

SONOCO PRODUCTS CO
Form 10-Q
August 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 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

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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	<u> X </u>	Accelerated filer
Non-accelerated filer	(do not check if a smaller	Smaller reporting company

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

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SONOCO PRODUCTS COMPANY

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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*
<u>Assets</u>		
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
<u>Liabilities and Equity</u>		
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)

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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

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

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Diluted	\$	0.50	\$	0.52	\$	0.92	\$	1.08
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Cash dividends	\$	0.30	\$	0.29	\$	0.59	\$	0.57
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See accompanying Notes to Condensed Consolidated Financial Statements

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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

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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:

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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.

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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	
	<u>Second</u> <u>Quarter</u>	<u>Six</u> <u>Months</u>	<u>Second</u> <u>Quarter</u>	<u>Six</u> <u>Months</u>
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

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(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.

<u>2012 Actions</u>	<u>Second Quarter</u>	<u>Total Incurred to Date</u>	<u>Estimated Total Cost</u>
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:

<u>2012 Actions</u>	Severance	Asset	Other	Total
Accrual Activity	and	Impairment/	Costs	

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2012 Year to Date	Termination	Disposal		
	Benefits	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.

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(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.

<u>2011 Actions</u>	2012		2011		Total	Estimated
	<u>Second</u>	<u>Six</u>	<u>Second</u>	<u>Six</u>	<u>Incurring</u>	<u>Total Cost</u>
	<u>Quarter</u>	<u>Months</u>	<u>Quarter</u>	<u>Months</u>	<u>to Date</u>	
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:

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

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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.

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(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.

<u>2010 and Earlier Actions</u>	2012		2011	
	<u>Second Quarter</u>	<u>Six Months</u>	<u>Second Quarter</u>	<u>Six Months</u>
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	Defined Benefit Plans	Accumulated Other Comprehensive Loss	
		Derivative Financial Instruments	Loss
Translation Adjustments	Benefit Plans	Derivative Financial Instruments	Comprehensive Loss

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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)
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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.

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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:

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	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

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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	Fair	Carrying	Fair
	Amount	Value	Amount	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

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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.

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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:

<u>Description</u>	<u>Balance Sheet Location</u>	<u>July 1, 2012</u>	<u>December 31, 2011</u>
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:

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

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		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

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

<u>Six months ended July 1, 2012</u>					
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	\$

<u>Six months ended July 3, 2011</u>					
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	\$ 3,293	Net sales	\$ 2,793	Net sales	\$ 12
		Cost of sales	\$ (1,517)		

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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
<u>Six months ended July 1, 2012</u>		
Foreign Exchange		
Contracts	Cost of sales	\$ 745
	Selling, general and administrative	\$ 38

<u>Six months ended July 3, 2011</u>		
Foreign Exchange		
Contracts	Cost of sales	\$ 1,268
	Selling, general and administrative	\$ 18

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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.

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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

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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.

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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.

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The Paper and Industrial Converted Products segment includes the following products: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and other recycled materials.

The Packaging Services segment includes the following products and services: designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; and paper amenities, such as coasters and glass covers.

The Protective Packaging segment includes the following products: custom-designed paperboard-based and expanded foam protective packaging; temperature-assurance packaging; and retail security packaging.

The following table sets forth net sales, intersegment sales and operating profit for the Company's reportable segments. Segment operating profit is defined as the segment's portion of Income before interest and income taxes excluding restructuring charges, asset impairment charges, acquisition-related costs, and certain other items, if any, the exclusion of which the Company believes improves comparability and analysis of the financial performance of the business. General corporate expenses have been allocated as operating costs to each of the Company's reportable segments. Prior year's data have been restated to conform to the current presentation.

FINANCIAL SEGMENT INFORMATION

	Three Months Ended		Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Net sales:				
Consumer Packaging	\$ 477,038	\$ 490,453	\$ 972,804	\$ 988,887
Paper and Industrial Converted Products	475,460	485,170	939,070	956,370
Packaging Services	107,801	125,934	222,706	249,371
Protective Packaging	142,060	26,308	280,149	50,560
Consolidated	\$ 1,202,359	\$ 1,127,865	\$ 2,414,729	\$ 2,245,188
Intersegment sales:				
Consumer Packaging	\$ 2,214	\$ 1,048	\$ 4,113	\$ 2,195
Paper and Industrial Converted Products	24,919	25,073	50,653	53,504
Packaging Services	594	318	1,178	621
Protective Packaging	328	227	1,008	657
Consolidated	\$ 28,055	\$ 26,666	\$ 56,952	\$ 56,977

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Income before interest and income taxes:					
Operating Profit					
Consumer Packaging	\$	42,752	\$	40,200	\$ 92,832 \$ 91,350
Paper and Industrial Converted Products		39,652		40,440	71,956 70,753
Packaging Services		4,029		8,722	8,871 15,213
Protective Packaging		11,653		3,446	18,658 6,663
Restructuring/Asset impairment charges		(9,396)		(9,578)	(24,608) (11,895)
Other, net		(98)		(991)	(274) (251)
Consolidated	\$	88,592	\$	82,239	\$ 167,435 \$ 171,833

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Note 13: Commitments and Contingencies

The Company is a party to various legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. The Company is also currently a defendant in a class action by persons who bought Company stock between February 7, 2007 and September 18, 2007. The complaint, as amended, alleges that the Company issued press releases and made public statements during the class period that were materially false and misleading. The complaint seeks an unspecified amount of damages plus interest and attorneys' fees. On April 26, 2012, the parties filed with the court a stipulation of settlement, which, if finally approved by the court and subject to the conditions contained therein, will end the litigation and provide a settlement fund, to be funded entirely by insurance, to make payments to the authorized claimants as therein provided. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings. Some of these exposures have the potential to be material. Information with respect to these and other exposures appears in Part II Item 8 Financial Statements and Supplementary Data (Note 14 - Commitments and Contingencies) in the Company's Annual Report on Form 10-K. The Company cannot currently estimate the final outcome of many of the items described or the ultimate amount of potential losses.

Pursuant to U.S. GAAP, accruals for estimated losses are recorded at the time information becomes available indicating that losses are probable and that the amounts are reasonably estimable. Amounts so accrued are not discounted. While the ultimate liabilities relating to claims and proceedings may be significant to profitability in the period recognized, it is management's opinion that such liabilities, when finally determined, will not have an adverse material effect on Sonoco's consolidated financial position or liquidity.

