SONOCO PRODUCTS CO
Form 10-Q
August 01, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2012

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 ___X___ 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 ___X___ No ______

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

Large accelerated filer X		Accelerated filer
Non-accelerated filer	(do not check if a smaller reporting company)	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 ___X___

Indicate the number of shares outstanding of each of the issuer s classes of common stock at July 20, 2012:

Common stock, no par value: 100,642,950

Table of Contents

SONOCO PRODUCTS COMPANY

INDEX

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SONOCO PRODUCTS COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Dollars and shares in thousands)

	July 1, 2012	December 31, 2011*
Assets		
Current Assets		
Cash and cash equivalents	$ 196,005	$ 175,523
Trade accounts receivable, net of allowances	647,203	606,035
Other receivables	34,143	43,378
Inventories:		
Finished and in process	171,312	157,891
Materials and supplies	236,113	237,431
Prepaid expenses	54,872	65,227
Deferred income taxes	23,981	26,806
	1,363,629	1,312,291
Property, Plant and Equipment, Net	1,017,705	1,013,622
Goodwill	1,105,037	1,110,220
Other Intangible Assets, Net	289,625	304,600
Long-term Deferred Income Taxes	77,615	81,690
Other Assets	171,305	170,835
Total Assets	$ 4,024,916	$ 3,993,258
Liabilities and Equity		
Current Liabilities		
Payable to suppliers	$ 452,760	$ 436,732
Accrued expenses and other	335,907	347,622
Notes payable and current portion of long-term debt	42,453	53,666
Accrued taxes	5,372	5,551
	836,492	843,571
Long-term Debt, Net of Current Portion	1,276,498	1,232,966
Pension and Other Postretirement Benefits	374,654	420,048
Deferred Income Taxes	14,989	16,794
Other Liabilities	56,688	54,471
Commitments and Contingencies		
Sonoco Shareholders Equity		
Common stock, no par value		
Authorized 300,000 shares		
100,643 and 100,211 shares issued and outstanding at July 1, 2012 and December 31, 2011, respectively	7,175	7,175
Capital in excess of stated value	439,698	427,484
Accumulated other comprehensive loss	(466,450)	(460,299)

Retained earnings	1,471,727	1,437,435
Total Sonoco Shareholders Equity	1,452,150	1,411,795
Noncontrolling Interests	13,445	13,613
Total Equity	1,465,595	1,425,408
Total Liabilities and Equity	$ 4,024,916	$ 3,993,258

* 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

3

Table of Contents

SONOCO PRODUCTS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Dollars and shares in thousands except per share data)

	Three Months Ended		Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Net sales	$ 1,202,359	$ 1,127,865	$ 2,414,729	$ 2,245,188
Cost of sales	985,817	936,775	1,981,326	1,859,889
Gross profit	216,542	191,090	433,403	385,299
Selling, general and administrative expenses	118,554	99,273	241,360	201,571
Restructuring/Asset impairment charges	9,396	9,578	24,608	11,895
Income before interest and income taxes	88,592	82,239	167,435	171,833
Interest expense	16,205	9,335	32,471	18,709
Interest income	957	1,161	1,802	1,798
Income before income taxes	73,344	74,065	136,766	154,922
Provision for income taxes	25,905	23,775	47,802	48,959
Income before equity in earnings of affiliates	47,439	50,290	88,964	105,963
Equity in earnings of affiliates, net of tax	3,912	3,416	5,299	5,380
Net income	$ 51,351	$ 53,706	$ 94,263	$ 111,343
Net loss/(income) attributable to noncontrolling interests	$ (28)	$ (298)	$ 128	$ (544)
Net income attributable to Sonoco	$ 51,323	$ 53,408	$ 94,391	$ 110,799
Weighted average common shares outstanding:				
Basic	101,812	100,891	101,672	101,104
Diluted	102,569	101,982	102,563	102,371
Per common share:				
Net income attributable to Sonoco:				
Basic	$ 0.50	$ 0.53	$ 0.93	$ 1.10

Diluted	$	0.50	$	0.52	$	0.92	$	1.08
Cash dividends	$	0.30	$	0.29	$	0.59	$	0.57

See accompanying Notes to Condensed Consolidated Financial Statements

4

Table of Contents

SONOCO PRODUCTS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME (unaudited)

(Dollars in thousands)

