

SONOCO PRODUCTS CO  
Form 10-Q  
August 05, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended July 3, 2011**

**or**

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

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

**Commission File No. 0-516  
SONOCO PRODUCTS COMPANY**

Incorporated under the laws  
of South Carolina

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

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

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

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

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements

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

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

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

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

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



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

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

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

(Dollars in thousands except per share data)

(unaudited)

**Note 1: Basis of Interim Presentation**

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

With respect to the unaudited condensed consolidated financial information of the Company for the three- and six-month periods ended July 3, 2011 and June 27, 2010 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 5, 2011 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

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

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

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

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

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

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

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

***Dividend Declarations***

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

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

***Noncontrolling Interests***

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

**Note 3: Acquisitions**

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

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

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

**Note 4: Restructuring and Asset Impairment**

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

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

(Dollars in thousands except per share data)

(unaudited)

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

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

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

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

**2011 Actions**

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

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

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

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:

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

(Dollars in thousands except per share data)

(unaudited)

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