Environmental Matters

During the fourth quarter of 2005, the U.S. Environmental Protection Agency (EPA) notified U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, that U.S. Mills and NCR Corporation (NCR), an unrelated party, would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin (the Site) which is now labeled by the EPA as Phase 1. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation. The Company has expensed a total of \$17,650 for its estimated share of the total cleanup cost of the Site, and through July 1, 2012, has spent a total of \$14,467. The remaining accrual of \$3,183 represents the Company's best estimate of what it is likely to pay to complete the Site project. However, the actual costs associated with cleanup of the Site are dependent upon many factors and it is possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition.

The EPA and Wisconsin Department of Natural Resources (WDNR) have also issued a general notice of potential liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and a request to participate in remedial action implementation negotiations relating to a stretch of the lower Fox River, including the bay at Green Bay, (Operating Units 2-5) to eight potentially responsible parties, including U.S. Mills. Operating Units 2-5 include, but also comprise a vastly larger area than, the Site. A detailed description of the claims and proceedings associated therewith appears in Part II Item 8 Financial Statements and Supplementary Data (Note 14 - Commitments and Contingencies) in the Company's Annual Report on Form 10-K.

On October 14, 2010, the EPA and WDNR filed suit against NCR, API, U.S. Mills and nine other defendants in the United States District Court for the Eastern District of Wisconsin (No. 10-CV-00910-WCG) pursuant to Sections 106 and 107 of CERCLA. The plaintiffs seek to recover unreimbursed costs incurred for activities undertaken in response to the release and threatened release of hazardous substances from facilities at or near the Lower Fox River and Green Bay as well as damages for injury to, loss of, and destruction of natural resources resulting from such releases. The plaintiffs also seek a ruling that the defendants are liable for future response costs of the plaintiffs and requiring the defendants to comply with the unilateral Administrative Order for Remedial Action discussed in prior filings. The Company does not believe that the remedies sought in the suit materially expand the Company's potential liability beyond what has been disclosed in this report or in the Company's prior filings with the SEC. U.S. Mills plans to defend the suit vigorously.

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(Dollars in thousands except per share data)

(unaudited)

Since 2007, U.S. Mills has expensed a total of \$60,825 for potential liabilities associated with the Fox River contamination (not including amounts expensed for remediation at the Site) and through July 1, 2012, has spent a total of \$8,150, primarily on legal fees, leaving a reserve of \$52,675 remaining at July 1, 2012 for potential liabilities associated with the Fox River contamination (not including amounts accrued for remediation at the Site). Because of the continuing uncertainties in the estimated costs of remediation and continuing uncertainties surrounding U.S. Mills' allocable share, including a potentially favorable resolution, it is impossible to state with any reasonable degree of certainty that any estimate is a better estimate than the amount recorded. However, because the discharges of hazardous materials into the environment occurred before the Company acquired U.S. Mills, and U.S. Mills has been operated as a separate subsidiary of the Company, the Company does not believe that it bears financial responsibility for these legacy environmental liabilities of U.S. Mills. Therefore, the Company continues to believe that the maximum additional exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately \$89,000 at July 1, 2012.

On November 8, 2011, the Company completed the acquisition of Tegrant. During its due diligence, the Company identified several potential environmentally contaminated sites. The total remediation cost of these sites is estimated to be \$18,850 and an accrual in this amount was recorded on Tegrant's opening balance sheet.

The Company has been named as a potentially responsible party at several other environmentally contaminated sites. All of the sites are also the responsibility of other parties. The potential remediation liabilities are shared with such other parties, and, in most cases, the Company's share, if any, cannot be reasonably estimated at the current time.

As of July 1, 2012 and December 31, 2011, the Company (and its subsidiaries) had accrued \$77,466 and \$72,590, respectively, related to environmental contingencies. Of these, a total of \$55,858 and \$56,768 relate to U.S. Mills and \$18,756 and \$18,846 relate to Tegrant at July 1, 2012 and December 31, 2011, respectively. These accruals are included in Accrued expenses and other on the Company's Consolidated Balance Sheets. U.S. Mills recognized a \$40,825 benefit in 2008 from settlements reached and proceeds received on certain insurance policies covering the Fox River contamination. U.S. Mills' two remaining insurance carriers are in liquidation. It is possible that U.S. Mills may recover from these carriers a small portion of the costs it ultimately incurs. U.S. Mills may also be able to reallocate some of the costs it incurs among other parties. There can be no assurance that such claims for recovery or reallocation would be successful and no amounts have been recognized in the consolidated financial statements of the Company for such potential recovery or reallocation.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Directors of Sonoco Products Company:

We have reviewed the accompanying condensed consolidated balance sheet of Sonoco Products Company as of July 1, 2012, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended July 1, 2012 and July 3, 2011 and the condensed consolidated statement of cash flows for the six-month periods ended July 1, 2012 and July 3, 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of income, of comprehensive income, of changes in total equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 29, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/PricewaterhouseCoopers LLP

Charlotte, North Carolina
August 1, 2012

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SONOCO PRODUCTS COMPANY

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

Statements included in this report that are not historical in nature, are intended to be, and are hereby identified as forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words estimate, project, intend, expect, believe, consider, plan, strategy, opportunity, target, anticipate, objective, goal, guidance, outlook, forecasts, future, will, would, or the negative thereof, and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding offsetting high raw material costs; improved productivity and cost containment; adequacy of income tax provisions; refinancing of debt; realization of synergies resulting from acquisitions; adequacy of cash flows; anticipated amounts and uses of cash flows; effects of acquisitions and dispositions; adequacy of provisions for environmental liabilities; financial strategies and the results expected from them; sales growth; continued payments of dividends; stock repurchases; producing improvements in earnings; financial results for future periods; goodwill impairment charges; expected amounts of capital spending; anticipated contributions to benefit plans; and creation of long-term value for shareholders. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to guidance and other estimates, expectations, beliefs, plans, strategies and objectives concerning our future financial and operating performance. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, without limitation:

Availability and pricing of raw materials;
 Success of new product development and introduction;
 Ability to maintain or increase productivity levels and contain or reduce costs;
 Ability to manage the mix of business to take advantage of growing markets while reducing cyclical effects of some of the Company's existing business on operating results;
 International, national and local economic and market conditions;
 Availability of credit to us, our customers and/or our suppliers in needed amounts and/or on reasonable terms;
 Fluctuations in obligations and earnings of pension and postretirement benefit plans;
 Pricing pressures, demand for products, and ability to maintain market share;
 Continued strength of our paperboard-based tubes and cores and composite can operations;
 Anticipated results of restructuring activities;
 Resolution of income tax contingencies;
 Ability to successfully integrate newly acquired businesses into the Company's operations;
 Ability to win new business and/or identify and successfully close suitable acquisitions at the levels needed to meet growth targets;
 Rate of growth in foreign markets;
 Foreign currency, interest rate and commodity price risk and the effectiveness of related hedges;
 Actions of government agencies and changes in laws and regulations affecting the Company;
 Liability for and anticipated costs of environmental remediation actions;
 Accuracy of assumptions underlying projections related to goodwill impairment testing, and accuracy of management's assessment of goodwill impairment;
 Accuracy of assumptions underlying fair value measurements, accuracy of management's assessments of fair value, and fluctuations in fair value;
 Loss of consumer or investor confidence; and
 Economic disruptions resulting from terrorist activities.

The Company undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

Table of Contents**SONOCO PRODUCTS COMPANY*****COMPANY OVERVIEW***

Sonoco is a leading provider of consumer packaging, industrial products, protective packaging and packaging supply chain services, with approximately 345 locations in 34 countries.

Sonoco competes in multiple product categories, with its operations organized and reported in four segments: Consumer Packaging, Paper and Industrial Converted Products, Packaging Services, and Protective Packaging. The majority of the Company's revenues are from products and services sold to consumer and industrial products companies for use in the packaging of their products for sale or shipment. The Company also manufactures paperboard, primarily from recycled materials, for both internal use and open market sale. Each of the Company's operating units has its own sales staff and maintains direct sales relationships with its customers.

Second Quarter 2012 Compared with Second Quarter 2011**RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES**

Measures calculated and presented in accordance with generally accepted accounting principles are referred to as GAAP financial measures. The following tables reconcile the Company's non-GAAP financial measures to their most directly comparable GAAP financial measures in the Company's Condensed Consolidated Statements of Income for each of the periods presented. These measures (referred to as "base") are the GAAP measures adjusted to exclude (dependent upon the applicable period) restructuring charges, asset impairment charges, acquisition charges, specifically identified tax adjustments and certain other items, if any, the exclusion of which the Company believes improves comparability and analysis of the underlying financial performance of the business.

For the three months ended July 1, 2012

<u>Dollars in thousands, except per share data</u>	GAAP	Restructuring/ Asset Impairment	Acquisition Related Costs and Other Adjustments	Base
Income before interest and income taxes	\$88,592	\$9,396	98	\$98,086
Interest expense, net	15,248	-	-	15,248
Income before income taxes	73,344	9,396	98	82,838
Provision for income taxes	25,905	1,195	30	27,130
Income before equity in earnings of affiliates	47,439	8,201	68	55,708
Equity in earnings of affiliates, net of tax	3,912	22	-	3,934
Net income	51,351	8,223	68	59,642
Net loss attributable to noncontrolling interests	(28)	43	-	15
Net income attributable to Sonoco	\$51,323	\$8,266	68	\$59,657
Per diluted common share	\$0.50	\$0.08	\$0.00	\$0.58

Table of Contents**SONOCO PRODUCTS COMPANY****For the three months ended July 3, 2011**

<u>Dollars in thousands, except per share data</u>	GAAP	Restructuring/ Asset Impairment	Acquisition Related Costs and Other Adjustments	Base
Income before interest and income taxes	\$82,239	\$9,578	\$991	\$92,808
Interest expense, net	8,174	-	-	8,174
Income before income taxes	74,065	9,578	991	84,634
Provision for income taxes	23,775	2,903	320	26,998
Income before equity in earnings of affiliates	50,290	6,675	671	57,636
Equity in earnings of affiliates, net of tax	3,416	-	-	3,416
Net income	53,706	6,675	671	61,052
Net (income)/loss attributable to noncontrolling interests	(298)	27	-	(271)
Net income attributable to Sonoco	\$53,408	\$6,702	\$671	\$60,781
Per diluted common share	\$0.52	\$0.07	\$0.01	\$0.60

RESULTS OF OPERATIONS

The following discussion provides a review of results for the three months ended July 1, 2012 versus the three months ended July 3, 2011.

OVERVIEW

Net sales for the second quarter of 2012 were \$1,202 million, compared with \$1,128 million in the same period in 2011. This 6.6% increase was due primarily to \$118 million in sales from the Company's recently acquired Tegrant operations and higher selling prices in some businesses, partially offset by a negative impact from foreign currency translation. Tegrant was acquired November 8, 2011, and so is not included in the comparable prior year period.

Net income attributable to Sonoco for the second quarter of 2012 was \$51.3 million compared to \$53.4 million reported for the same period of 2011. Results for 2012 include a total of \$8.3 million of after-tax restructuring and other non-base charges, while 2011 results were impacted by after-tax charges of \$7.4 million. Second quarter 2012 base net income attributable to Sonoco (base earnings) was \$59.7 million (\$0.58 per diluted share) versus \$60.8 million (\$0.60 per diluted share) in 2011.

A combination of lower volume and unfavorable mix had a negative impact on earnings in most of the Company's businesses. In addition, a significantly stronger dollar further reduced reported earnings compared to the prior year quarter. Absent the impact of Tegrant, overall base operating profits would have been down over 4%, as the impact of volume and mix, along with higher pension and other costs, more than offset the benefits of positive price/cost and improved productivity. In Protective Packaging, operating profits in the legacy operations were up only modestly, but, operating profits in the segment including Tegrant more than tripled. Operating profits also increased in Consumer Packaging, but were down modestly in Paper and Industrial Converted Products, and down more than 50% in Packaging Services.

Table of Contents**SONOCO PRODUCTS COMPANY*****OPERATING REVENUE***

Net sales for the second quarter of 2012 were \$1,202 million, compared to \$1,128 million for the second quarter of 2011, an increase of 6.6%, or \$74 million.

