payable September 9, 2011 to all shareholders of record as of August 19, 2011.

***Noncontrolling Interests***

In April 2011, the Company acquired the remaining 49% interest in its 51%-owned subsidiary, Sonoco For Plas do Brazil Ltda., for \$5,718 in cash. As a result of the transaction, the Company wrote off the \$2,727 carrying amount of noncontrolling interest and recorded a reduction in Capital in excess of stated value of \$2,991.

***Note 3: Acquisitions***

On May 27, 2011, the Company completed the acquisition of several small tube and core businesses in New Zealand at a total cost of \$6,220 in cash. The acquisition of these businesses, which are accounted for in the Tubes and Cores/Paper segment, is expected to generate annual sales of approximately \$13,000. In conjunction with these acquisitions, the Company preliminarily recorded net tangible assets of \$1,667 and goodwill of \$4,553, the majority of which is expected to be tax deductible. The company is in the process of finalizing its appraisals of tangible and intangible assets relating to these acquisitions, and the allocation of the purchase price to the assets acquired and liabilities assumed will be completed once the appraisal process has been finalized.

On July 1, 2011, the Company completed the acquisition of a rigid paperboard containers business in the United Kingdom, at a cost of \$4,175 in cash. The acquisition is expected to generate annual sales of approximately \$10,000, which will be accounted for in the Company's Consumer Packaging segment. In conjunction with this acquisition, the Company recorded net tangible assets of \$4,014 and identifiable intangibles of \$161.

The Company has accounted for these acquisitions as purchases and, accordingly, has included its results of operations in consolidated net income from the respective dates of acquisition. Pro forma results have not been provided, as the acquisitions were not material to the Company's financial statements individually, or in the aggregate.

***Note 4: Restructuring and Asset Impairment***

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2011, 2010, and 2009, are reported as 2011 Actions, 2010 Actions, and 2009 Actions, respectively. Actions initiated prior to 2009, all of which were substantially complete at July 3, 2011, are reported as Earlier Actions.

Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

Following are the total restructuring and asset impairment charges, net of adjustments, recognized by the Company during the periods presented:

	<b>2011</b>		<b>2010</b>	
	<b>Second Quarter</b>	<b>Six Months</b>	<b>Second Quarter</b>	<b>Six Months</b>
Restructuring/Asset impairment:				
2011 Actions	\$ 10,258	\$ 10,637	\$	\$
2010 Actions	(1,163)	(1,004)	1,125	3,858
2009 Actions	338	1,473	1,315	3,102
Earlier Actions	145	789	71	(502)
Restructuring/Asset impairment charges	\$ 9,578	\$ 11,895	\$ 2,511	\$ 6,458
Income tax benefit	(2,903)	(3,639)	(924)	(2,666)
Equity method investments, net of tax		17		218
Costs attributable to Noncontrolling Interests, net of tax	27	70	22	61
Total impact of Restructuring/Asset impairment charges, net of tax	\$ 6,702	\$ 8,343	\$ 1,609	\$ 4,071

Restructuring and asset impairment charges are included in Restructuring/Asset impairment charges in the Condensed Consolidated Statements of Income. Included in Income tax benefit above for the three- and six-month periods ended July 3, 2011, is \$2,318 from the release of tax reserves associated with the sale of a plastics business in Brazil.

The Company expects to recognize future additional cash costs totaling approximately \$2,650 in connection with previously announced restructuring actions and believes that the majority of these charges will be incurred and paid by the end of 2011. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken.

**2011 Actions**

During 2011, the Company announced the closures of a flexible packaging facility in Canada (part of the Consumer Packaging segment) and a fulfillment service center in the United States (part of the Packaging Services segment). The Company also sold two small businesses, a plastics operation in Brazil and a tubes and core operation in the United States and realigned its fixed cost structure resulting in the elimination of approximately 31 positions. Below is a summary of 2011 Actions and related expenses by type incurred and estimated to be incurred through completion.