	Three Months Ended		Six Months Ended	
	July 1, 2012	**July 3, 2011**	**July 1, 2012**	**July 3, 2011**
Net income	$ 51,351	$ 53,706	$ 94,263	$ 111,343
Other comprehensive income:				
Foreign currency translation adjustments	(45,684)	17,982	(17,809)	57,633
Changes in defined benefit plans, net of tax	4,936	2,791	9,947	5,387
Changes in derivative financial instruments, net of tax	1,493	852	1,711	3,717
Comprehensive income	12,096	75,331	88,112	178,080
Comprehensive (income)/loss attributable to noncontrolling interests	(28)	(298)	128	(544)
Comprehensive income attributable to Sonoco	$ 12,068	$ 75,033	$ 88,240	$ 177,536

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

SONOCO PRODUCTS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Dollars in thousands)

	Six Months Ended	
	July 1, 2012	**July 3, 2011**
Cash Flows from Operating Activities:		
Net income	$ 94,263	$ 111,343
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment	4,692	5,509
Depreciation, depletion and amortization	101,133	87,679
Share-based compensation expense	6,826	8,284
Equity in earnings of affiliates	(5,299)	(5,380)
Cash dividends from affiliated companies	1,250	2,115
Loss on disposition of assets	172	542
Pension and postretirement plan expense	25,057	17,203
Pension and postretirement plan contributions	(58,964)	(110,482)
Tax effect of share-based compensation exercises	4,357	3,731
Excess tax benefit of share-based compensation	(1,867)	(2,895)
Net decrease in deferred taxes	(3,288)	(4,724)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments:		
Trade accounts receivable	(43,923)	(79,120)
Inventories	(15,239)	(18,821)
Payable to suppliers	19,887	30,568
Prepaid expenses	(5,559)	(7,151)
Accrued expenses	(6,921)	(31,786)
Income taxes payable and other income tax items	16,394	21,846
Fox River environmental reserves	(910)	(639)
Other assets and liabilities	12,307	4,253
Net cash provided by operating activities	144,368	32,075
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(104,433)	(80,217)
Cost of acquisitions, exclusive of cash	(503)	(10,395)
Proceeds from the sale of assets	2,399	9,751
Net cash used in investing activities	(102,537)	(80,861)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	3,610	10,223
Principal repayment of debt	(26,174)	(8,081)
Net increase in commercial paper	55,000	110,000
Net change in overdrafts	2,026	(3,463)
Excess tax benefit of share-based compensation	1,867	2,895
Cash dividends	(59,343)	(56,985)
Purchase of noncontrolling interest	-	(5,718)
Shares acquired	(3,430)	(47,603)
Shares issued	5,975	15,279

Net cash (used in) provided by financing activities		(20,469)		16,547
Effects of Exchange Rate Changes on Cash		(880)		7,973
Net Increase (Decrease) in Cash and Cash Equivalents		20,482		(24,266)
Cash and cash equivalents at beginning of period		175,523		158,249
Cash and cash equivalents at end of period	$	196,005	$	133,983

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 1, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

With respect to the unaudited condensed consolidated financial information of the Company for the three- and six-month periods ended July 1, 2012 and July 3, 2011 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 1, 2012 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:

	Three Months Ended		Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Numerator:				
Net income attributable to Sonoco	$ 51,323	$ 53,408	$ 94,391	$ 110,799
Denominator:				
Weighted average common shares outstanding:				
Basic	101,812,000	100,891,000	101,672,000	101,104,000
Dilutive effect of stock-based compensation	757,000	1,091,000	891,000	1,267,000
Diluted	102,569,000	101,982,000	102,563,000	102,371,000

Reported net income attributable to Sonoco per common share:

Basic	$	0.50	$	0.53	$	0.93	$	1.10
Diluted	$	0.50	$	0.52	$	0.92	$	1.08

Stock options and stock appreciation rights covering 2,460,920 and 1,186,225 shares at July 1, 2012 and July 3, 2011, 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. No shares were purchased under this authorization during the first six months of 2012; accordingly, at July 1, 2012, a total of 5,000,000 shares remain available for repurchase.

The Company frequently repurchases shares of its common stock to satisfy employee tax withholding obligations in association with the exercise of certain share-based compensation awards. These repurchases, which are not part of a publicly announced plan or program, totaled 102,964 shares in the first six months of 2012 at a cost of $3,430, and 31,924 shares in the first six months of 2011 at a cost of $1,306.