The components of the sales change were:

(\$ in millions)

Volume/mix	\$ (13)
Selling prices	3
Acquisitions/dispositions, net	124
Foreign currency translation and other, net	(40)
Total sales increase	\$ 74

Acquisition-related sales gains were almost exclusively driven by Tegrant and were partially offset by last year's sale of a small plastics business in Brazil. Sales prices were slightly higher for the Company overall as higher prices in the Consumer Packaging segment were largely offset by lower prices in Paper and Industrial Converted Products where sales prices were lower because of lower market prices for recovered paper, primarily old corrugated containers (OCC).

COSTS AND EXPENSES

Cost of sales were up \$49.0 million from the prior year quarter; however, excluding the impact of acquisitions, cost of sales would have been down, in line with the decrease in sales absent acquisitions. Lower market pricing for recovered paper benefitted our industrial businesses, while Consumer Packaging was negatively impacted by higher film and other costs. Price/cost (the relationship of the change in sales prices to the change in costs of materials, energy and freight) was positive relative to the prior year, but the benefit was offset by largely higher labor, pension and other costs.

Acquisitions were responsible for almost all of the \$19.3 million year-over-year increase in second quarter selling, general and administrative costs. Excluding acquisitions, these costs would have been only slightly higher, driven primarily by higher pension and general inflation. Base earnings before interest and income taxes were 8.2% of sales, virtually unchanged from last year's second quarter.

Restructuring and restructuring-related asset impairment charges totaled \$9.4 million and \$9.6 million for the second quarters of 2012 and 2011, respectively. Additional information regarding restructuring actions and impairments is provided in Note 4 to the Company's Condensed Consolidated Financial Statements.

Net interest expense for the second quarter of 2012 increased to \$15.2 million, compared with \$8.2 million during the same period in 2011. The increase was due to higher debt levels as a result of the acquisition of Tegrant.

This year's second quarter effective tax rate of 35.3% was higher than the 32.1% rate recorded in the second quarter of 2011. This increase is partially attributable to a portion of this year's foreign restructuring charges not being fully tax deductible in the local jurisdiction. The effective tax rate on base earnings for the quarter increased to 32.8% from 31.9% last year. The quarter-over-quarter increases in both the GAAP and base rates reflect a favorable accrual adjustment of approximately \$1 million recorded in the prior year quarter.

REPORTABLE SEGMENTS

The following table recaps net sales for the second quarter of 2012 and 2011 (\$ in thousands):

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	Three Months Ended		<u>% Change</u>
	<u>July 1, 2012</u>	<u>July 3, 2011</u>	
Net sales:			
Consumer Packaging	\$ 477,038	\$ 490,453	(2.7)%
Paper and Industrial Converted Products	475,460	485,170	(2.0)%
Packaging Services	107,801	125,934	(14.4)%
Protective Packaging	142,060	26,308	440.0%
Consolidated	\$ 1,202,359	\$ 1,127,865	6.6%

Table of Contents**SONOCO PRODUCTS COMPANY**

Consolidated operating profits, also referred to as Income before interest and income taxes on the Company's Condensed Consolidated Statements of Income, are comprised of the following (\$ in thousands):

	Three Months Ended		
	<u>July 1, 2012</u>	<u>July 3, 2011</u>	<u>% Change</u>
Income before interest and income taxes:			
Segment operating profit			
Consumer Packaging	\$ 42,752	\$ 40,200	6.3%
Paper and Industrial Converted Products	39,652	40,440	(1.9)%
Packaging Services	4,029	8,722	(53.8)%
Protective Packaging	11,653	3,446	238.2%
Restructuring/Asset impairment charges	(9,396)	(9,578)	
Other, net	(98)	(991)	
Consolidated	\$ 88,592	\$ 82,239	7.7%

The following table recaps restructuring/asset impairment charges attributable to each of the Company's segments during the second quarter of 2012 and 2011 (\$ in thousands):

	Three Months Ended	
	<u>July 1, 2012</u>	<u>July 3, 2011</u>
Restructuring/Asset impairment charges:		
Consumer Packaging	\$ 6,191	\$ 10,389
Paper and Industrial Converted Products	2,784	(1,213)
Packaging Services	(194)	402
Protective Packaging	615	
Total	\$ 9,396	\$ 9,578

Segment operating profit is used by Company management to evaluate segment performance and does not include (dependent upon the applicable period) restructuring charges, asset impairment charges, acquisition-related costs, specifically identified tax adjustments and certain other items, if any, the exclusion of which the Company believes improves comparability and analysis of the underlying financial performance of the business. Accordingly, the term segment operating profit is defined as the segment's portion of Income before interest and income taxes excluding those items. All other general corporate expenses have been allocated as operating costs to each of the Company's reportable segments.

Consumer Packaging

Sonoco's 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.

This year's second quarter segment sales of \$477 million were 2.7% lower than the \$490 million reported in the prior year's quarter. Year-over-year sales were down slightly as lower volumes, primarily in the Company's composite cans and closures operations, and the unfavorable impact of foreign currency translation more than offset higher selling prices. Volume of blow molded plastics was up modestly, but was largely offset by lower market demand in the Company's other plastics businesses driven by reduced demand for dual-ovenable trays for the frozen food industry.

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Segment operating profit was \$42.8 million compared with \$40.2 million in last year's second quarter. Operating profits were higher in the quarter due to a positive price/cost relationship and productivity improvements partially offset by negative volume and mix and higher pension, labor and other expenses.

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SONOCO PRODUCTS COMPANY

Paper and Industrial Converted Products

The Paper and Industrial Converted Products segment includes the following products: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and other recycled materials.

Second quarter 2012 sales for the segment were \$475 million, compared with \$485 million in the same period in 2011. The 2% year-over-year reduction in second quarter sales was primarily due to the negative impact of foreign currency translation and lower recovered paper prices. In North America, lower recovered paper prices led to lower selling prices in the Company's recycling and paper operations. Increased recycling activity in North America and Europe, additional trade sales of paper in North America, and improvement in the Company's reels business were partially offset by tube and core volume declines in most regions of the world.

Segment operating profit was \$39.7 million in the second quarter compared to \$40.4 million in the second quarter of 2011. Excluding the negative impact of exchange rates, operating profits would have been essentially unchanged as improvements in productivity and a positive price/cost relationship were offset by higher pension, labor and other costs.

Packaging Services

The Packaging Services segment includes the following products and services: designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; and paper amenities, such as coasters and glass covers.