	<b>Second Quarter</b>	<b>Total Incurred to Date</b>	<b>Estimated Total Cost</b>
<b>2011 Actions</b>			
<b>Severance and Termination Benefits</b>			
Tubes and Cores/Paper segment	\$ 188	\$ 422	\$ 422
Consumer Packaging segment	2,594	2,729	2,729
Packaging Services segment	212	212	212
<b>Asset Impairment / Disposal of Assets</b>			
Tubes and Cores/Paper segment	(286)	(286)	(286)

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Consumer Packaging segment	6,868	6,868	6,868
<b>Other Costs</b>			
Consumer Packaging segment	586	596	1,796
Packaging Services segment	96	96	96
<b>Total Charges and Adjustments</b>	\$ 10,258	\$ 10,637	\$ 11,837

The following table sets forth the activity in the 2011 Actions restructuring accrual included in Accrued expenses and other on the Company's Condensed Consolidated Balance Sheets:

8

Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)  
(unaudited)

<b>2011 Actions Accrual Activity 2011 Year to Date</b>	<b>Severance and Termination Benefits</b>	<b>Asset Impairment/ Disposal of Assets</b>	<b>Other Costs</b>	<b>Total</b>
Liability at December 31, 2010	\$	\$	\$	\$
2011 charges	3,363	6,582	692	10,637
Cash receipts/(payments)	(736)	4,999	(692)	3,571
Asset write downs/disposals		(11,581)		(11,581)
Foreign currency translation	15			15
Liability at July 3, 2011	\$ 2,642	\$	\$	\$ 2,642

Included in 2011 charges above is a loss of \$6,689 from the sale of a plastics business in Brazil for which the Company received net proceeds of \$3,849. Annual sales of this business were approximately \$27,000. Partially offsetting the loss was a gain of \$1,053 from the sale of a small tubes and cores business in the United States for which the Company received net proceeds of \$1,150. Goodwill associated with this business totaled \$97 and was written off as part of the sale. Additional impairment charges totaling \$946 were recorded in 2011 related primarily to the announced closure of a flexible packaging facility in Canada and the decision not to use certain machinery and equipment acquired in the 2010 acquisition of a tube and core business in Greece. Other costs consist primarily of lease termination costs and costs related to plant closures including the cost of equipment removal, utilities, plant security, property taxes and insurance.

The Company expects to pay the majority of the remaining 2011 Actions restructuring costs by the end of 2011 using cash generated from operations.

**2010 Actions**

During 2010, the Company consolidated two manufacturing operations in the Packaging Services segment into a single facility as well as closed two North American tube and core plants and a North American molded plug manufacturing plant (part of the Tubes and Cores/Paper segment). In addition, the Company continued to realign its fixed cost structure resulting in the elimination of 112 positions in 2010.

Below is a summary of 2010 Actions and related expenses by type incurred and estimated to be incurred through completion.

	<b>2011</b>		<b>2010</b>		<b>Total</b>	<b>Estimated</b>
	<b>Second</b>	<b>Six</b>	<b>Second</b>	<b>Six</b>	<b>Incurred</b>	<b>Total</b>
<b>2010 Actions Severance and Termination Benefits</b>	<b>Quarter</b>	<b>Months</b>	<b>Quarter</b>	<b>Months</b>	<b>to Date</b>	<b>Cost</b>
Tubes and Cores/Paper segment	\$ (1)	\$ (43)	\$ (2)	\$ 1,225	\$ 2,359	\$ 2,359
Consumer Packaging segment			384	705	705	705
Packaging Services segment	(1)	(1)	321	1,473	1,554	1,554
All Other Sonoco		182	30	63	300	300
Corporate					36	36

**Asset Impairment /  
Disposal of Assets**

Tubes and Cores/Paper segment	(1,227)	(1,222)	38	38	(333)	(333)
Packaging Services segment		(429)	(108)	(108)	(565)	(565)
All Other Sonoco			369	369	369	369

**Other Costs**

Tubes and Cores/Paper segment	44	205			264	414
Consumer Packaging segment					19	19
Packaging Services segment		139	24	24	472	472
All Other Sonoco	22	165	69	69	466	466