Dividend Declarations

On April 18, 2012, the Board of Directors declared a regular quarterly dividend of $0.30 per share. This dividend was paid June 8, 2012 to all shareholders of record as of May 18, 2012.

On July 18, 2012, the Board of Directors declared a regular quarterly dividend of $0.30 per share. This dividend is payable September 10, 2012 to all shareholders of record as of August 17, 2012.

Note 3: Acquisitions

On November 8, 2011, the Company completed the acquisition of Tegrant Holding Corporation (Tegrant), a leading provider of highly engineered protective, temperature-assured and retail security packaging solutions. The cost of the Tegrant acquisition was $550,000 in cash paid at the time of the purchase plus an additional $503 paid in February 2012 for changes in working capital levels to the date of the closing. As the acquisition was completed near the end of the year, the allocation of the purchase price reported in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, was based on provisional estimates of the fair value of the tangible and intangible assets acquired and liabilities assumed. During the first half of 2012, the Company finalized its valuations of most of the acquired assets and liabilities based on information obtained about facts and circumstances that existed as of the acquisition date. As a result, adjustments were made to the provisional fair values that reduced property, plant and equipment by $(6,669), increased goodwill by $6,536, increased other intangible assets (customer lists) by $4,900, increased long-term deferred income tax assets by $2,821, decreased inventories by $(500), and increased accrued expenses by $7,088. The amounts shown in the Company s Condensed Consolidated Balance Sheet as of December 31, 2011, have been adjusted to reflect these changes. The impact of the changes on the Company s fiscal 2011 and 2012 results of operations was insignificant; accordingly, previously reported results have not been changed. The Company is finalizing the assessment of the valuation of certain assets and liabilities and will complete the valuation of all remaining assets and liabilities within 12 months from the date of the acquisition. Any further adjustments, if any, are expected to be insignificant.

Note 4: Restructuring and Asset Impairment

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2012 and 2011 are reported as 2012 Actions and 2011 Actions, respectively. Actions initiated prior to 2011, all of which were substantially complete at July 1, 2012, are reported as 2010 and Earlier Actions.

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

	2012		2011	
	Second Quarter	Six Months	Second Quarter	Six Months
Restructuring/Asset impairment:				
2012 Actions	$ 6,114	$ 17,102	$	$
2011 Actions	3,489	7,280	10,258	10,637
2010 and Earlier Actions	(207)	226	(680)	1,258
Restructuring/Asset impairment charges	$ 9,396	$ 24,608	$ 9,578	$ 11,895
Income tax benefit	(1,195)	(5,786)	(2,903)	(3,639)
Equity method investments, net of tax	22	22		17
Costs attributable to Noncontrolling Interests, net of tax	43	73	27	70
Total impact of Restructuring/Asset impairment charges, net of tax	$ 8,266	$ 18,917	$ 6,702	$ 8,343

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

Restructuring and asset impairment charges are included in Restructuring/Asset impairment charges in the Condensed Consolidated Statements of Income.

The Company expects to recognize future additional charges totaling approximately $10,500 in connection with previously announced restructuring actions and believes that the majority of these charges will be incurred and paid by the end of 2012. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken.

2012 Actions

During 2012, the Company announced the planned closures of a paper mill in Germany (part of the Paper and Industrial Converted Products segment) and a paperboard based protective packaging operation in the United States (part of the Protective Packaging segment). In addition, the Company continued its manufacturing rationalization efforts in its blow-molding businesses (part of the Consumer Packaging segment), including the planned closure of a facility in Canada, and realigned its cost structure resulting in the elimination of approximately 70 positions.

Below is a summary of 2012 Actions and related expenses by type incurred and estimated to be incurred through completion.