Second quarter 2012 sales for this segment were \$108 million, compared with \$126 million in the same period in 2011. A continued increase in fulfillment activity globally was more than offset by lower year-over-year pack center revenue associated with last year's loss of business with a major contract packaging customer and the negative impact of foreign currency translation.

Operating profit declined 54% to \$4.0 million from \$8.7 million in last year's quarter due primarily to lower volumes associated with the lost contract packaging customer. This loss of business was partially offset by increased retail merchandising and fulfillment business.

Protective Packaging

The Protective Packaging segment includes the following products: custom-designed paperboard-based and expanded foam protective packaging; temperature-assurance packaging; and retail security packaging.

Second quarter 2012 segment sales increased to \$142 million, compared with \$26 million in 2011. This increase was due entirely to last year's acquisition of Tegrant as sales in the Company's legacy protective packaging operations declined approximately 5% year-over-year due primarily to lower volume.

Segment operating profit increased to \$11.7 million in the second quarter, compared to \$3.4 million in the second quarter of 2011, primarily due to the acquisition of Tegrant. Operating profit from the Company's legacy protective packaging operations improved slightly due primarily to productivity improvements.

Table of Contents**SONOCO PRODUCTS COMPANY****Six Months Ended July 1, 2012 Compared with Six Months Ended July 3, 2011****RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES**

The following tables reconcile the Company's non-GAAP financial measures to their most directly comparable GAAP financial measures for each of the periods presented.

For the six months ended July 1, 2012

<u>Dollars in thousands, except per share data</u>	GAAP	Restructuring/ Asset Impairment	Acquisition Related Costs and Other Adjustments	Base
Income before interest and income taxes	\$167,435	\$24,608	274	\$192,317
Interest expense, net	30,669	-	-	30,669
Income before income taxes	136,766	24,608	274	161,648
Provision for income taxes	47,802	5,786	98	53,686
Income before equity in earnings of affiliates	88,964	18,822	176	107,962
Equity in earnings of affiliates, net of tax	5,299	22	-	5,321
Net income	94,263	18,844	176	113,283
Net loss attributable to noncontrolling interests	128	73	-	201
Net income attributable to Sonoco	\$94,391	\$18,917	176	\$113,484
Per diluted common share	\$0.92	\$0.19	\$0.00	\$1.11

For the six months ended July 3, 2011

<u>Dollars in thousands, except per share data</u>	GAAP	Restructuring/ Asset Impairment	Acquisition Related Costs and Other Adjustments	Base
Income before interest and income taxes	\$171,833	\$11,895	\$250	\$183,978
Interest expense, net	16,911	-	-	16,911
Income before income taxes	154,922	11,895	250	167,067
Provision for income taxes	48,959	3,639	84	52,682
Income before equity in earnings of affiliates	105,963	8,256	166	114,385
Equity in earnings of affiliates, net of tax	5,380	17	-	5,397

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Net income	111,343	8,273	166	119,782
Net (income)/loss attributable to noncontrolling interests	(544)	70	-	(474)
Net income attributable to Sonoco	\$110,799	\$8,343	\$166	\$119,308
Per diluted common share	\$1.08	\$0.09	\$0.00	\$1.17

RESULTS OF OPERATIONS

The following discussion provides a review of results for the six months ended July 1, 2012 versus the six months ended July 3, 2011.

OVERVIEW

Net sales for the first half of 2012 were \$2,415 million, compared with \$2,245 million in the same period in 2011. This 7.6% increase was due primarily to \$232 million in sales from the Company's recently acquired Tegrant operations and higher selling prices in some businesses, partially offset by an overall decline in volume of approximately 1 percent and a \$58 million negative impact from foreign currency translation. Tegrant was acquired November 8, 2011, and so is not included in the comparable prior year period.

Table of Contents**SONOCO PRODUCTS COMPANY**

Net income attributable to Sonoco for the first half of 2012 was \$94.4 million compared to \$110.8 million reported for the same period of 2011. Current year earnings include \$19.1 million of after-tax restructuring and other non-base charges, while 2011 results were impacted by after-tax charges of \$8.5 million, including a loss from the disposition of a plastics business in Brazil. First half 2012 base net income attributable to Sonoco (base earnings) was \$113.5 million (\$1.11 per diluted share) versus \$119.3 million (\$1.17 per diluted share) in 2011.

Combined, lower volume and unfavorable mix had a negative impact on earnings in most of the Company's businesses. Absent the impact of Tegrant, overall operating profits would have been down approximately 4%, as the impact of volume and mix, along with higher pension and other costs, more than offset the benefits of positive price/cost and improved productivity. In Protective Packaging, operating profits in the legacy operations were up more than 8%, and operating profits including Tegrant nearly tripled. Operating profits also increased in Paper and Industrial Converted Products and Consumer Packaging, but were down nearly 42% in Packaging Services.

OPERATING REVENUE

Net sales for first half of 2012 were \$2,415 million, compared to \$2,245 million for the first half of 2011, an increase of \$170 million.

The components of the sales change were:

(\$ in millions)

Volume/mix	\$ (24)
Selling prices	9
Acquisitions/dispositions, net	238
Foreign currency translation and other, net	(53)
Total sales increase	\$ 170

Acquisition-related sales gains were almost exclusively driven by Tegrant and were partially offset by last year's sale of a small plastics business in Brazil. Sales prices were slightly higher for the Company overall as higher prices in the Consumer Packaging segment more than offset lower prices in the Company's paper and recycling businesses where sales prices were lower because of lower market prices for recovered paper, primarily old corrugated containers (OCC).

COSTS AND EXPENSES

Cost of sales were up \$121.4 million from the prior year; however, cost of sales excluding the impact of acquisitions would have been down, in line with the decrease in sales absent acquisitions. Lower market pricing for recovered paper benefitted our industrial businesses, while Consumer Packaging was negatively impacted by higher resin, film and other costs. Price/cost was positive relative to the prior year, but was largely offset by higher labor, pension and other costs.

Acquisitions were responsible for almost all of the \$39.8 million year-to-date increase in selling, general and administrative costs. Excluding acquisitions, these costs would have been only slightly higher, driven primarily by higher pension and general inflation. Base earnings before interest and income taxes were 8.0% of sales compared to 8.2% last year.