**Total Charges and  
Adjustments**

\$ (1,163)	\$ (1,004)	\$ 1,125	\$ 3,858	\$ 5,646	\$ 5,796
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The following table sets forth the activity in the 2010 Actions restructuring accrual included in Accrued expenses and other on the Company's Condensed Consolidated Balance Sheets:



Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

	<b>Severance and Termination Benefits</b>	<b>Asset Impairment/ Disposal of Assets</b>	<b>Other Costs</b>	<b>Total</b>
<b>2010 Actions</b>				
<b>Accrual Activity</b>				
<b>2011 Year to Date</b>				
Liability at December 31, 2010	\$ 1,282	\$	\$ 59	\$ 1,341
2011 charges	181		509	690
Adjustments	(43)	(1,651)		(1,694)
Cash receipts/(payments)	(872)	2,737	(568)	1,297
Asset write downs/disposals		(1,086)		(1,086)
Foreign currency translation	11			11
Liability at July 3, 2011	\$ 559	\$	\$	\$ 559

Adjustments consist primarily of gains on the sale of assets (land and buildings at a former tube and core facility in Canada and machinery and equipment at a point-of-purchase display facility in the United States), which accounts for the net benefit recognized related to 2010 Actions in the second quarter of 2011. Other costs consist primarily of lease termination costs and costs related to plant closures including the cost of equipment removal, utilities, plant security, property taxes and insurance.

The majority of the remaining 2010 Actions restructuring costs are expected to be paid by the end of 2011 using cash generated from operations.

**2009 Actions**

During 2009, the Company closed a paper mill in the United States and five tube and core plants three in the United States, one in Europe, and one in Canada (all part of the Tubes and Cores/Paper segment). The Company also closed two rigid paper packaging plants in the United States (part of the Consumer Packaging segment), a fulfillment service center in Germany (part of the Packaging Services segment), a molded plastics facility in the United States (part of All Other Sonoco) and a wooden reel facility in the United States (part of All Other Sonoco). The Company also sold a small Canadian recovered paper brokerage business and realigned its fixed cost structure resulting in the elimination of approximately 225 positions.

Below is a summary of 2009 Actions and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative.

	<b>2011</b>		<b>2010</b>		<b>Total</b>	
	<b>Second</b>	<b>Six</b>	<b>Second</b>	<b>Six</b>	<b>Incurred</b>	<b>Estimated</b>
	<b>Quarter</b>	<b>Months</b>	<b>Quarter</b>	<b>Months</b>	<b>to Date</b>	<b>Total</b>
<b>2009 Actions</b>						
<b>Severance and Termination</b>						
<b>Benefits</b>						
Tubes and Cores/Paper segment	\$ 18	\$ 56	\$ (241)	\$ 15	\$ 15,264	\$ 15,264
Consumer Packaging segment	200	200	60	310	2,555	2,555
Packaging Services segment				(53)	1,482	1,482
All Other Sonoco	(4)	8		198	1,441	1,441
Corporate		(4)	263	269	923	923

**Asset Impairment /  
Disposal of Assets**

Tubes and Cores/Paper segment			213	175	4,119	4,119
Consumer Packaging segment		(10)			566	566
Packaging Services segment					7	7
All Other Sonoco			2	2	305	305
<b>Other Costs</b>						
Tubes and Cores/Paper segment	(81)	765	749	1,259	5,550	5,950
Consumer Packaging segment	110	353	266	599	1,178	1,228
Packaging Services segment	95	105		180	430	430
All Other Sonoco			3	148	483	483
<b>Total</b>	\$ 338	\$ 1,473	\$ 1,315	\$ 3,102	\$ 34,303	\$ 34,753

**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

The following table sets forth the activity in the 2009 Actions restructuring accrual included in Accrued expenses and other on the Company's Condensed Consolidated Balance Sheets:

<b>2009 Actions Accrual Activity 2011 Year to Date</b>	<b>Severance and Termination Benefits</b>	<b>Asset Impairment/ Disposal of Assets</b>	<b>Other Costs</b>	<b>Total</b>
Liability at December 31, 2010	\$ 4,696	\$	\$	\$ 4,696
2011 charges	47		1,512	1,559
Adjustments	212	(10)	(289)	(87)
Cash receipts/(payments)	(1,130)	720	(1,223)	(1,633)
Asset write downs/disposals		(710)		(710)
Foreign currency translation	3			3
Liability at July 3, 2011	\$ 3,828	\$	\$	\$ 3,828

Other costs consist primarily of costs related to plant closures including the cost of equipment removal, utilities, plant security, property taxes and insurance.

The Company expects to pay the majority of the remaining 2009 Actions restructuring costs by the end of 2011 using cash generated from operations.

**Earlier Actions**

Earlier Actions are comprised of a number of plant closures and workforce reductions initiated prior to 2009. Charges/income associated with these actions totaled \$145 and \$789 during the three- and six-month periods ended July 3, 2011, compared with \$71 and \$(502) during the three- and six-month periods ended June 27, 2010. The 2010 income resulted from a gain on the sale of land and buildings associated with a former paper mill in France. The accrual for Earlier Actions totaled \$713 and \$981 at July 3, 2011 and December 31, 2010, respectively, and relates primarily to building lease terminations. The accrual is included in Accrued expenses and other on the Company's Condensed Consolidated Balance Sheet. Cash payments during the six months ended July 3, 2011 were \$838; while cash received from the sale of a building (a former tube and core facility in Spain) totaled \$2,415. The Company expects to recognize future pre-tax charges of approximately \$850 associated with Earlier Actions, primarily related to costs of exiting paper mills in Canada, China, and the United States. The Company expects both the liability and the future costs to be fully paid at the end of 2012, using cash generated from operations.

**Note 5: Comprehensive Income**

The following table reconciles net income to comprehensive income attributable to Sonoco:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Net income	\$ 53,706	\$ 58,956	\$ 111,343	\$ 107,509
Other comprehensive income/(loss):				
Foreign currency translation adjustments	17,982	(31,642)	57,633	(42,891)
Changes in defined benefit plans, net of tax	2,791	4,272	5,387	8,451
Changes in derivative financial instruments, net of tax	852	2,268	3,717	(810)

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Comprehensive income	\$ 75,331	\$ 33,854	\$ 178,080	\$ 72,259
Comprehensive (income)/loss attributable to noncontrolling interests	(298)	(3)	(544)	16
Comprehensive income attributable to Sonoco	\$ 75,033	\$ 33,851	\$ 177,536	\$ 72,275

11

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Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss, net of tax as applicable, for the three months ended July 3, 2011:

	<b>Foreign Currency Translation Adjustments</b>	<b>Defined Benefit Plans</b>	<b>Derivative Financial Instruments</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at December 31, 2010	\$ 17,685	\$ (303,037)	\$ (7,515)	\$ (292,867)
Year-to-date change	57,633	5,387	3,717	66,737
Balance at July 3, 2011	\$ 75,318	\$ (297,650)	\$ (3,798)	\$ (226,130)

At July 3, 2011, the Company had commodity and foreign currency contracts outstanding to fix the costs of certain anticipated raw materials and energy purchases. These contracts, which have maturities ranging from July 2011 to December 2013, qualify as cash flow hedges under U.S. GAAP. The amounts included in accumulated other comprehensive loss related to these cash flow hedges were an unfavorable position of \$5,944 (\$3,798 after tax) at July 3, 2011, and an unfavorable position of \$11,921 (\$7,515 after tax) at December 31, 2010.

The cumulative tax benefit on Derivative Financial Instruments was \$2,146 at July 3, 2011, and \$4,406 at December 31, 2010. During the three- and six-month periods ended July 3, 2011, the tax benefit on Derivative Financial Instruments decreased by \$(514) and \$(2,260) respectively.