2012 Actions	Second Quarter	Total Incurred to Date	Estimated Total Cost
Severance and Termination Benefits			
Paper and Industrial Converted Products	$ 2,137	$ 7,605	$ 9,005
Consumer Packaging	792	1,102	1,352
Packaging Services	4	285	285
Protective Packaging	432	1,363	1,363
Asset Impairment / Disposal of Assets			
Paper and Industrial Converted Products	113	2,251	2,251
Consumer Packaging	2,031	3,295	3,295
Protective Packaging		161	161
Other Costs			
Paper and Industrial Converted Products	187	517	792
Consumer Packaging	232	325	775
Protective Packaging	186	198	498
Total Charges and Adjustments	$ 6,114	$ 17,102	$ 19,777

The following table sets forth the activity in the 2012 Actions restructuring accrual included in Accrued expenses and other on the Company s Condensed Consolidated Balance Sheets:

2012 Actions	Severance	Asset	Other Costs	Total
Accrual Activity	**and**	**Impairment/**		

2012 Year to Date	**Termination Benefits**	**Disposal of Assets**		
Liability at December 31, 2011	$	$	$	$
2012 charges	10,355	5,707	1,040	17,102
Cash payments	(3,966)		(710)	(4,676)
Asset write downs/disposals		(5,707)		(5,707)
Foreign currency translation	(264)		(18)	(282)
Liability at July 1, 2012	$ 6,125	$	$ 312	$ 6,437

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 2012 Actions restructuring costs by the end of 2012 using cash generated from operations.

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

2011 Actions

During 2011, the Company announced the closures in Canada of a flexible packaging facility and a thermoformed plastic packaging facility (parts of the Consumer Packaging segment), a tube and core facility in France (part of the Paper and Industrial Converted Products segment), and a fulfillment service center and a point-of-purchase display facility both in the United States (parts of the Packaging Services segment). The Company also sold two small businesses, a plastics operation in Brazil and a tubes and cores operation in the United States, and realigned its fixed cost structure resulting in the elimination of approximately 160 positions.

Below is a summary of 2011 Actions and related expenses by type incurred and estimated to be incurred through completion.

2011 Actions	2012 Second Quarter	2012 Six Months	2011 Second Quarter	2011 Six Months	Total Incurred to Date	Estimated Total Cost
Severance and Termination Benefits						
Paper and Industrial Converted Products	$ 43	$ 76	$ 188	$ 422	$ 9,204	$ 10,304
Consumer Packaging	1,171	3,138	2,594	2,729	10,152	10,227
Packaging Services	(12)	292	212	212	1,137	1,137
Protective Packaging	109	109			1,218	1,218
Asset Impairment / Disposal of Assets						
Paper and Industrial Converted Products		33	(286)	(286)	194	194
Consumer Packaging	255	576	6,868	6,868	10,788	10,788
Packaging Services	(304)	(782)			2,704	2,704
Protective Packaging					65	65
Other Costs						
Paper and Industrial Converted Products	530	807			1,154	3,104
Consumer Packaging	1,692	2,541	586	596	3,946	6,946
Packaging Services	117	302	96	96	735	935
Protective Packaging	(112)	188			768	1,568
Total Charges and Adjustments	$ 3,489	$ 7,280	$ 10,258	$ 10,637	$ 42,065	$ 49,190

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:

2011 Actions Accrual Activity	Severance and	Asset Impairment/	Other Costs	Total

2012 Year to Date	**Termination Benefits**	**Disposal of Assets**		
Liability at December 31, 2011	$ 10,320	$	$ 80	$ 10,400
2012 charges	3,657	305	3,838	7,800
Adjustments	(42)	(478)		(520)
Cash receipts/(payments)	(10,225)	802	(3,918)	(13,341)
Asset write downs/disposals		(629)		(629)
Foreign currency translation	(34)			(34)
Liability at July 1, 2012	$ 3,676	$	$	$ 3,676

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 2012 using cash generated from operations.

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

2010 and Earlier Actions

2010 and Earlier Actions are comprised of a number of plant closures and workforce reductions initiated prior to 2011. The ongoing costs for these actions relate primarily to building lease terminations and plant closures and include the cost of equipment removal, utilities, plant security, property taxes and insurance. The Company expects to recognize future pretax charges of approximately $750 associated with 2010 and Earlier Actions.

Below is a summary of expenses/(income) incurred by segment for 2010 and Earlier Actions for the three- and six-month periods ended July 1, 2012 and July 3, 2011.