Restructuring and restructuring-related asset impairment charges totaled \$24.6 million and \$11.9 million for the first half of 2012 and 2011, respectively. Additional information regarding restructuring actions and impairments is provided in Note 4 to the Company's Condensed Consolidated Financial Statements.

Net interest expense for the first half of 2012 increased to \$30.7 million, compared with \$16.9 million during the same period in 2011. The increase was due to higher debt levels as a result of the acquisition of Tegrant.

This year's first half effective tax rate of 35.0% was higher than the 31.6% rate recorded in the first half of 2011. This increase is partially attributable to a portion of this year's foreign restructuring charges not being fully tax deductible in the local jurisdiction. The effective tax rate

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on base earnings increased to 33.2% in the first half of 2012 from 31.5% in the same period last year. The year-over-year increases in both the GAAP and base rates reflect a favorable accrual adjustment of approximately \$1 million recorded in the prior year quarter.

Table of Contents**REPORTABLE SEGMENTS**

The following table recaps net sales for the first half of 2012 and 2011 (\$ in thousands):

	Six Months Ended		% Change
	<u>July 1, 2012</u>	<u>July 3, 2011</u>	
Net sales:			
Consumer Packaging	\$ 972,804	\$ 988,887	(1.6)%
Paper and Industrial Converted Products	939,070	956,370	(1.8)%
Packaging Services	222,706	249,371	(10.7)%
Protective Packaging	280,149	50,560	454.1%
Consolidated	\$ 2,414,729	\$ 2,245,188	7.6%

Consolidated operating profits, also referred to as Income before interest and income taxes on the Company's Condensed Consolidated Statements of Income, are comprised of the following (\$ in thousands):

	Six Months Ended		% Change
	<u>July 1, 2012</u>	<u>July 3, 2011</u>	
Income before interest and income taxes:			
Segment operating profit			
Consumer Packaging	\$ 92,832	\$ 91,350	1.6%
Paper and Industrial Converted Products	71,956	70,753	1.7%
Packaging Services	8,871	15,213	(41.7)%
Protective Packaging	18,658	6,663	180.0%
Restructuring/Asset impairment charges	(24,608)	(11,895)	
Other, net	(274)	(251)	
Consolidated	\$ 167,435	\$ 171,833	(2.6)%

The following table recaps restructuring/asset impairment charges attributable to each of the Company's segments during the first half of 2012 and 2011 (\$ in thousands):

	Six Months Ended	
	<u>July 1, 2012</u>	<u>July 3, 2011</u>
Restructuring/Asset impairment charges:		
Consumer Packaging	\$ 10,994	\$ 11,118
Paper and Industrial Converted Products	11,497	655
Packaging Services	98	122
Protective Packaging	2,019	
Total	\$ 24,608	\$ 11,895

Consumer Packaging

First half 2012 sales of \$973 million were down slightly from the \$989 million reported in the first half of 2011 as lower sales from the divestiture of the Company's Brazilian injection molding plastics business, reduced volumes and the unfavorable impact of foreign currency

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translation more than offset higher selling prices. Volume of blow molded plastics was up notably, but was offset by lower market demand in the Company's other plastics businesses. The volume growth in blow molding was driven by the commercialization in mid 2011 of new products for the food market and stronger demand in the personal care market.

Segment operating profit in the first half of 2012 was \$92.8 million compared with \$91.4 million in the same period last year. Operating profits were slightly higher year-to-date due to a positive price/cost relationship and productivity improvements, partially offset by lower volume and higher pension, labor and other expenses.

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SONOCO PRODUCTS COMPANY

Paper and Industrial Converted Products

First half 2012 sales for the segment were \$939 million, compared with \$956 million in the same period in 2011. The 2% year-over-year decrease was primarily due to lower selling prices and the negative impact of foreign currency translation. In North America, lower recovered paper prices led to lower selling prices in the Company's recycling and paper operations. Increased recycling activity in North America and Europe, additional trade sales of paper in North America, and improvement in the Company's reels business were partially offset by tube and core volume declines in most regions of the world.

Segment operating profit improved to \$72 million in the first half of 2012, compared to \$71 million in the first half of 2011. Productivity improvement and a positive price/cost relationship were partially offset by negative volume and mix, higher pension, labor and other costs and an unfavorable impact from foreign exchange rates.

Packaging Services

First half 2012 sales for this segment were \$223 million, compared with \$249 million in the same period in 2011. A continued increase in fulfillment activity globally was more than offset by lower year-over-year pack center revenue associated with last year's loss of business with a major contract packaging customer and the negative impact of foreign currency translation.

Operating profit declined 42% to \$8.9 million from \$15.2 million last year due primarily to lower volumes associated with the lost contract packaging customer and the impact of exchange rates. This loss of business was partially offset by increased retail merchandising and fulfillment business.

Protective Packaging

First half 2012 segment sales increased to \$280 million, compared with \$51 million in 2011. This increase was due entirely to last year's acquisition of Tegrant, as sales in the Company's legacy protective packaging operations were down slightly year-over-year.

Segment operating profit increased to \$18.7 million in the first half of 2012, compared to \$6.7 million in the first half of 2011, primarily due to the acquisition of Tegrant. In addition, operating profit from the Company's legacy protective packaging operations increased more than 8% due to productivity improvements and a positive price/cost relationship.

Financial Position, Liquidity and Capital Resources

The Company's financial position remained strong during the first half of 2012. Cash flows provided by operations totaled \$144.4 million in the first six months of 2012, compared with \$32.1 million in the same period last year. The effect of lower year-over-year earnings on operating cash flow was offset by a \$51.5 million decrease in pension and postretirement plan contributions, lower management incentive payments and a lesser demand to fund working capital.

During the first six months of 2012, the Company utilized cash to fund capital expenditures of \$104.4 million and pay dividends of \$59.3 million. Outstanding debt increased by a net \$32.3 million to \$1,319.0 million at July 1, 2012. Cash and cash equivalents as of the end of the second quarter were \$196.0 million, a \$19.5 million increase from year end 2011. Additional capital spending, net of proceeds from the sale of assets, is expected to be approximately \$100 million during the remainder of 2012.

The Company operates a \$350 million commercial paper program, supported by a bank credit facility of the same amount committed through October 2015. Outstanding commercial paper, a component of the Company's long-term debt, totaled \$82 million at July 1, 2012.