The cumulative tax benefit on Defined Benefit Plans was \$176,423 at July 3, 2011, and \$179,628 at December 31, 2010. During the three- and six-month periods ended July 3, 2011, the tax benefit on Defined Benefit Plans decreased by \$(1,582) and \$(3,205), respectively.

Current period foreign currency translation adjustments of \$458 are included in noncontrolling interest at July 3, 2011.

**Note 6: Goodwill and Other Intangible Assets**

**Goodwill**

A summary of the changes in goodwill for the six months ended July 3, 2011 is as follows:

	<b>Tubes and Cores/ Paper Segment</b>	<b>Consumer Packaging Segment</b>	<b>Packaging Services Segment</b>	<b>All Other Sonoco</b>	<b>Total</b>
Goodwill at December 31, 2010	\$ 231,637	\$ 389,384	\$ 150,082	\$ 68,645	\$ 839,748
Goodwill on acquisitions	4,553				4,553
Other	(97)	(2,846)			(2,943)
Foreign currency translation	10,259	5,349		149	15,757
Goodwill at July 3, 2011	\$ 246,352	\$ 391,887	\$ 150,082	\$ 68,794	\$ 857,115

The Company recorded \$4,553 of goodwill in connection with 2011 acquisitions. Other consists primarily of amounts previously recorded as Goodwill that have been reclassified to Long-Term Deferred Income Taxes. This reclassification related to the July 2010 acquisition of Associated Packaging Technologies, Inc. and resulted from a final review of the facts and conditions that existed at the time of the acquisition. In addition, Other also reflects the disposal of \$97 of goodwill associated with the sale of a small tubes and core business in the United States.

**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

The Company completed its most recent annual goodwill impairment testing during the third quarter of 2010. Based on the results of this evaluation, the Company concluded that there was no impairment of goodwill for any of its reporting units. For 2010 testing purposes, the fair values of the Company's reporting units were estimated based on projections of future years' operating results and associated cash flows, together with comparable trading and transaction multiples. The Company's projections incorporated management's expectations for future growth and, where applicable, improved operating margins. Should such growth and/or margin improvement not materialize as projected, or if the Company's assessments of the relevant facts and circumstances change, noncash impairment charges may be required. Reporting units with significant goodwill whose results need to show improvement included Tubes & Cores/Paper Europe, Matrix Packaging, Flexible Packaging, Packaging Services, and Rigid Paper Containers Australia/New Zealand. Total goodwill associated with these reporting units was approximately \$110,000, \$132,000, \$97,000, \$150,000, and \$6,000, respectively at July 3, 2011. There were no triggering events during the three- or six-month periods ended July 3, 2011.

***Other Intangible Assets***

A summary of other intangible assets as of July 3, 2011 and December 31, 2010 is as follows:

	<b>July 3, 2011</b>	<b>December 31, 2010</b>
Other Intangible Assets, gross		
Patents	\$ 2,225	\$ 2,264
Customer lists	184,264	180,673
Land use rights	366	354
Supply agreements		1,000
Other	16,645	16,409
Other Intangible Assets, gross	\$203,500	\$200,700
Accumulated Amortization	\$ (78,015)	\$ (70,300)
Other Intangible Assets, net	\$125,485	\$130,400

The Company recorded \$161 of identifiable intangibles in connection with 2011 acquisitions, all of which related to customer lists.

Other intangible assets are amortized on a straight-line basis over their respective useful lives, which generally range from three to twenty years. The Company has no intangibles with indefinite lives. Aggregate amortization expense was \$3,650 and \$2,983 for the three months ended July 3, 2011 and June 27, 2010, respectively, and \$7,351 and \$5,986 for the six months ended July 3, 2011 and June 27, 2010, respectively. Amortization expense on other intangible assets is expected to approximate \$14,600 in 2011, \$14,000 in 2012, \$13,700 in 2013, \$12,900 in 2014 and \$11,500 in 2015.

Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

**Note 7: Fair Value Measurements**

The following table sets forth information regarding the Company's financial assets and financial liabilities, excluding retirement and postretirement plan assets, measured at fair value on a recurring basis. The Company does not currently have any nonfinancial assets or liabilities that are recognized or disclosed at fair value on a recurring basis.

Description As of July 3, 2011	Fair Value Measurements at Reporting Date Using			
	Carrying Amount in Condensed Consolidated Balance Sheets	Quoted Market Prices in Active Market for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivatives	\$ 4,526	\$	\$ 4,526	\$
Deferred Compensation Plan Assets	\$ 2,370	\$ 2,370	\$	\$
Liabilities:				
Derivatives	\$ 9,245	\$	\$ 9,245	\$
<b>As of December 31, 2010</b>				
Assets:				
Derivatives	\$ 1,172	\$	\$ 1,172	\$
Deferred Compensation Plan Assets	\$ 2,236	\$ 2,236	\$	\$
Liabilities:				
Derivatives	\$ 13,304	\$	\$ 13,304	\$

Fair value measurements for the Company's derivatives, which at July 3, 2011 and December 31, 2010, consisted primarily of natural gas, aluminum, old corrugated containers, diesel fuel and foreign currency contracts entered into for hedging purposes, are classified under Level 2 and are valued using the income approach. These measurements are determined using published market prices or estimated based on observable inputs including spot and future commodity prices and spot and future exchange rates.

Certain deferred compensation plan liabilities are funded and the assets invested in various exchange traded mutual funds. These assets are measured using quoted prices in accessible active markets for identical assets.

Excluding certain retirement and postretirement plan assets, none of the Company's financial assets or liabilities are measured at fair value using significant unobservable inputs. There were no significant transfers in or out of Level 1 or Level 2 fair value measurements during the three- and six-month periods ended July 3, 2011.



Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

**Note 8: Financial Instruments and Derivatives**

The following table sets forth the carrying amounts and fair values of the Company's significant financial instruments for which the carrying amount differs from the fair value.

	<b>July 3, 2011</b>		<b>December 31, 2010</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Long-term debt, net of current portion	\$716,807	\$739,649	\$603,941	\$624,786

The carrying value of cash and cash equivalents, short-term debt and long-term variable-rate debt approximates fair value. The fair value of long-term debt is based on quoted market prices or is determined by discounting future cash flows using interest rates available to the Company for issues with similar terms and average maturities.

In accordance with U.S. GAAP, the Company records its derivatives as assets or liabilities on the balance sheet at fair value using published market prices or estimated values based on current price quotes and discounted cash flows. Changes in the fair value of derivatives are recognized either in net income or in other comprehensive income, depending on the designated purpose of the derivative. It is the Company's policy not to speculate in derivative instruments. The Company has determined all hedges to be highly effective and, as a result, no material ineffectiveness has been recorded.

The Company uses derivatives to mitigate the effect of fluctuations in some of its raw material and energy costs, foreign currency fluctuations and interest rate movements. The Company purchases commodities, such as recovered paper, metal and energy, generally at market or at fixed prices that are established with the vendor as part of the purchase process for quantities expected to be consumed in the ordinary course of business. The Company may enter into forward contracts or other similar derivative contracts in order to reduce the effect of commodity price fluctuations, and to manage its exposure to foreign currency cash flows, assets, and liabilities. The Company is exposed to interest-rate fluctuations as a result of using debt as a source of financing for its operations. To manage its exposure to interest rate movements, the Company may from time to time use traditional, unleveraged interest rate swaps to adjust its mix of fixed and variable rate debt.

Cash Flow Hedges

At July 3, 2011 and December 31, 2010, the Company had derivative financial instruments outstanding to hedge anticipated transactions and certain asset and liability related cash flows. To the extent considered effective, the changes in fair value of these contracts are recorded in other comprehensive income and reclassified to income or expense in the period in which the hedged item impacts earnings.