2010 and Earlier Actions	2012 Second Quarter	2012 Six Months	2011 Second Quarter	2011 Six Months
Paper and Industrial Converted Products	$ (225)	$ 208	$ (1,098)	$ 867
Consumer Packaging	18	18	324	582
Packaging Services			94	(187)
Corporate				(4)
Total Charges and Adjustments	$ (207)	$ 226	$ (680)	$ 1,258

The accrual for 2010 and Earlier Actions totaled $3,625 and $4,039 at July 1, 2012 and December 31, 2011, respectively, and is included in Accrued expenses and other on the Company s Condensed Consolidated Balance Sheets. The accrual relates primarily to a pension withdrawal liability associated with a former paper mill in the United States and building lease terminations. Net cash payments during the six months ended July 1, 2012 were $(641). The Company expects the majority of both the liability and the future costs associated with 2010 and Earlier Actions to be paid by the end of 2012 using cash generated from operations.

Note 5: Accumulated Other Comprehensive Loss

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 six months ended July 1, 2012:

	Foreign Currency Translation Adjustments	Defined Benefit Plans	Derivative Financial Instruments	Accumulated Other Comprehensive Loss

Balance at December 31, 2011	$ (21,277)	$ (430,835)	$ (8,187)	$ (460,299)
Year-to-date change	(17,809)	9,947	1,711	(6,151)
Balance at July 1, 2012	$ (39,086)	$ (420,888)	$ (6,476)	$ (466,450)

At July 1, 2012, 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 2012 to December 2014, 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 $10,534 ($6,476 after tax) at July 1, 2012, and an unfavorable position of $13,211 ($8,187 after tax) at December 31, 2011.

The cumulative tax benefit on Derivative Financial Instruments was $4,058 at July 1, 2012, and $5,024 at December 31, 2011. During the three- and six-month periods ended July 1, 2012, the tax benefit on Derivative Financial Instruments decreased by $(839) and $(966), respectively.

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

The cumulative tax benefit on Defined Benefit Plans was $249,708 at July 1, 2012, and $255,466 at December 31, 2011. During the three- and six-month periods ended July 1, 2012, the tax benefit on Defined Benefit Plans decreased by $(2,863) and $(5,758), respectively.

Current period foreign currency translation adjustments of $(41) are included in noncontrolling interests at July 1, 2012.

Note 6: Goodwill and Other Intangible Assets

Goodwill

A summary of the changes in goodwill for the six months ended July 1, 2012 is as follows:

	Consumer Packaging Segment	Paper and Industrial Converted Products Segment	Packaging Services Segment	Protective Packaging Segment	Total
Goodwill at December 31, 2011	$ 424,062	$ 252,476	$ 158,023	$ 275,659	$ 1,110,220
Foreign currency translation	(1,000)	(4,171)		(12)	(5,183)
Goodwill at July 1, 2012	$ 423,062	$ 248,305	$ 158,023	$ 275,647	$ 1,105,037

The Company completed its most recent annual goodwill impairment testing during the third quarter of 2011. Based on the results of its qualitative and quantitative assessments, the Company concluded that there was no impairment of goodwill for any of its reporting units. Because the Company s assessments, whether qualitative or quantitative, incorporate management s expectations for the future, including forecasted growth rates and/or margin improvements, if there are changes in the relevant facts and circumstances and/or expectations, management s assessment regarding goodwill impairment may change as well. Although no reporting units failed the qualitative or quantitative assessments noted above, in management s opinion, the reporting units with significant goodwill having the greatest risk of future impairment if actual results in the future are not as expected are Blow Molded Plastics (Matrix) and Flexible Packaging. Total goodwill associated with these reporting units was approximately $129,000 and $93,000, respectively, at July 1, 2012. The reporting unit with the most significant growth expectations relative to its size is Rigid Paper Containers Europe. Total goodwill associated with this reporting unit was approximately $10,000 at July 1, 2012. There were no triggering events during the three- or six-month periods ended July 1, 2012.

Other Intangible Assets

A summary of other intangible assets as of July 1, 2012 and December 31, 2011 is as follows:

	July 1, 2012	December 31, 2011
Other Intangible Assets, gross		
Patents	$ 2,222	$ 2,222
Customer lists	342,508	343,564
Trade names	21,121	21,175
Proprietary technology	17,814	17,818
Land use rights	354	360
Other	4,912	4,925
Other Intangible Assets, gross	$ 388,931	$ 390,064
Accumulated Amortization	$ (99,306)	$ (85,464)
Other Intangible Assets, net	$ 289,625	$ 304,600

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

Other intangible assets are amortized on a straight-line basis over their respective useful lives, which generally range from three to forty years. The Company has no intangibles with indefinite lives. Aggregate amortization expense was $6,821 and $3,650 for the three months ended July 1, 2012 and July 3, 2011, respectively, and $14,177 and $7,351 for the six months ended July 1, 2012 and July 3, 2011, respectively. Amortization expense on other intangible assets is expected to approximate $28,800 in 2012, $28,400 in 2013, $27,900 in 2014, $26,500 in 2015 and $26,200 in 2016.