Under an Internal Revenue Service rule, U.S. corporations may borrow funds from foreign subsidiaries for up to 30 days without unfavorable tax consequences. The Company utilizes this rule from time to time to access offshore cash in lieu of issuing commercial paper. Amounts outstanding subject to this rule at July 1, 2012, and December 31, 2011, were \$122 million and \$145 million, respectively. These short-term lending arrangements were subsequently settled within the 30-day period, resulting in equivalent increases in commercial paper outstanding and cash on hand. Depending on its immediate offshore cash needs, the Company may choose to access such funds again in the future as allowed

under the rule.

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Certain of the Company's debt agreements impose restrictions with respect to the maintenance of financial ratios and the disposition of assets. The most restrictive covenant currently requires the Company to maintain a minimum level of interest coverage, and a minimum level of net worth, as defined. As of July 1, 2012, and throughout 2012, the Company's interest coverage and net worth were substantially above the minimum levels required under these covenants.

The Company anticipates additional contributions to its pension and postretirement plans of approximately \$13 million during the remainder of 2012, which would bring total contributions made during 2012 to approximately \$72 million. Future funding requirements beyond 2012 will vary depending largely on actual investment returns, future actuarial assumptions, and recently enacted legislation.

Certain assets and liabilities are reported in the Company's financial statements at fair value, the fluctuation of which can impact the Company's financial position and results of operations. Items reported by the Company on a recurring basis at fair value include derivative contracts and pension and deferred compensation related assets. The valuation of the vast majority of these items is based either on quoted prices in active and accessible markets or on other observable inputs.

At July 1, 2012, the Company had commodity contracts outstanding to fix the cost of a portion of anticipated raw materials and natural gas purchases. The total net fair market value of these instruments was an unfavorable position of \$11.6 million at July 1, 2012, and an unfavorable position of \$14.0 million at December 31, 2011. Natural gas, aluminum contracts, and old corrugated containers contracts covering an equivalent of 8.5 million MMBTUs, 5,000 metric tons, and 20,000 short tons, respectively, were outstanding at July 1, 2012. Additionally, the Company had various currency contracts outstanding to fix the exchange rate on certain anticipated foreign currency cash flows. The total market value of these instruments was a net favorable position of \$0.8 million at July 1, 2012 compared with a net favorable position of \$0.6 million at December 31, 2011. These contracts qualify as cash flow hedges and mature within twelve months of their respective reporting dates.

In addition, at July 1, 2012, the Company had various currency contracts outstanding to fix the exchange rate on certain foreign currency assets and liabilities. Although placed as an economic hedge, the Company does not apply hedge accounting to these contracts. The fair value of these currency contracts was a net favorable position of less than \$0.1 million at July 1, 2012 and a net unfavorable position of \$0.7 million December 31, 2011.

At July 1, 2012, the U.S. dollar had strengthened against most of the functional currencies of the Company's foreign operations compared to December 31, 2011, resulting in a translation loss of \$17.8 million being recorded in accumulated other comprehensive income during the six months ended July 1, 2012.

Restructuring and Impairment

Information regarding restructuring charges and restructuring-related asset impairment charges is provided in Note 4 to the Company's Condensed Consolidated Financial Statements.

New Accounting Pronouncements

Information regarding new accounting pronouncements is provided in Note 11 to the Company's Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information about the Company's exposure to market risk is discussed under Part I, Item 2 in this report and was disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the Securities and Exchange Commission on February 29, 2012. There have been no other material quantitative or qualitative changes in market risk exposure since the date of that filing.

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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision, and with the participation, of our management, including our principal executive officer and principal financial officer, we conducted an evaluation pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q, were effective.

Changes in Internal Controls

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in refinements to processes throughout the Company. However, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. In making its assessment of changes in internal control over financial reporting as of July 1, 2012, management has excluded Tegrant Holding Corporation (Tegrant), acquired November 8, 2011. The Company is currently assessing Tegrant's control environment and expects the evaluation to be completed by the first anniversary of the acquisition as required by the Securities and Exchange Commission's rules. Tegrant's total revenues for the six month period ended July 1, 2012 represent approximately 9.6% of the Company's consolidated revenue for the same period. Its excluded assets represent approximately 18% of the Company's consolidated assets at July 1, 2012.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Information with respect to legal proceedings and other exposures appears in Part I Item 3 Legal Proceedings and Part II Item 8 Financial Statements and Supplementary Data (Note 14 Commitments and Contingencies) in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and in Part I Item 1 Financial Statements (Note 14 Commitments and Contingencies) of this report.

Fox River

In April 2006, the United States and the State of Wisconsin (plaintiffs) sued U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, and NCR Corporation (NCR), an unrelated company, to recover certain costs incurred for response activities undertaken regarding the release and threatened release of hazardous substances in specific areas of elevated concentrations of polychlorinated biphenyls (PCBs) in sediments in the Lower Fox River and Green Bay in northeastern Wisconsin (hereinafter the Site). Pursuant to a Consent Decree agreed to by NCR and U.S. Mills as a consequence of the litigation, the Site is to be cleaned up on an expedited basis and NCR and U.S. Mills started removing contaminated sediment in May 2007. The remediation involves removal of sediment from the riverbed, dewatering of the sediment and storage at an offsite landfill. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation, which through July 1, 2012, has totaled slightly more than \$25 million. U.S. Mills' environmental reserve at July 1, 2012, includes \$3.2 million for its share of the estimated remaining costs under the funding agreement for the remediation of the Site. The actual costs associated with cleanup of the Site, however, are dependent upon many factors and it is possible that remediation costs could be higher or lower than the current estimate of project costs. Under the terms of the agreement, the parties reserved their rights to make claims against each other, as well as third parties, to reallocate the costs of remediating the Site. Accordingly, the Company's ultimate share of the liability for remediating the Site could be greater or less than 50% of the total cost.

In addition to the Site discussed above, as previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011, U.S. Mills faces additional exposure related to potential natural resource damage and environmental remediation costs for a larger stretch of the lower Fox River, including the bay at Green Bay, which includes the Site discussed above (Operating Units 2-5). On November 13, 2007, the EPA issued a unilateral Administrative Order for Remedial Action pursuant to Section 106 of CERCLA. The order requires U.S. Mills and the seven other respondents jointly to take various actions to cleanup OUs 2-5. The order covers planning and design

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work as well as dredging and disposing of contaminated sediments and the capping of dredged and less contaminated areas of the river bottom. The order also provides for a penalty for failure by a respondent to comply with its terms as well as exposing a non-complying respondent to potential treble damages. Even though U.S. Mills has reserved its rights to contest liability for any portion of the work, it is cooperating with the other respondents to comply with the order, but its financial contribution will likely be determined by the lawsuit commenced in June 2008 and discussed below.