Commodity Cash Flow Hedges

The Company has entered into certain derivative contracts to manage the cost of anticipated purchases of natural gas, aluminum, old corrugated containers and diesel fuel. At July 3, 2011, natural gas swaps covering approximately 5.4 million MMBtus were outstanding. These contracts represent approximately 71%, 63%, and 12% of anticipated U.S. and Canadian usage for 2011, 2012 and 2013, respectively. Additionally, the Company had swap contracts covering 2.1 thousand metric tons of aluminum representing approximately 32% and 3% of anticipated usage for 2011 and 2012, respectively, 38.7 thousand short tons of old corrugated containers representing approximately 6% of anticipated usage for 2011, and 201.5 thousand gallons of diesel fuel representing approximately 8% of expected usage through August 2011. The fair values of the Company's commodity cash flow hedges were in loss positions of \$7,801 and \$12,421 at July 3, 2011 and December 31, 2010, respectively. The amount of the loss included in accumulated other comprehensive loss at July 3, 2011, that is expected to be reclassified to the income statement during the next twelve months is \$6,743.



**Table of Contents**

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

***Foreign Currency Cash Flow Hedges***

The Company has entered into forward contracts to hedge certain anticipated foreign currency denominated sales and purchases forecast to occur in 2011. At July 3, 2011, the net position of these contracts was to purchase 42.7 million Canadian dollars, 101.8 million Mexican pesos, 5.0 million euros, 5.1 billion Colombian pesos, 3.5 billion Indonesian rupiah and 795 thousand British pounds, and to sell 2.6 million Australian dollars, 1.5 million New Zealand dollars, 6.4 million Malaysian ringgits and 65.3 million Thai baht. The fair value of these foreign currency cash flow hedges was \$1,737 at July 3, 2011, and \$229 at December 31, 2010. During the first quarter of 2011, certain foreign currency cash flow hedges related to construction in progress were settled as the capital expenditures were made. Gains of \$6 and \$540 were reclassified from accumulated other comprehensive loss and netted against the carrying value of the assets during the three- and six-month periods ended July 3, 2011, respectively. The amount of the gain included in accumulated other comprehensive loss at July 3, 2011 expected to be reclassified to the income statement during the next twelve months is \$1,661.

**Other Derivatives**

The Company routinely enters into forward contracts or swaps to economically hedge the currency exposure of intercompany debt and existing foreign currency denominated receivables and payables. The Company does not apply hedge accounting treatment for these instruments. As such, changes in fair value are recorded directly to income and expense in the periods that they occur. At July 3, 2011, the net positions of these contracts were to purchase 3.9 million Canadian dollars, 735 thousand British pounds, 877 thousand euros and 11.0 billion Colombian pesos. The total fair value of these hedges was \$1,345 at July 3, 2011, and \$60 at December 31, 2010.

The following table sets forth the location and fair values of the Company's derivative instruments at July 3, 2011:

<b>Description</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
Derivatives designated as hedging instruments:		
Commodity Contracts	Other Current Assets	\$ 756
Commodity Contracts	Other Current Liabilities	\$(7,211)
Commodity Contracts	Other Long Term Assets	\$ 14
Commodity Contracts	Other Long Term Liabilities	\$(1,360)
Foreign Exchange Contracts	Other Current Assets	\$ 2,407
Foreign Exchange Contracts	Other Current Liabilities	\$ (670)
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Other Current Assets	\$ 1,272
Foreign Exchange Contracts	Other Current Liabilities	\$ (4)
Foreign Exchange Contracts	Other Long Term Assets	\$ 77

Table of Contents

**SONOCO PRODUCTS COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands except per share data)

(unaudited)

The following table sets forth the effect of the Company's derivative instruments on financial performance for the three months ended July 3, 2011 and June 27, 2010:

Description	Location of Gain		Location of Gain or		Amount of Gain or (Loss) Recognized in Income on
	Amount of Gain or (Loss) Recognized in OCI on	or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	(Loss) Recognized in Income on	
	Derivative (Effective Portion)		Derivative (Effective Portion)	Derivative (Ineffective Portion)	Derivative (Ineffective Portion)