Note 7: 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.

	July 1, 2012		**December 31, 2011**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt, net of current portion	$ 1,276,498	$ 1,397,036	$ 1,232,966	$ 1,282,727

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 determined based on trade information in the financial markets of the Company s public debt and is considered a Level 2 fair value investment.

Cash Flow Hedges

At July 1, 2012 and December 31, 2011, 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 and old corrugated containers. At July 1, 2012, natural gas swaps covering approximately 8.5 million MMBTUs were outstanding. These contracts represent approximately 83%, 73% and 38% of anticipated U.S. and Canadian usage for the remainder of 2012, 2013 and 2014, respectively. Additionally, the Company had swap contracts covering 4,619 metric tons of aluminum representing approximately 50% of anticipated usage for 2012 and 17% for 2013, and 19,650 short tons of old corrugated containers representing approximately 3% of anticipated usage for 2012. The fair values of the Company s commodity cash flow hedges were in loss positions of $(11,631) and $(13,989) at July 1, 2012 and December 31, 2011, respectively. The amount of the loss included in accumulated other comprehensive loss at July 1, 2012, that is expected to be reclassified to the income statement during the next twelve months is $(7,735).

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 2012. At July 1, 2012, the net positions of these contracts were to purchase approximately 8.0 billion Colombian pesos, 396.9 million Mexican pesos, 29.4 million Canadian dollars, 8.7 million Polish zlotys, 3.7 million euros, and 1.2 million Turkish lira and to sell 0.2 million British pounds, 0.9 million New Zealand dollars, 1.5 million Australian dollars, and 46.0 million Russian rubles. The fair value of these foreign currency cash flow hedges was $835 and $608 at July 1, 2012 and December 31, 2011, respectively. During the first six months of 2012, certain foreign currency cash flow hedges related to construction in progress were settled as capital expenditures were made. A gain of $10 and a loss of $(17) were reclassified from accumulated other comprehensive loss and netted against the carrying value of assets during the three- and six-month periods ending July 1, 2012, respectively. The amount of the gain included in accumulated other comprehensive loss at July 1, 2012 expected to be reclassified to the income statement during the next twelve months is $903.

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

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 under ASC 815 for these instruments. As such, changes in fair value are recorded directly to income and expense in the periods that they occur. At July 1, 2012, the net positions of these contracts were to purchase 19.6 million euros, 3.4 million Canadian dollars, and 1.1 million British pounds, and to sell 6.5 billion Colombian pesos. The fair value of the Company s other derivatives was $37 and $(746) at July 1, 2012 and December 31, 2011, respectively.

The Company has determined all hedges to be highly effective and as a result no material ineffectiveness has been recorded.

The following table sets forth the location and fair values of the Company s derivative instruments at July 1, 2012 and December 31, 2011:

Description	Balance Sheet Location	July 1, 2012	December 31, 2011
Derivatives designated as hedging instruments:			
Commodity Contracts	Prepaid expenses	$ 436	$
Commodity Contracts	Accrued expenses and other	$ (8,161)	$ (10,234)
Commodity Contracts	Other liabilities	$ (3,906)	$ (3,755)
Foreign Exchange Contracts	Prepaid expenses	$ 1,512	$ 1,097
Foreign Exchange Contracts	Accrued expenses and other	$ (677)	$ (489)
Derivatives not designated as hedging instruments:			
Foreign Exchange Contracts	Prepaid expenses	$ 136	$ 2
Foreign Exchange Contracts	Accrued expenses and other	$ (47)	$ (748)
Foreign Exchange Contracts	Other liabilities	$ (52)	$

The following tables set forth the effect of the Company s derivative instruments on financial performance for the three months ended July 1, 2012 and July 3, 2011:

Description	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Three months ended July 1, 2012					
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ (1,756)	Net sales	$ (302)	Net sales	$