On June 12, 2008, NCR and Appleton Papers, Inc. (API), as plaintiffs, commenced suit in the United States District Court for the Eastern District of Wisconsin (No. 08-CV-0016-WCG) against U.S. Mills, as one of a number of defendants, seeking a declaratory judgment allocating among all the parties the costs and damages associated with the pollution and clean up of the Lower Fox River. The suit also seeks damages from the defendants for amounts already spent by the plaintiffs, including natural resource damages, and future amounts to be spent by all parties with regard to the pollution and cleanup of the Lower Fox River. On December 16, 2009, the court issued an order which concluded that, under the equities of the case, NCR and API were not entitled to any contributions from U.S. Mills and other defendants, thereby granting the defendant's motions for summary judgment and denying the plaintiffs' motions for summary judgment. Although an order has been issued by the court, no appealable final judgment has been entered yet; nevertheless, NCR has reported that it intends to appeal the ruling, presumably after entry of the final judgment. Subsequent to the December 2009 ruling, U.S. Mills and other defendants made motions to have the court rule that, on the same basis as the December 2009 ruling, NCR would be responsible for any costs that U.S. Mills might incur, past, present and future. These motions have been granted by the court, but are also subject to being appealed. U.S. Mills plans to continue to defend the suit vigorously.

On October 14, 2010, the United States and the State of Wisconsin filed suit against NCR, API, U.S. Mills and nine other defendants in the United States District Court for the Eastern District of Wisconsin (No. 10-CV-00910-WCG) pursuant to Sections 106 and 107 of CERCLA. The plaintiffs seek to recover unreimbursed costs incurred for activities undertaken in response to the release and threatened release of hazardous substances from facilities at or near the Lower Fox River and Green Bay as well as damages for injury to, loss of, and destruction of natural resources resulting from such releases. The plaintiffs also seek a ruling that the defendants are liable for future response costs of the plaintiffs and requiring the defendants to comply with the unilateral Administrative Order for Remedial Action discussed above. The Company does not believe that the remedies sought in the suit materially expand the Company's potential liability beyond what has been previously disclosed in this report or in the Company's prior filings. U.S. Mills plans to defend the suit vigorously.

As of July 1, 2012, U.S. Mills' environmental reserve for potential liabilities associated with the remediation of OUs 2 -5 (not including amounts accrued for remediation of the Site) totaled \$52.7 million. Because of the continuing uncertainties in the estimated costs of remediation and continuing uncertainties surrounding U.S. Mills' allocable share, including a potentially favorable resolution, it is impossible to state with any degree of certainty that any estimate is a better estimate than the amount recorded. However, because the discharges of hazardous materials into the environment occurred before the Company acquired U.S. Mills, and U.S. Mills has been operated as a separate subsidiary of the Company, the Company does not believe that it bears financial responsibility for these legacy environmental liabilities of U.S. Mills. Therefore, the Company continues to believe that the maximum additional pretax exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately \$89 million at July 1, 2012.

Other Legal Matters

On July 7, 2008, the Company was served with a complaint filed in the United States District Court for South Carolina by the City of Ann Arbor Employees' Retirement System, individually and on behalf of others similarly situated (no. 4:08-cv-02348-TLW-KDW). The suit is a class action on behalf of those who purchased the Company's common stock between February 7, 2007 and September 18, 2007, except officers and directors of the Company. The complaint, as amended, alleges that the Company issued press releases and made public statements during the class period that were materially false and misleading. The complaint also names certain Company officers as defendants and seeks an unspecified amount of damages plus interest and attorneys' fees. On April 26, 2012, the parties filed with the court a stipulation of settlement, which, if finally approved by the court and subject to the conditions contained therein, will end the litigation and provide a settlement fund, to be funded entirely by insurance, to make payments to the authorized claimants as therein provided.

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Period		(c) Total Number of	(d) Maximum
		Shares Purchased as	Number of Shares
		Part of Publicly	that May Yet be
		Announced Plans or	Purchased under the
		(a) Total Number of	(b) Average Price
		Shares Purchased ¹	Paid per Share
		Programs ²	Plans or Programs ²
4/02/12	5/06/12	536	\$ 33.26
5/07/12	6/03/12	257	\$ 32.31
6/04/12	7/01/12		
Total		793	\$ 32.95

¹ A total of 793 common shares were repurchased in the second quarter of 2012 related to shares withheld to satisfy employee tax withholding obligations in association with the exercise of certain share-based compensation awards. These shares were not repurchased as part of a publicly announced plan or program.

² On April 19, 2006, the Company's Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company's common stock. This authorization rescinded all previous existing authorizations and does not have a specific expiration date. From December 2010 through March 2011, a total of 2,000,000 shares were repurchased under this program. On April 20, 2011, the Company's Board of Directors reinstated 2,000,000 shares to its authorization, returning the total number of shares available for future repurchase to 5,000,000 as of that date. No shares were repurchased under this authorization subsequent to this reinstatement; accordingly, a total of 5,000,000 shares remained available for repurchase at July 1, 2012.

Item 6. Exhibits.

- 3-2. Sonoco Products Company Bylaws (revised solely to correct references in Article IX to article numbers in the Articles of Incorporation)
- 10. Sonoco Products Company 2012 Long-Term Incentive Plan (incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders on April 18, 2012)
- 15. Letter re: unaudited interim financial information
- 31. Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(a)
- 32. Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(b)
- 101. The following materials from Sonoco Products Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at July 1, 2012 and December 31, 2011, (ii) Condensed Consolidated Statements of Income for the three and six months ended July 1, 2012 and July 3, 2011, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 1, 2012 and July 3, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended July 1, 2012 and July 3, 2011, and (v) Notes to Condensed Consolidated Financial Statements.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SONOCO PRODUCTS COMPANY
(Registrant)

Date: August 1, 2012

By: /s/ Barry L. Saunders
Barry L. Saunders
Vice President and Chief Financial Officer
(principal financial officer)

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EXHIBIT INDEX

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