			Cost of sales	$	123				
Commodity Contracts	$	505	Cost of sales	$	(3,415)	Cost of sales	$		

Three months ended July 3, 2011

Derivatives in Cash Flow Hedging Relationships:								
Foreign Exchange Contracts	$	578	Net sales	$	1,736	Net sales	$	
			Cost of sales	$	(918)			
Commodity Contracts	$	(715)	Cost of sales	$	(2,327)	Cost of sales	$	63

14

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

Derivatives not designated as hedging instruments:	Location of Gain or (Loss) Recognized in Income Statement	Gain or (Loss) Recognized
Three months ended July 1, 2012		
Foreign Exchange Contracts	Cost of sales	$ (628)
	Selling, general and administrative	$ 15
Three months ended July 3, 2011		
Foreign Exchange Contracts	Cost of sales	$ 855
	Selling, general and administrative	$ 10

The following tables set forth the effect of the Company s derivative instruments on financial performance for the six months ended July 1, 2012 and July 3, 2011:

Description	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Six months ended July 1, 2012					
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ 1,431	Net sales	$ (206)	Net sales	$
		Cost of sales	$ 1,304		
Commodity Contracts	$ (4,345)	Cost of sales	$ (6,672)	Cost of sales	$
Six months ended July 3, 2011					
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ 3,293	Net sales	$ 2,793	Net sales	$ 12
		Cost of sales	$ (1,517)		

Commodity Contracts	$ (1,527)	Cost of sales	$ (6,027)	Cost of sales	$ 112

Derivatives not designated as hedging instruments:	**Location of Gain or (Loss) Recognized in Income Statement**	**Gain or (Loss) Recognized**
Six months ended July 1, 2012		
Foreign Exchange Contracts	Cost of sales	$ 745
	Selling, general and administrative	$ 38
Six months ended July 3, 2011		
Foreign Exchange Contracts	Cost of sales	$ 1,268
	Selling, general and administrative	$ 18

Table of Contents

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

Note 8: Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

Level 1	Observable inputs such as quoted market prices in active markets;
Level 2	Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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:

Description	July 1, 2012	Level 1	Level 2	Level 3
Hedge derivatives, net:				
Commodity contracts	$(11,631)	$	$ (11,631)	$
Foreign exchange contracts	835		835	
Non-hedge derivatives, net:				
Foreign exchange contracts	37		37	
Deferred compensation plan assets	2,458	2,458		

Description	December 31, 2011	Level 1	Level 2	Level 3
Hedge derivatives, net:				
Commodity contracts	$(13,989)	$	$(13,989)	$
Foreign exchange contracts	608		608	
Non-hedge derivatives, net:				
Foreign exchange contracts	(746)		(746)	
Deferred compensation plan assets	2,279	2,279		

As discussed in Note 7, the Company uses derivatives to mitigate the effect of raw material and energy cost fluctuations, foreign currency fluctuations and, from time to time, interest rate movements. Fair value measurements for the Company s derivatives are classified under Level 2 because such measurements are determined using published market prices or estimated based on observable inputs such as interest rates, yield curves, spot and future commodity prices and spot and future exchange rates.

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

The Company does not currently have any nonfinancial assets or liabilities that are recognized or disclosed at fair value on a recurring basis. None of the Company s financial assets or liabilities is measured at fair value using significant unobservable inputs. There were no transfers in or out of Level 1 or Level 2 fair value measurements during the three- or six-month periods ended July 1, 2012.

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

Note 9: Employee Benefit Plans

Retirement Plans and Retiree Health and Life Insurance Plans

The Company provides non-contributory defined benefit pension plans for a majority of its employees in the United States and certain of its employees in Mexico and Belgium. Effective December 31, 2003, the Company froze participation for newly hired salaried and non-union hourly U.S. employees in its traditional defined benefit pension plan. At that time, the Company adopted a defined contribution plan, the Sonoco Investment and Retirement Plan (SIRP), which covers its non-union U.S. employees hired on or after January 1, 2004. The Company also sponsors contributory defined benefit pension plans covering the majority of its employees in the United Kingdom, Canada, and the Netherlands.

On February 4, 2009, the U.S. qualified defined benefit pension plan was amended to freeze plan benefits for all active participants effective December 31, 2018. Remaining active participants in the U.S. qualified plan will become participants of the SIRP effective January 1, 2019.

The Company also provides postretirement healthcare and life insurance benefits to a limited number of its retirees and their dependents in the United States and Canada, based on certain age and/or service eligibility requirements.

The components of net periodic benefit cost include the following:

	Three Months Ended		Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Retirement Plans				
Service cost	$ 5,671	$ 5,014	$ 11,413	$ 10,117
Interest cost	17,165	17,522	34,524	35,355
Expected return on plan assets	(20,882)	(21,052)	(41,999)	(42,382)
Amortization of net transition obligation	113	118	229	237
Amortization of prior service cost	84	35	169	71
Amortization of net actuarial loss	9,048	5,828	18,197	11,769
Net periodic benefit cost	$ 11,199	$ 7,465	$ 22,533	$ 15,167
Retiree Health and Life Insurance Plans				
Service cost	$ 241	$ 298	$ 484	$ 602
Interest cost	342	421	687	851
Expected return on plan assets	(368)	(350)	(740)	(707)
Amortization of prior service credit	(1,618)	(1,950)	(3,253)	(3,942)
Amortization of net actuarial loss	199	345	401	697
Net periodic benefit income	$ (1,204)	$ (1,236)	$ (2,421)	$ (2,499)

The Company made contributions of $50,044 and $101,914 to its defined benefit retirement and retiree health and life insurance plans during the six months ended July 1, 2012 and July 3, 2011, respectively. The Company anticipates that it will make additional contributions of approximately $13,400 to its defined benefit retirement and retiree health and life insurance plans in 2012.

Sonoco Investment and Retirement Plan (SIRP)

The Company recognized SIRP expense totaling $2,694 and $2,501 for the quarters ended July 1, 2012 and July 3, 2011, respectively, and $4,945 and $4,537 for the six month periods ended July 1, 2012 and July 3, 2011, respectively. Contributions to the SIRP, funded annually in the first quarter, totaled $8,920 during the six months ended July 1, 2012, and $8,568 during the six months ended July 3, 2011. No additional SIRP contributions are expected during the remainder of 2012.

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(unaudited)

Note 10: Income Taxes

The Company s effective tax rate for the three-and six-month periods ending July 1, 2012, was 35.3% and 35.0%, respectively, and its effective tax rate for the three and six-month periods ending July 3, 2011 was 32.1% and 31.6%, respectively. The quarterly and year-to-date rates for both years varied from the U.S. statutory rate primarily due to the favorable effect of international operations that are subject to tax rates generally lower than the U.S. rate, the favorable effect of the manufacturer s deduction, and contingencies recorded for uncertain tax positions. The benefit from operations taxed in jurisdictions with lower tax rates was lower in 2012 than in 2011.

The Company and/or its subsidiaries file federal, state and local income tax returns in the United States and various foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examination by tax authorities for years before 2008. With few exceptions, the Company is no longer subject to examination prior to 2007 with respect to U.S. state and local and non-U.S. income taxes.

There have been no significant changes in the Company s liability for uncertain tax positions since December 31, 2011. The Company s estimate for the potential outcome for any uncertain tax issue is highly judgmental. Management believes that any reasonably foreseeable outcomes related to these matters have been adequately provided for. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates. As a result, the Company s effective tax rate may fluctuate significantly on a quarterly basis.

Note 11: New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This update eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and provided the entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The update also included a requirement for an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This reclassification requirement, however, was subsequently deferred by ASU No. 2011-12. The Company selected the two statement approach and has included the additional statement in this Quarterly Report on Form 10-Q.

During the six months ended July 1, 2012, there have been no other newly issued nor newly applicable accounting pronouncements that have or are expected to have a significant impact on the Company s financial statements.

Note 12: Segment Reporting

The Company modified its reportable segments in the fourth quarter of 2011 as the result of changes in our business and related internal management reporting to better reflect its mix of business following the November 2011 acquisition of Tegrant. The Company now reports its financial results in the following four reportable segments: the Consumer Packaging segment, the Paper and Industrial Converted Products segment, the Packaging Services segment, and the Protective Packaging segment.

The Consumer Packaging segment includes the following products and services: round and shaped rigid containers and trays (both composite and thermoformed plastic); blow-molded plastic bottles and jars; extruded and injection-molded plastic products; printed flexible packaging;

metal and peelable membrane ends and closures; and global brand artwork management.

SONOCO PRODUCTS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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